

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated Financial Statements**  
**Six-Month Periods ended June 30, 2006 and 2007**  
**With Independent Auditors' Report**

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

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**English Translation of Report Originally Issued in Chinese**  
**Independent auditors' report**

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

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

We conducted our audits in accordance with generally accepted auditing standards and "Guidelines for Certified Public Accountants' Examination and Reporting on Financial Statements" 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 statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of June 30, 2006 and 2007 and the results of its operations and its cash flows for the six months ended June 30, 2006 and 2007 in conformity with "Business Entity Accounting Act", "Regulation on Business Entity Accounting Handling", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Regulations Governing the Preparation of Financial Reports by Financial Holding Companies" and the generally accepted accounting principles in the Republic of China.

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

Ernst & Young  
Taipei, Taiwan  
The Republic of China  
August 9, 2007

**Notice to Readers**

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated balance sheets**  
**June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Assets	June 30, 2006		June 30, 2007	
	NT \$	US \$	NT \$	US \$
Cash and cash equivalents	\$288,379,766	\$8,919,881	\$432,427,005	\$13,171,703
Due from the Central Bank and call loans to banks	38,725,879	1,197,831	38,842,235	1,183,132
Financial assets at fair value through profit or loss	170,679,532	5,279,293	161,740,946	4,926,620
Securities purchased under agreements to resell	39,379,505	1,218,048	16,141,793	491,678
Receivables -net	106,734,897	3,301,420	88,791,567	2,704,586
Loans -net	1,155,141,959	35,729,723	1,246,332,395	37,963,216
Available-for-sale financial assets -net	278,498,899	8,614,256	463,763,195	14,126,201
Held-to-maturity financial assets -net	537,618,616	16,629,094	569,515,330	17,347,406
Investments under equity method	3,472,401	107,405	2,899,125	88,307
Other financial assets -net	43,655,187	1,350,300	47,149,810	1,436,181
Investments in debt securities with no active market	275,833,505	8,531,813	121,254,370	3,693,401
Separate account products assets	120,318,957	3,721,588	211,438,582	6,440,408
Investments in real estate	105,141,141	3,252,123	105,267,384	3,206,439
Property and equipment -net	39,974,400	1,236,449	38,932,042	1,185,868
Goodwill and intangible assets -net	1,917,516	59,311	822,933	25,067
Other assets -net	45,519,113	1,407,953	51,071,358	1,555,631
<b>Total assets</b>	<b>\$3,250,991,273</b>	<b>\$100,556,488</b>	<b>\$3,596,390,070</b>	<b>\$109,545,844</b>
<b>Liabilities &amp; stockholders' equity</b>				
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$107,737,997	\$3,332,447	\$65,673,374	\$2,000,407
Bankers acceptances and funds borrowed	811,625	25,104	821,000	25,008
Financial liabilities at fair value through profit or loss	71,593,049	2,214,446	64,529,248	1,965,557
Securities sold under agreements to repurchase	28,846,247	892,244	19,225,421	585,605
Payables	55,138,823	1,705,500	66,164,362	2,015,363
Deposits	896,612,787	27,733,151	1,006,209,767	30,649,094
Bonds payable	28,455,272	880,151	17,686,802	538,739
Reserve for operations and liabilities	1,732,557,801	53,589,787	1,897,624,011	57,801,523
Other financial liabilities	1,614,280	49,931	1,694,566	51,616
Separate account products liabilities	120,318,957	3,721,589	211,438,582	6,440,408
Other liabilities	11,501,994	355,768	14,243,112	433,845
<b>Total liabilities</b>	<b>3,055,188,832</b>	<b>94,500,118</b>	<b>3,365,310,245</b>	<b>102,507,165</b>
<b>Stockholders' Equity attributable to equity holders of the parent</b>				
<b>Stock</b>				
Common stock	85,646,481	2,649,133	92,770,191	2,825,775
Stock dividend to be distributed	4,263,443	131,873	-	-
Capital surplus	69,953,056	2,163,720	81,971,167	2,496,837
<b>Retained earnings</b>				
Legal reserve	8,188,136	253,267	9,245,862	281,628
Unappropriated retained earnings	18,113,107	560,257	25,512,939	777,123
<b>Other stockholders' equity</b>				
Land revaluation increment	2,106	65	2,106	64
Cumulative conversion adjustments	43,856	1,357	166,614	5,075
Unrealized gains or losses on financial instruments	6,207,343	191,999	22,625,535	689,173
Treasury stock	-	-	(4,140,047)	(126,106)
Net loss not yet recognized as net pension cost	(1,837)	(57)	(573)	(17)
<b>Total stockholder's equity attributable to equity holders of the parent</b>	<b>192,415,691</b>	<b>5,951,614</b>	<b>228,153,794</b>	<b>6,949,552</b>
<b>Minority interest</b>	<b>3,386,750</b>	<b>104,756</b>	<b>2,926,031</b>	<b>89,127</b>
<b>Total stockholders' equity</b>	<b>195,802,441</b>	<b>6,056,370</b>	<b>231,079,825</b>	<b>7,038,679</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$3,250,991,273</b>	<b>\$100,556,488</b>	<b>\$3,596,390,070</b>	<b>\$109,545,844</b>

(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, respectively)

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of income**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars, except earning per share)**

	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007					
	NT \$	US \$	NT \$	US \$				
<b>Interest income</b>	\$52,718,545	\$1,630,638	\$54,438,785	\$1,658,202				
<b>Less: Interest expenses</b>	(9,211,569)	(284,923)	(10,180,419)	(310,095)				
<b>Net interest income</b>	43,506,976	\$1,345,715	44,258,366	1,348,107				
<b>Net income other than interest</b>								
Net commission and handling fee	2,413,969	\$74,667	2,410,855	73,435				
Net premiums from insurance business	58,051,469	\$1,795,591	52,082,244	1,586,422				
Gain on financial assets and liabilities at fair value through profit or loss	(5,024,746)	(\$155,421)	(1,438,858)	(43,828)				
Realized gains on available-for-sale financial assets	7,815,910	\$241,754	16,573,130	504,817				
Realized gains on held-to-maturity financial assets	(68,191)	(\$2,109)	(260,942)	(7,948)				
Gain on investments under equity method	240,487	\$7,439	148,492	4,523				
Gain on investments in real estate	5,419,794	\$167,640	3,250,603	99,013				
Loss on foreign exchange	(5,139,182)	(\$158,960)	3,496,307	106,497				
Impairment loss	(208,971)	(\$6,464)	39,096	1,191				
Provision for insurance reserve	(73,019,923)	(\$2,258,581)	(70,177,552)	(2,137,604)				
Net other non-interest income	2,767,959	\$85,616	564,530	17,196				
<b>Total income</b>	36,755,551	\$1,136,887	50,946,271	1,551,821				
<b>Bad debt expenses -Loan</b>	(8,927,651)	(\$276,141)	(1,697,018)	(51,691)				
<b>Operating expenses</b>								
Personnel expenses	(18,086,604)	(\$559,437)	(19,900,217)	(606,160)				
Depreciation and amortizations expenses	(1,938,145)	(\$59,949)	(2,089,710)	(63,652)				
Other general and administration expenses	(3,901,507)	(\$120,678)	(4,393,516)	(133,826)				
<b>Income from continuing operations before income taxes</b>	3,901,644	120,682	22,865,810	696,492				
<b>Income taxes (expense) benefit</b>	1,945,329	60,171	(2,089,163)	(63,636)				
<b>Consolidated income before cumulative effect of accounting principles</b>	5,846,973	180,853	20,776,647	632,856				
<b>Cumulative effect of changes in accounting principles</b>	3,249,323	100,505	-	-				
<b>Consolidated income</b>	9,096,296	\$281,358	\$20,776,647	\$632,856				
<b>Include:</b>								
Parent company	\$8,980,158	\$277,766	\$20,683,076	\$630,005				
Minority interest	116,138	3,592	93,571	2,851				
Consolidated income	\$9,096,296	\$281,358	\$20,776,647	\$632,856				
<b>Earnings per share (expressed in dollars) :</b>								
Primary earnings per share:								
Consolidated income before cumulative effect of accounting principles	\$0.44	\$0.65	\$0.01	\$0.02	\$2.49	\$2.26	\$0.08	\$0.07
Cumulative effect of changes in accounting principles	0.28	0.36	0.01	0.01	-	-	-	-
Consolidated income	\$0.72	\$1.01	\$0.02	\$0.03	\$2.49	\$2.26	\$0.08	\$0.07
Fully-diluted earnings per share:								
Consolidated income before cumulative effect of accounting principles	\$0.45	\$0.65	\$0.01	\$0.02	\$2.49	\$2.26	\$0.08	\$0.07
Cumulative effect of changes in accounting principles	0.27	0.35	0.01	0.01	-	-	-	-
Consolidated income	\$0.72	\$1.00	\$0.02	\$0.03	\$2.49	\$2.26	\$0.08	\$0.07

(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, respectively)

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of changes in stockholders' equity**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Summary	Stock				Retained earnings								Other stockholders' equity								Total							
	Common stock		Stock dividend to be distributed		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Land revaluation increment		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock				Net loss not yet recognized as net pension cost		Minority interest			
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$		
<b>Balance on January 1, 2006</b>	\$85,242,234	\$2,636,630	\$-	\$-	\$68,092,037	\$2,106,157	\$6,009,431	\$185,878	\$226,579	\$7,008	\$28,146,255	\$870,592	\$3,048	\$94	\$81,154	\$2,510	\$(68,263)	\$(2,111)	\$-	\$-	\$(1,837)	\$(57)	\$3,430,369	\$106,105	\$191,161,007	\$5,912,806		
Minority interest																												
Appropriations and distribution for 2005																												
Legal reserve							2,178,705	67,389			(2,178,705)	(67,389)																
Special reserve									(226,579)	(7,008)	226,579	7,008																
Cash dividends											(12,790,330)	(395,618)													(12,790,330)	(395,618)		
Stock dividends to be distributed			4,263,443	131,873							(4,263,443)	(131,873)																
Remuneration paid to directors and supervisors											(5,700)	(176)													(5,700)	(176)		
Bonus paid to employees											(1,707)	(53)													(1,707)	(53)		
Convertible notes converted into common stock	404,247	12,503			1,861,019	57,563																				2,265,266	70,066	
Land revaluation increment													(942)	(29)												(942)	(29)	
Cumulative conversion adjustments															(37,298)	(1,153)										(37,298)	(1,153)	
Unrealized gains or losses of financial instruments																	6,275,606	194,110								6,275,606	194,110	
Consolidated income for the six months ended June 30, 2006											8,980,158	277,766												116,138	3,592	9,096,296	281,358	
<b>Balance on June 30, 2006</b>	\$85,646,481	\$2,649,133	\$4,263,443	\$131,873	\$69,953,056	\$2,163,720	\$8,188,136	\$253,267	\$-	\$-	\$18,113,107	\$560,257	\$2,106	\$65	\$43,856	\$1,357	\$6,207,343	\$191,999	\$-	\$-	\$(1,837)	\$(57)	\$3,386,750	\$104,756	\$195,802,441	\$6,056,370		
<b>Balance on January 1, 2007</b>	\$92,068,174	\$2,804,392	\$-	\$-	\$78,867,213	\$2,402,291	\$8,188,136	\$249,410	\$-	\$-	\$19,710,210	\$600,372	\$2,106	\$64	\$105,170	\$3,203	\$21,345,473	\$650,182	\$(4,140,047)	\$(126,106)	\$(573)	\$(17)	\$2,879,875	\$87,720	\$219,025,737	\$6,671,511		
Minority interest																									(47,415)	(1,444)	(47,415)	(1,444)
Appropriations and distribution for 2006																												
Legal reserve							1,057,726	32,218			(1,057,726)	(32,218)																
Cash dividends											(13,815,539)	(420,820)														(13,815,539)	(420,820)	
Stock dividend to be distributed											0	-																
Remuneration paid to directors and supervisors											(5,700)	(174)														(5,700)	(174)	
Bonus paid to employees											(1,382)	(42)														(1,382)	(42)	
Convertible notes converted into common stock	702,017	21,383			3,104,004	94,548																				3,806,021	115,931	
Capital surplus					(87)	(3)																				(87)	(3)	
Cumulative conversion adjustments															61,444	1,872										61,444	1,872	
Unrealized gains or losses of financial instruments																	1,280,062	38,991								1,280,062	38,991	
Other capital surplus					37	1																				37	1	
Consolidated income for the six months ended June 30, 2007											20,683,076	630,005												93,571	2,851	20,776,647	632,856	
<b>Balance on June 30, 2007</b>	\$92,770,191	\$2,825,775	\$-	\$-	\$81,971,167	\$2,496,837	\$9,245,862	\$281,628	\$-	\$-	\$25,512,939	\$777,123	\$2,106	\$64	\$166,614	\$5,075	\$22,625,535	\$689,173	\$(4,140,047)	\$(126,106)	\$(573)	\$(17)	\$2,926,031	\$89,127	\$231,079,825	\$7,038,679		

(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, respectively)

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of cash flows**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Consolidated income	\$9,096,296	\$281,358	\$20,776,647	\$632,856
Adjustments:				
Income and other adjustments with no cash flow effects				
Depreciation and amortization expenses	1,938,145	59,949	2,089,710	63,652
Investment income recognized by equity method excess of cash dividends received	495,051	15,312	536,007	16,327
Bad debt expenses -loans	8,927,651	276,141	1,697,018	51,691
Provision for insurance reserve from insurance business	73,020,068	2,258,585	70,177,552	2,137,604
Gain on disposal of property and equipment	(1,463,979)	(45,282)	(1,226,100)	(37,347)
Impairment loss (recovery)	208,971	6,464	(39,096)	(1,191)
Cumulative effect of changes in accounting principles	(3,249,323)	(100,505)	-	-
Other adjustments	(340,999)	(10,547)	(5,942)	(181)
Changes on operating assets and liabilities				
Decrease (increase) in receivables	(16,869,203)	(521,782)	560,432	17,071
(Decrease) increase in deferred income tax assets	(4,384,216)	(135,608)	1,012,861	30,852
Increase in financial assets at fair value through profit or loss	(3,721,373)	(115,106)	(4,342,813)	(132,282)
Increase in other financial assets	(9,746,685)	(301,475)	(1,309,972)	(39,902)
Decrease (increase) in other assets	2,215,122	68,516	(799,735)	(24,360)
Increase in payables	7,986,685	247,036	9,007,284	274,361
Increase (decrease) in financial liabilities at fair value through profit or loss	16,515,373	510,837	(3,524,840)	(107,366)
Decrease in deferred income tax liabilities	(397,810)	(12,305)	(24,955)	(760)
Increase in other financial liabilities	36,815	1,139	146,012	4,448
Decrease in other liabilities	(5,334,743)	(165,009)	(3,417,281)	(104,090)
<b>Net cash provided by operating activities</b>	<b>74,931,846</b>	<b>2,317,718</b>	<b>91,312,789</b>	<b>2,781,383</b>
<b>Cash flows from investing activities</b>				
Restricted assets	(600,000)	(18,559)	-	-
Increase in loans	(31,408,829)	(971,507)	(38,834,113)	(1,182,885)
Decrease in due from the Central Bank and call loans to banks	14,194,670	439,056	12,757,121	388,581
Decrease (increase) in available-for-sale financial assets	3,351,274	103,659	(73,627,525)	(2,242,691)
Increase in held-to-maturity financial assets	(68,790,967)	(2,127,775)	(23,682,025)	(721,353)
Decrease in investments under equity method	2,031,123	62,825	199,661	6,082
Increase in investments in real estate	(2,705,034)	(83,670)	(2,797,221)	(85,203)
Acquisition (disposal) of property and equipment	902,240	27,907	(1,039,911)	(31,676)
Decrease in securities purchased under agreements to resell	(37,951,239)	(1,173,871)	(14,355,734)	(437,275)
Decrease (increase) in other financial assets	(41,527,337)	(1,284,483)	(39,264,226)	(1,195,986)
Increase in other assets	(137,042)	(4,239)	(1,189,499)	(36,232)
<b>Net cash used in investing activities</b>	<b>(162,641,141)</b>	<b>(5,030,657)</b>	<b>(181,833,472)</b>	<b>(5,538,638)</b>
<b>Cash flows from financing activities</b>				
Increase (decrease) in due to the Central Bank and call loans from banks	35,026,860	1,083,417	(34,786,200)	(1,059,586)
Increase in deposits	20,533,322	635,117	43,589,981	1,327,749
Decrease in securities sold under agreements to repurchase	(5,018,688)	(155,233)	(4,436,319)	(135,130)
Increase (decrease) in banker's acceptances and funds borrowed	(8,875)	(275)	4,750	145
Decrease in bonds payable	(1,636,399)	(50,616)	(868,967)	(26,469)
Increase in other financial liabilities	588,151	18,192	520,742	15,862
Increase (decrease) in other liabilities	27,309	845	(153,174)	(4,666)
Cash dividends	(241)	(7)	(31,680)	(965)
Disposal of treasury stock	-	-	37	1
Bonus paid to employees	(901)	(28)	1,478	45
<b>Net cash provided by financing activities</b>	<b>49,510,538</b>	<b>1,531,412</b>	<b>3,840,648</b>	<b>116,986</b>
<b>Effects of exchange rate changes</b>	<b>(325,862)</b>	<b>(10,079)</b>	<b>196,723</b>	<b>5,992</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(38,524,619)</b>	<b>(1,191,606)</b>	<b>(86,483,312)</b>	<b>(2,634,277)</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>326,904,385</b>	<b>10,111,487</b>	<b>518,910,317</b>	<b>15,805,980</b>
<b>Cash and cash equivalents at the end of period</b>	<b>\$288,379,766</b>	<b>\$8,919,881</b>	<b>\$432,427,005</b>	<b>\$13,171,703</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period (excluding capitalized interest)	\$8,921,814	\$275,961	\$10,397,163	\$316,697
Income tax paid	\$3,850,861	\$119,111	\$845,502	\$25,754
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$2,265,266	\$70,067	\$3,806,021	\$115,931

(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, respectively)

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries  
Notes to Consolidated Financial Statements  
(Expressed in thousands of dollars except  
for share and per share data and unless otherwise stated)  
June 30, 2006 and 2007**

**1. Organization and business scope**

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) were merged into the Company through stock conversion. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) became a subsidiary of the Company by stock conversion. UWCCB and Cathay United Bank merged on October 27, 2003. UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On June 30, 2005, the Company has invested Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. And Lucky Bank became a subsidiary of the Company by stock conversion on August 25, 2006. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business activities. As of June 30, 2006 and 2007, the total numbers of the employees of the Company and Subsidiaries were 33,620 and 35,764, respectively.

As of and for the six months ended June 30, 2006 and 2007, the consolidated financial statements include the followings:

Investors	Investees	Business	2006.6.30 Ownership interest	2007.6.30 Ownership interest	Notes
The Company	Cathay Life	Life insurance	100%	100%	Cathay Life was incorporated in Taiwan on October 23, 1962 under the provisions of the ROC Company Act (the “Company Act”).



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Investors	Investees	Business	2006.6.30 Ownership interest	2007.6.30 Ownership interest	Notes
The Company	Cathay United Bank	Commercial banking operations	100%	100%	Cathay United Bank, originally named UWCCB, was enfranchised by the ROC government in January 4, 1975. On October 27, 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger.
The Company	Cathay Century	Property and casualty insurance	100%	100%	Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act. Cathay Century changed its name from “Tong Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.” on August 2, 2002.
The Company	Cathay Securities	Securities	100%	100%	Cathay Securities was incorporated on May 12, 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were transferred to Cathay Securities by using operating assignment along with its business, assets and liabilities. The assignment date was August 13, 2004.

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Investors	Investees	Business	2006.6.30 Ownership interest	2007.6.30 Ownership interest	Notes
The Company	Cathay Pacific Venture Capital Co., Ltd. ("Cathay Pacific Venture")	Venture capital investment	100%	100%	Cathay Pacific Venture was incorporated on April 16, 2003, under the Company Act.
The Company、 Cathay Life、 Cathay United Bank、Cathay Century	Cathay Venture Capital Co., Ltd. ("Cathay Venture")	Venture capital investment	67%	67%	Cathay Venture was incorporated on September 13, 2000, under the Company Act.
The Company	Cathay II Venture Capital Co., Ltd. ("Cathay II Venture")	Venture capital investment	100%	100%	Cathay II Venture was incorporated on April 12, 2004, under the Company Act.
The Company	Lucky Bank	Commercial banking operations	100%	-	Lucky Bank, the former Taichung Central District Credit Union, was incorporated in 1947, reorganized as Taichung Seventh Credit Union in 1971 and reincorporated a commercial bank in 1997. On August 25, 2006, the Company acquired 100% of Lucky Bank by share swap. On January 1, 2007, Cathay United Bank was merged with the former Lucky Bank which was dissolved after the merger.

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Investors	Investees	Business	2006.6.30 Ownership interest	2007.6.30 Ownership interest	Notes
Cathay Life	Lin Yuan Property Management Co., Ltd. (“Lin Yuan Property Management”)	Property management services	10%	10%	Lin Yuan Property Management Co., Ltd. was incorporated on July 1, 2000, under the Company Act. On May 22, 2002, the company name was changed from “San Ching Property Management Co., Ltd.” to “Lin Yuan Property Management Co., Ltd.” 80% of the Company’s shares were disposed by Cathay Life on January 13, 2006, while 90% of them were held by Cathay Life before the disposal. As of and for the six months ended June 30, 2007, the consolidated financial statement excluded Lin Yuan Property Management Co., Ltd.
Cathay Life	Cathay Life Insurance Ltd. (Shanghai) (“Cathay Life (Shanghai)”)	Life insurance	50%	50%	Cathay Life (Shanghai) was incorporated on December 29, 2004. Cathay Life and China Eastern Airlines Corporation Limited each owns 50% interest of Cathay Life (Shanghai).
Cathay Life 、 Cathay Venture	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	99.53%	99.53%	Symphox Information was incorporated on December 12, 1999, under the Company Act. Cathay Life and Cathay Venture own 60.12% and 39.41% interest of Symphox Information, respectively.

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Investors	Investees	Business	2006.6.30 Ownership interest	2007.6.30 Ownership interest	Notes
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50%	50%	Indovina Bank was incorporated in Vietnam on October 29, 1992.
Cathay United Bank、Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Further related business	99.99%	99.99%	Cathay Futures, former Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Act and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On February 10, 2006, Cathay United Bank sold all the stocks of Cathay Futures to Cathay Securities.
Cathay United Bank	Seaward Leasing Ltd. (“Seaward Leasing”)	Leasing for all kinds of equipments	100%	-	Seaward Leasing was incorporated on February, 1996, under the Company Act. As of June 30, 2006, all Seaward Leasing shares held by Cathay United Bank were disposed. As such, the consolidated financial statements as of and for the six months ended June 30, 2007 excluded Seaward Leasing.

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Investors	Investees	Business	2006.6.30 Ownership interest	2007.6.30 Ownership interest	Notes
Lucky Bank	Pao Shin Securities Co., Ltd. (“Pao Shin Securities”)	Securities	38.35%	-	Pao Shin Securities was incorporated on September 9, 1988, under the Company Act. As of April 10, 2006, all Pao Shin Securities shares held by Lucky Bank were disposed. As such , the consolidated financial statements as of and for the six months ended June 30, 2007 excluded Pao Shin Securities.

As of and for the six months ended June 30, 2006 and 2007, the consolidated financial statements excluded following subsidiaries due to the respective total assets and operating revenues were considered immaterial to the Company.

Investors	Investees	Business	2006.6.30 Ownership interest	2007.6.30 Ownership interest	Notes
The Company	Cathay Capital Management Inc. (“Cathay Capital Management”)	Management consultant	100%	100%	Cathay Capital Management was incorporated on June 12, 2000.
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Reinsurance	100%	100%	Cathay Insurance (Bermuda) was incorporated on January 24, 2000.
Cathay life	Cathay Securities Investment Co., Ltd. (“Cathay Securities Investment”)	Securities investment research analysis	100%	100%	Cathay Securities Investment was incorporated on November 25, 2002.

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Investors	Investees	Business	2006.6.30 Ownership interest	2007.6.30 Ownership interest	Notes
Cathay United Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100%	100%	Cathay Life Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100%	100%	Cathay Property Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100%	100%	Seaward Card was incorporated on April 9, 1999.
Cathay Capital Management	Cathay Pacific Partners Co., Ltd. (“Cathay Pacific Partners”)	Finance consultant	60%	60%	Cathay Pacific Partners was incorporated on October 15, 2002.
Seaward Leasing	China England Co., Ltd. (“China England”)	Credit, loan and securities investment	100%	-	China England was incorporated on August 7, 1996. As of June 30, 2006, all Seaward Leasing shares held by Cathay United Bank were disposed and therefore the Company lost control over China England.

**2. Summary of significant accounting policies**

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

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### *(1) Principles of consolidation*

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

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

Cash and cash equivalents include cash on hand, unrestricted bank deposits, checks for clearance, due from commercial banks and all highly liquid investments with maturities of less than three months.

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

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

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

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

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

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

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

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

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

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

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

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

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



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### F. Financial assets carried at cost

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

### G. Financial liabilities

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

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

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

##### A. Financial assets

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

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

##### B. Financial liabilities

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

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

(5) *Accounting for impairment of financial assets*

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets carried at cost

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

C. Available-for-sale financial assets

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

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### *(6) Derivative financial instruments*

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

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

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

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

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

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

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### A. Fair value hedges

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

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

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

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

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

### B. Cash flow hedges

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

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

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

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

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

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

Allowance for bad debts on bills, bill purchased, acceptances, guarantees loans, delinquent accounts, receivables of credit card and other receivables are determined based on the aging analysis of outstanding balances of such accounts and past experience.

#### *(8) Investments-equity method*

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

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

Unrealized intercompany gains or losses are eliminated under the equity method. Gains or losses from sales of depreciable assets between the Company and 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.

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

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

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

Depreciation is calculated using the straight-line method in accordance with the “Estimated Useful Life of Fixed Assets Table” published by the Executive Yuan of the ROC (the “Executive Yuan Depreciation Table”).

Real estate investment primarily is for commercial leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

### *(10) Property and equipment*

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property appreciation shall be recorded under “land revaluation adjustments” of stockholders’ equity.

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

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Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

### *(11) Intangible assets*

The Company and Subsidiaries 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 value. 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 and Subsidiaries 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 and Subsidiaries reevaluates the 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 and Subsidiaries are computer softwares and are amortized over the estimated useful lives of three to five years using the straight-line method.

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

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

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

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

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

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods.

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

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

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

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



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### *(14) Convertible notes*

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

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

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

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

### *(16) Treasury stock*

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

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

A. In accordance with Article 38 of the Financial Holding Company Act which provides strict prohibitions on cross-holdings, all the prior share buybacks conducted by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities Exchange Act), upon the conversion of such institutions into wholly-owned subsidiaries of a financial holding company, must be converted into treasury shares of the financial holding company to be held by such subsidiaries for a period of no more than three years. If such subsidiaries fail to dispose such treasury shares within this

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period, those shares will be deemed as un-issued share capital of the financial holding company and shall be cancelled accordingly.

- B. Treasury shares of a financial holding company held by its subsidiaries as described above are also treated as their own treasury shares and therefore such subsidiaries may not exercise shareholders rights with respect to those stocks in accordance with Article 28-2 of the Securities Exchange Act.

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

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

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

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

Direct premiums are recorded as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

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

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### *(19) Pension plan*

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

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

### *(20) Foreign currency transactions*

#### A. Translation of foreign currency transactions

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

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

Financial statements of foreign subsidiaries under the equity method are translation into NT dollars based on follows: all assets and liabilities denominated in foreign currencies are translation into NT dollars at the exchange rate prevailing on the balance sheet date. Stockholders’ equity items are translation based on the historical rates except for the opening balance of retained earnings, which is posted directly from the year end balance of previous year. Income statement items are translation by the weighted-average exchange rate of the fiscal year. Differences arising from above translation are reported as “cumulative translation adjustments” under stockholders’ equity.

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### *(21) Income taxes*

The Company adopted ROC SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences between deferred income tax liabilities, deferred income tax assets, prior years' loss carry forwards and investment tax credits. An allowance is provided under assessment of the realizability of deferred tax assets. Adjustment of prior years' income tax payable are included in current income tax expense.

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

The Company adopted ROC SFAS No. 12, "Accounting for Income Tax Credits," for income tax deductions. The income tax deductions resulting from the expenditure on the purchase of equipment, research and development, education, training and investment in equity are accounted for under the current period recognition method.

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

Effective from January 1, 2006, the Company and Subsidiaries have considered the impact of the "Alter native Minimum Tax Act" to estimate its income tax liabilities.

### *(22) Capital expenditure*

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

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

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

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

The financial statements are stated in NT dollars. The translated 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 translation.

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

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

The above change in accounting principles increased consolidated assets, liabilities and stockholders’ equity by NT\$16,384,910 (US\$506,802), NT\$2,486,909 (US\$76,923) and NT\$10,648,678 (US\$329,375) as of January 1, 2006, respectively. Consolidated income and earnings per share for the six months ended June 30, 2006 increased by NT\$3,249,323 (US\$100,505) and NT\$0.36 (US\$0.01), respectively.

The Company and Subsidiaries adopted the ROC SFAS No.5, “Accounting for long-term investments in stocks under the equity method” (“ROC SFAS No.5,”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company and Subsidiaries’ share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is no longer being amortized. Such change in accounting principles the decreased investment under equity method by NT\$1,372 (US\$42) as of June 30, 2006, and decreased consolidated income by NT\$1,372 (US\$42) for the six months ended June 30, 2006.

### **4. Cash and cash equivalents**

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Petty cash and cash on hand	\$11,485,180	\$355,248	\$10,703,273	\$326,021
Cash in banks	6,807,364	210,559	6,954,386	211,830
Time deposits	242,980,745	7,515,643	394,027,271	12,002,049
Cash equivalents	4,866,993	150,541	3,578,103	108,989
Checks for clearance	5,885,076	182,031	10,609,761	323,173
Due from commercial banks	16,354,408	505,859	6,554,211	199,641
Total	\$288,379,766	\$8,919,881	\$432,427,005	\$13,171,703

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As of June 30, 2006 and 2007, the amounts of time deposits with maturities beyond one years were NT\$185,690 (US\$5,744) and NT\$1,388,751 (US\$42,301), respectively.

**5. Financial assets at fair value through profit or loss**

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Common stock	\$23,056,282	\$713,155	\$21,165,392	\$644,696
Beneficiary certificates	53,751,967	1,662,603	14,555,205	443,351
Exchange traded funds	1,821,761	56,349	398,915	12,151
Real estate investment trust	-	-	680,000	20,713
Commercial papers	10,693,532	330,762	13,861,423	422,218
Corporate bonds	804,975	24,899	3,531,864	107,580
Government bonds	49,354,757	1,526,593	30,315,142	923,397
Financial debentures	518,779	16,047	997,400	30,381
Overseas financial instruments	19,000,024	587,690	45,632,028	1,389,949
Derivative financial instruments	3,874,436	119,840	1,941,099	59,126
Certificates of deposit	-	-	4,401	134
Structured time deposits	-	-	2,000,000	60,920
Call options	11	-	-	-
Valuation adjustment	7,803,008	241,355	26,658,077	812,004
Total	<u>\$170,679,532</u>	<u>\$5,279,293</u>	<u>\$161,740,946</u>	<u>\$4,926,620</u>

(1) As of June 30, 2006 and 2007, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$8,494,700 (US\$262,750) and NT\$9,073,200 (US\$276,369), respectively. Such repurchase agreements amounting of NT\$8,475,636 (US\$262,160) and NT\$9,081,944 (US\$276,636), respectively, were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to June 30, 2006 and 2007 are settled at NT\$8,480,454 (US\$262,309) and NT\$9,091,505 (US\$276,927) prior to July 31, 2006 and May 31, 2007, respectively.

(2) Related information on the above financial assets at fair value through profit or loss as of June 30, 2006 and 2007 being pledged please refer to Note 26.

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**6. Loans-net**

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Inward-outward documentary bills	\$623,566	\$19,288	\$719,491	\$21,915
Loans	1,150,096,797	35,573,671	1,249,405,352	38,056,818
Overdrafts	636,324	19,682	515,867	15,713
Discounts	7,052,149	218,130	85,447	2,603
Delinquent accounts	9,012,234	278,758	8,962,443	272,996
Subtotal	1,167,421,070	36,109,529	1,259,688,600	38,370,045
Less: Allowance for bad debts	(12,279,111)	(379,806)	(13,356,205)	(406,829)
Total	\$1,155,141,959	\$35,729,723	\$1,246,332,395	\$37,963,216

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

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Common stock	\$67,411,914	\$2,085,120	\$138,215,197	\$4,210,027
Beneficiary certificates	5,081,902	157,188	724,142	22,057
Collateralized loans obligation and collateralized bonds obligation	1,031,102	31,893	7,767,475	236,597
Exchange traded funds	122,857	3,800	4,888,119	148,892
Government bonds	46,563,082	1,440,244	51,805,490	1,577,992
Corporate bonds	34,551,370	1,068,709	36,067,795	1,098,623
Financial debentures	28,613,587	885,048	80,848,963	2,462,655
Overseas financial instruments	86,063,404	2,662,029	111,367,984	3,392,263
Real estate investment trust beneficiary	3,302,115	102,138	9,319,655	283,876
Valuation adjustment	5,757,566	178,087	22,758,375	693,219
Total	\$278,498,899	\$8,614,256	\$463,763,195	\$14,126,201

(1) As of June 30, 2006 and 2007, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$18,720,400 (US\$579,041) and NT\$9,397,600 (US\$286,250). Such repurchase agreements amounting of NT\$20,360,571 (US\$629,773) and NT\$10,143,477 (US\$308,970) were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to June 30, 2007 will be settled at NT\$20,396,183 (US\$630,875) and NT\$10,173,918 (US\$309,897) prior to December 30, 2006 and 2007, respectively.

(2) Related information on the above available-for-sale financial assets as of June 30, 2006 and 2007 being pledged please refer to Note 26.

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

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Government bonds	\$13,164,706	\$407,197	\$20,996,425	\$639,550
Corporate bonds	8,095,991	250,417	5,833,376	177,684
Financial debentures	16,958,998	524,559	16,584,264	505,156
Overseas financial instruments	485,451,969	15,015,527	504,890,550	15,378,939
Collateralized loans obligation and collateralized bonds obligation	9,454,009	292,422	20,916,694	637,121
Short-term notes	4,494,949	139,034	296,051	9,018
Subtotal	537,620,622	16,629,156	569,517,360	17,347,468
Less: Accumulated impairment	(2,006)	(62)	(2,030)	(62)
Total	<u>\$537,618,616</u>	<u>\$16,629,094</u>	<u>\$569,515,330</u>	<u>\$17,347,406</u>

Related information on the above held-to-maturity financial assets as of June 30, 2006 and 2007 being pledged please refer to Note 26.

**9. Investments under equity method**

Investee	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment	\$104,103	\$3,220	\$121,800	\$3,710
Cathay Capital Management	40,610	1,256	40,823	1,243
Seaward Card	38,463	1,190	37,468	1,141
Cathay Property Insurance Agent	8,469	262	7,335	223
Cathay Life Insurance Agent	63,194	1,955	35,257	1,074
Cathay Insurance (Bermuda)	66,403	2,054	80,615	2,456
WK Technology Fund VI Co., Ltd	399,071	12,344	461,157	14,047
Vista Technology Venture Capital Corp.	55,943	1,730	55,414	1,688
Omnitek Venture Capital Corp.	343,716	10,631	250,445	7,629
Wa Tech Venture Capital Co., Ltd.	164,617	5,092	200,117	6,096
Taiwan Real-estate Management Corp.	17,341	536	35,502	1,081
Taiwan Finance Corp.	1,331,698	41,191	1,276,396	38,879
IBT Venture Capital Corp.	597,809	18,491	425,912	12,973
Cathay Securities Investment Trust Co., Ltd.	240,964	7,453	286,564	8,729
Subtotal	3,472,401	107,405	3,314,805	100,969
Less: Unrealized gain from intercompany transactions	-	-	(415,680)	(12,662)
Total	<u>\$3,472,401</u>	<u>\$107,405</u>	<u>\$2,899,125</u>	<u>\$88,307</u>



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### 10. Other financial assets-net

Item	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Derivative financial assets for hedging	\$326,924	\$10,112	\$193,039	\$5,880
Financial assets carried at cost	26,634,866	823,844	27,364,333	833,516
Structured time deposits	15,350,000	474,791	19,963,071	608,074
Customer's margin accounts	1,193,986	36,931	957,571	29,168
Bills purchased	8,361	259	4,090	125
Other miscellaneous financial assets	920,611	28,476	333,672	10,164
Accumulated impairment	(779,561)	(24,113)	(1,665,966)	(50,746)
Total	<u>\$43,655,187</u>	<u>\$1,350,300</u>	<u>\$47,149,810</u>	<u>\$1,436,181</u>

### 11. Investments in real estate

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

Item	June 30, 2007									
	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$118,948,065	\$3,623,152	\$4,632	\$141	\$(14,609,141)	\$(444,994)	\$(195,923)	\$(5,968)	\$104,147,633	\$3,172,331
Construction	1,119,751	34,108	-	-	-	-	-	-	1,119,751	34,108
Total	<u>\$120,067,816</u>	<u>\$3,657,260</u>	<u>\$4,632</u>	<u>\$141</u>	<u>\$(14,609,141)</u>	<u>\$(444,994)</u>	<u>\$(195,923)</u>	<u>\$(5,968)</u>	<u>\$105,267,384</u>	<u>\$3,206,439</u>

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- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semiannually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collaterals.
- (4) Cathay Life had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building in the first half year of 2007. The accounting treatment of the transactions was in compliance with (93) Article 141 and (95) Article 023 of Accounting Research and Development Foundation, “Accounting Treatment of Real Estate Securitization” and “Interpretation of the Accounting Treatment of Real Estate Securitization”, respectively. The gain on disposal of real estates on this transaction was NT\$1,195,081 (US\$36,402) for the six months ended June 30, 2007.
- (5) Cathay Life has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Chung Hua Building in 2005. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. Related information is as follows:
  - A. Cathay Life transferred the risk and returns of ownership of the real estate property to the assignee and the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$266,865).
  - B. After the REIT was issued, the sponsor and related parties of Cathay Life did not participate in the original offering. Instead, Cathay Life bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding securities. Thus, it should be treated as a part of unsold real estate. Cathay Life has deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by Cathay Life. As of June 30, 2006, the amounts of deferred gain on disposal of real estate had been recognized.

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**12. Goodwill and intangible assets-net**

Item	January 1, 2006		Increase		Decrease		June 30, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost								
Goodwill	\$1,277,683	\$39,520	\$-	\$-	\$-	\$-	\$1,277,683	\$39,520
Computer								
software	1,131,969	35,013	292,823	9,057	(631)	(20)	1,424,161	44,051
Land use right	9,480	293	-	-	(1,206)	(37)	8,274	256
Deferred								
pension cost	43,791	1,355	-	-	-	-	43,791	1,354
Subtotal	2,462,923	76,181	292,823	9,057	(1,837)	(57)	2,753,909	85,181
Amortized and impairment								
Amortized	(377,672)	(11,682)	(147,910)	(4,575)	631	20	(524,951)	(16,237)
Impairment	(311,442)	(9,633)	-	-	-	-	(311,442)	(9,633)
Subtotal	(689,114)	(21,315)	(147,910)	(4,575)	631	20	(836,393)	(25,870)
Book value	\$1,773,809	\$54,866	\$144,913	\$4,482	\$(1,206)	\$(37)	\$1,917,516	\$59,311

  

Item	January 1, 2007		Increase		Decrease		June 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost								
Computer								
software	\$1,578,607	\$48,084	\$106,167	\$3,234	\$(1,789)	\$(54)	\$1,682,985	\$51,264
Land use right	16,132	492	-	-	-	-	16,132	492
Subtotal	1,594,739	48,576	106,167	3,234	(1,789)	(54)	1,699,117	51,756
Amortized and impairment								
Amortized	(697,771)	(21,254)	(180,202)	(5,489)	1,789	54	(876,184)	(26,689)
Book value	\$896,968	\$27,322	\$(74,035)	\$(2,255)	\$-	\$-	\$822,933	\$25,067

The intangible assets are computer software and are calculated using the straight-line method over the estimated useful lives of three to five years.

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**13. Financial liabilities at fair value through profit or loss**

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Derivative financial instruments	\$4,697,664	\$145,303	\$4,961,652	\$151,131
Securities sold under agreements to repurchase	685,817	21,213	-	-
Financial debentures	38,665,358	1,195,959	39,700,000	1,209,260
Subordinated financial debentures	10,044,123	310,675	5,000,000	152,300
Valuation adjustment	17,500,087	541,296	14,867,596	452,866
Total	<u>\$71,593,049</u>	<u>\$2,214,446</u>	<u>\$64,529,248</u>	<u>\$1,965,557</u>

- (1) On May 23, 2002, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$5,000,000 (US\$152,300) have matured. Subsequently on September 10, 2002, Cathay United Bank issued five-year and six-month subordinated financial debentures totaling NT\$5,000,000 (US\$152,300) with a floating interest rate or inverse floating interest rate and the interest is paid semi-annually. The subordinated financial debentures are repayable at maturity.
- (2) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.
- (3) On June 20, 2003, Cathay United Bank issued five-year and six-month dominant financial debentures amounting to NT\$5,000,000 (US\$152,300) with inverse floating interest rate. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank issued five-year dominant financial debentures amounting to NT\$3,200,000 (US\$97,472), NT\$2,700,000 (US\$82,242) and NT\$1,800,000 (US\$54,828), respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$2,000,000 (US\$60,920) with a floating interest rate. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.
- (4) On July 8 and July 15, 2004, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000 (US\$30,460), NT\$3,500,000 (US\$106,610), NT\$2,000,000 (US\$60,920), and NT\$1,000,000 (US\$30,460),

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respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23, December 29, 2004, and on January 14 and February 22, 2005, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000 (US\$76,150), NT\$1,500,000 (US\$45,690), NT\$1,500,000 (US\$45,690), NT\$2,500,000 (US\$76,150), NT\$1,500,000 (US\$45,690), NT\$2,500,000 (US\$76,150), NT\$1,000,000 (US\$30,460) and NT\$1,000,000 (US\$30,460), NT\$2,000,000 (US\$60,920), NT\$1,500,000 (US\$45,690), respectively, with fixed interest rates. These dominant financial debentures are repayable at maturity and the interest is payable quarterly.

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

### 14. Deposits

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Check deposits	\$12,120,704	\$374,906	\$14,920,278	\$454,471
Demand deposits	138,051,102	4,270,062	109,922,723	3,348,240
Savings deposits	569,552,184	17,616,832	387,601,916	11,806,333
Time deposits	176,508,903	5,459,601	493,095,964	15,019,676
Remittances payable	379,894	11,750	668,886	20,374
Total	\$896,612,787	\$27,733,151	\$1,006,209,767	\$30,649,094

### 15. Bonds payable

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Bonds payable	\$11,172,574	\$345,579	\$-	\$-
Subordinated financial debentures	18,582,500	574,776	18,770,000	571,733
Discount in financial debentures	(110,141)	(3,407)	(102,163)	(3,112)
Valuation adjustment	(1,189,661)	(36,797)	(981,035)	(29,882)
Total	\$28,455,272	\$880,151	\$17,686,802	\$538,739

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- (1) On April 28, 2003, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$2,350,000 (US\$71,581) with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.
- (2) Cathay United Bank issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semi-annually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its subordinated financial debentures.
- (3) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.
- (4) Zero coupon convertible notes related information:

- A. Issuer: Cathay Financial Holding Co., Ltd.
- B. Issue amount: US\$700 million.
- C. Issue price: 100%.
- D. Maturity date: May 20, 2007.
- E. Interest: The notes do not bear interest except in the limited circumstances.

F. Conversion rights:

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

G. Repurchase at the option of the holder:

Unless the notes have been previously redeemed, repurchased and cancelled, or converted, each Holder shall have the right, at such Holder’s option, to require the Company to repurchase all (or any portion of the principal amount thereof which is

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US\$1,000 (dollars) or any integral multiple thereof) of such Holder's notes, on May 20, 2005 at a price equal to 100% of the outstanding principal amount thereof plus the redemption premium. The redemption premium is the amount payable at the issue price on the original issue date, plus a compound yield rate of 2.75% per annum (computed on a semi-annual note equivalent basis).

### H. Repurchase in the event of delisting:

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

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

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

### J. Redemption at the option of the Company:

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

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been redeemed, repurchased and cancelled, or converted, at a redemption price equal to 100% of the outstanding principal amount thereof plus the redemption premium on the redemption date; provided that the applicable redemption date does not fall within a closed period.

### **K. Redemption due to tax regulation changes :**

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

### **L. Redemption amount at maturity:**

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

### **M. Negative pledge:**

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

### **N. Further issues:**

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

### **O. Governing law:**

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



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### P. Status quo:

As of May 20, 2007, a total of US\$686,074 convertible notes have been converted into common stocks of 461,242 thousand shares. The conversion premiums payable and additional paid-in capital from the conversion amounted to NT\$20,288,151 (US\$617,976) and was recognized as capital surplus. A total of face value US\$2,500, convertible bonds have been redeemed before maturity. The company also has paid US\$214, for the redemption premium. As of the maturity date there were US\$13,926 outstanding convertible bonds outstanding and the Company then had paid off the principal amount plus redemption premium of US\$2,038.

### 16. Reserve for operations and liabilities

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Reserve for insurance business	\$1,732,368,965	\$53,583,946	\$1,897,421,301	\$57,795,349
Reserves for losses on guarantees	28,647	886	28,690	874
Reserves for losses on stock brokerage transactions	13,383	414	23,519	716
Reserves for losses on trading securities	146,806	4,541	150,501	4,584
Total	<u>\$1,732,557,801</u>	<u>\$53,589,787</u>	<u>\$1,897,624,011</u>	<u>\$57,801,523</u>

(1) Effective from December 24, 2002, Cathay Century Insurance 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. Cathay Century Insurance 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, Cathay Century Insurance 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.

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) Effective from December 24, 2002, the accruals of claim reserves are in accordance with

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“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. Cathay Century Insurance 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.
- E. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.
- F. The residential earthquake insurance product is in compliance of “Regulations for Method of Coinsurance and Contingency on Residential Earthquake”.

### **17. Other financial liabilities**

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Derivative financial liabilities for hedging	\$1,300,695	\$40,232	\$1,145,401	\$34,889
Borrowed funds	313,585	9,699	310,850	9,468
Others	-	-	238,315	7,259
Total	<u>\$1,614,280</u>	<u>\$49,931</u>	<u>\$1,694,566</u>	<u>\$51,616</u>

### **18. Common stock**

- (1) As of June 30, 2006 and 2007, the authorized share capital amounted NT\$120,000,000 (US\$3,655,193), and the issued share capital amounted NT\$85,646,481 (US\$2,649,133) and NT\$92,770,191 (US\$2,825,775), respectively.

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- (2) The undistributed earnings recapitalization of NT\$4,263,443 (US\$131,873) thousand by issuing 426,344 thousand shares with par value of NT\$10 (US\$0.3) was resolved by the Company's stockholders' meeting on June 9, 2006 and approved by the 79 Securities and Futures Bureau on June 30, 2006. The recapitalization record date was August 14, 2006.
- (3) On December 31, 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

### **19. Capital surplus**

- (1) The capital surplus of the Company consists of consolidation premium from share exchange, accumulated adjustments on paid-in capital from investment under equity method, and paid-in capital from treasury stocks. Capital surplus were NT\$69,953,056 (US\$2,163,720) and NT\$81,971,167 (US\$2,496,837) as of June 30, 2006 and 2007, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted NT\$267,215 (US\$8,139) were included in the capital surplus as of June 30, 2006 and 2007.
- (2) The capital surplus of par value through the conversion of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of capital surplus from the share exchange which comes from the original financial institution's undistributed earnings is allowed to be distributed as cash dividends.
- (3) In addition, pursuant to the Company Act, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. In addition, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

### **20. Retained earnings**

- (1) Legal reserve

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated as legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficits but cannot

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be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its stockholders.

### (2) Undistributed earnings

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

B. On June 20, 2007, the stockholders' meeting resolved the appropriation of earnings for the year ended December 31, 2006. The Company declared cash dividends of NT\$1.5 (US\$0.05) per common share and such dividends with record dates on July 5, respectively.

C. On June 9, 2006, the stockholders' meeting resolved the distribution of earnings of NT\$2.0 (US\$0.06) per share for the year ended December 31, 2005. The cash and stock dividends with record dates are NT\$1.5 (US\$0.05) and NT\$0.5 (US\$0.02) on July 17 and August 14, 2006, respectively.

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

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

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

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

### H. Dividends policy

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

## 21. Treasury stock

The following is a summary of the movement of treasury stock as of June 30, 2006 and 2007:

The Company has no treasury stock as of June 30, 2006.

Reason for acquisition	June 30, 2007									
	In thousands of shares			Book value		Book value Per share		Market value Per share		
	January 1, 2007	Increase	Decrease	June 30, 2007	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares held by										
share exchange	66,660	-	-	66,660	\$4,140,047	\$126,106	\$62.11	\$1.89	\$78.50	\$2.39

## 22. Operating Expense

For the six months ended June 30, 2006 and 2007, personnel expense, depreciation and amortizations are summarized below:

	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Personnel expenses	\$18,086,604	\$559,437	\$19,900,217	\$606,160
Salary and wages	15,920,073	492,424	17,696,906	539,047
Labor & health insurance expenses	893,956	27,651	967,272	29,463
Pension expenses	578,995	17,909	455,231	13,866
Other expenses	693,580	21,453	780,808	23,784
Depreciation	1,786,377	55,254	1,907,489	58,102
Amortization	151,768	4,694	182,221	5,550

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**23. Estimated income taxes**

(1) Income tax expenses include the following:

	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Income tax calculates on accounting income	\$1,909,365	\$59,059	\$(1,768,101)	\$(53,856)
Plus: Interest income of tax on a separate basis	646,294	19,991	262,358	7,991
Extra 10% income tax on undistributed retained earnings	259,353	8,022	55	2
Alternative minimum tax payable	13,656	422	391,512	11,926
Allocation of the cumulative effect of changes in accounting principles	763,130	23,604	-	-
Withholding tax for overseas investments	-	-	55,882	1,702
(Less) Plus: Tax effects under consolidated income tax	(1,441)	(45)	221,014	6,732
Deferred income tax benefits	(4,387,888)	(135,722)	2,264,373	68,973
Adjustment of income tax	-	-	644,359	19,627
Income tax credit	(8,780)	(271)	(8,788)	(268)
Dissimilitude on estimate tax from prior years	(546,274)	(16,897)	10,873	331
Operating loss carry-forward	(592,744)	(18,334)	15,626	476
Total income tax (benefits) expenses	<u>\$(1,945,329)</u>	<u>\$(60,171)</u>	<u>\$2,089,163</u>	<u>\$63,636</u>

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

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(2)Income tax returns:

	June 30, 2007	
	Income tax returns examined by tax authorities	Notes
The Company	through 2003	The Company filed applications for re-examination of 2002 and 2003 tax returns.
Cathay Life	through 2003	Cathay Life filed applications for re-examination of 2002 and 2003 tax returns.
Cathay United Bank	through 2003	-
Cathay Century	through 2003	The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in year 1999, 2001 and 2002 tax returns, respectively, were rejected by the Tax Authority as being able to offset income tax payable. Cathay Century has filed the dispute. Cathay Century also filed an application for re-examination of 2003 tax return.
Cathay Securities	through 2004	Cathay Securities filed an application for re-examination of 2004 tax return.
Cathay Pacific Venture	through 2003	-
Symphox Information	through 2004	-
Cathay Futures	through 2004	-
Lucky Bank	through 2004	-
Cathay Venture	through 2004	-
Cathay II Venture	through 2004	-

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(3) Information related to tax imputation:

A. Balance of imputation tax credit account balances

	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
The Company	\$2,012,764	\$62,257	\$2,611,187	\$79,537
Cathay Life	88,763	2,746	72,984	2,223
Cathay United Bank	145,506	4,501	552,402	16,826
Cathay Century	68	2	8,775	267
Cathay Securities	6,524	202	5,880	179
Cathay Pacific Venture	407	13	132	4
Cathay Venture	18,124	561	183	6
Cathay II Venture	4,595	142	7,022	214
Cathay Futures	12,282	380	13,918	424
Lucky Bank	4,373	135	-	-

B. Imputation tax credit deductible ratio

	For the six months ended June 30,	
	2006	2007
	Actual	Actual
The Company		
-cash dividends	11.97%	13.25%
-stock dividends	11.96%	-
Cathay Life	7.33%	7.96%
Cathay United Bank	13.98%	13.98%
Cathay Century	1.73%	1.62%
Cathay Securities	14.45%	14.76%
Cathay Pacific Venture	-	1.11%
Cathay Venture	-	32.56%
Cathay II Venture	33.33%	7.26%

(4) Information relating of undistributed earnings:

Year	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Prior to 1997	\$267,215	\$8,265	\$267,215	\$8,139
After 1998	9,132,949	282,492	4,829,863	147,118
Total	\$9,400,164	\$290,757	\$5,097,078	\$155,257



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- A. Undistributed earnings after 1998 did not include the net income from January 1 to June 30, 2006 and 2007.
- B. The undistributed earnings prior to 1997 which derived from the undistributed earnings of the subsidiaries were included in the Company's capital surplus and were allowed to be distributed as cash dividends by the regulations.

### 24. Earnings per share

	For the six months ended June 30, 2006								
	Amount (Numerator)				Shares (in thousands of shares)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$	(denominator)	NT\$	US\$	NT\$	US\$
Primary earnings per share:									
Income from continuing operations	\$3,901,644	\$120,682	\$5,846,973	\$180,853	8,954,448	\$0.44	\$0.01	\$0.65	\$0.02
Cumulative effect of changes in accounting principles	2,486,193	76,900	3,249,323	100,505	8,954,448	0.28	0.01	0.36	0.01
Consolidated income	<u>\$6,387,837</u>	<u>\$197,582</u>	<u>\$9,096,296</u>	<u>\$281,358</u>		<u>\$0.72</u>	<u>\$0.02</u>	<u>\$1.01</u>	<u>\$0.03</u>
Effect of potentially dilutive common stock convertible notes payable	<u>\$195,469</u>	<u>\$6,046</u>	<u>\$146,602</u>	<u>\$4,535</u>	236,593				
Fully-diluted earnings per share:									
Income from continuing operations	\$4,097,113	\$126,728	\$5,993,575	\$185,387	9,191,041	\$0.45	\$0.01	\$0.65	\$0.02
Cumulative effect of changes in accounting principles	2,486,193	76,900	3,249,323	100,505	9,191,041	0.27	0.01	0.35	0.01
Consolidated income	<u>\$6,583,306</u>	<u>\$203,628</u>	<u>\$9,242,898</u>	<u>\$285,892</u>		<u>\$0.72</u>	<u>\$0.02</u>	<u>\$1.00</u>	<u>\$0.03</u>
For the six months ended June 30, 2007									
	Amount (Numerator)				Shares (in thousands of shares)	EPS (in dollars)			
	Before income taxes		After income taxes			Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$	(denominator)	NT\$	US\$	NT\$	US\$
	Primary earnings per share:								
Income from continuing operation	\$22,865,810	\$696,491	\$20,776,647	\$632,856	9,184,852	<u>\$2.49</u>	<u>\$0.08</u>	<u>\$2.26</u>	<u>\$0.07</u>
Effect of potentially dilutive common stock: Convertible notes payable	<u>37,610</u>	<u>1,146</u>	<u>28,207</u>	<u>859</u>	<u>25,507</u>				
Fully-diluted earnings per share:									
Consolidated income	<u>\$22,903,420</u>	<u>\$697,637</u>	<u>\$20,804,854</u>	<u>\$633,715</u>	<u>\$9,210,359</u>	<u>\$2.49</u>	<u>\$0.08</u>	<u>\$2.26</u>	<u>\$0.07</u>

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**25. Related party transactions**

(1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	Subsidiary of the Company
Cathay Century	Subsidiary of the Company
Cathay Securities	Subsidiary of the Company
Cathay Pacific Venture	Subsidiary of the Company
Cathay II Venture	Subsidiary of the Company
Lucky Bank	Subsidiary of the Company(Merged by Cathay United Bank on January 1, 2007)
Cathay Capital Management	Subsidiary of the Company
Cathay Venture	Subsidiary of the Company
Cathay Life (Shanghai)	Subsidiary of the Company
Symphox Information	Subsidiary of the Company
Cathay Futures	Subsidiary of the Company
Indovina Bank	Subsidiary of the Company
Cathay Pacific Partners	Subsidiary of the Company
Cathay Insurance (Bermuda)	Subsidiary of the Company
Cathay Securities Investment	Subsidiary of the Company
Cathay Life Insurance Agent	Subsidiary of the Company
Seaward Card	Subsidiary of the Company
Cathay Property Insurance Agent	Subsidiary of the Company
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity method
Taiwan Finance Corp.	The investee in accounted for using the equity method
Taiwan Real-estate Management Corp.	The investee in accounted for using the equity method
Cathay General Hospital	The chairman is also the Company's chairman
Lin Yuan Investment Co., Ltd.	The chairman is a second immediate family member of the Company's chairman
Yi Ru Corporation	The chairman is a second immediate family member of the Company's chairman in 2006
Wan Pao Development Co., Ltd.	The chairman is a second immediate family member of the Company's chairma

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Name	Relationship
Taipei Smart Card Corp.	Investee company of Cathay United Bank
Culture and Charity Foundation of the CUB	Cathay United Bank is the major sponsor of the foundation
Taiwan Asset Management Corporation	The chairman is Cathay United Bank
Cathay Global Money Market Fund etc.	The funds which are managed by Cathay Securities Trust Co., Ltd.
Lin Yuan Property Management	Affiliate
Seaward Leasing	Affiliate
China England Co., Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Charity Foundation	Affiliate
Industrial and Commercial Bank of Vietnam	Affiliate
Shanghai China Eastern Media Co., Ltd.	Affiliate
CEA Futures Brokerage Co., Ltd.	Affiliate
CEA Finance Holding Co., Ltd.	Affiliate
CEA Finance Co., Ltd.	Affiliate
China Eastern Airlines Co., Ltd.	Affiliate
Shanghai East Fly Service Co., Ltd.	Affiliate
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	Affiliate
China Eastern Aviation IMP/EXP Corp.	Affiliate
China Eastern Realestateinvestment Co.,Ltd	Affiliate
China Eastern Airlines Jiangsu Ltd	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Other related parties	Includes chairmen, managers, their spouses and linear relatives of Subsidiaries

(2) Significant transactions with related parties:

A. Cash in banks

For the six months ended June 30, 2006						
Name	Item	Ending balance		Rate	Interest income	
		(NT\$)	(US\$)		(NT\$)	(US\$)
CEA Finance Co., Ltd.	Demand deposits	<u>\$1,666</u>	<u>\$51</u>	0.72%-1.44%	<u>\$77</u>	<u>\$2</u>

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For the six months ended June 30, 2007						
Name	Item	Ending balance		Rate	Interest income	
		(NT\$)	(US\$)		(NT\$)	(US\$)
CEA Finance Co., Ltd.	Demand deposits	\$36	\$1	0.72%-1.44%	\$13	\$-

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

For the six months ended June 30,								
Name	2006				2007			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Industrial and Commercial Bank of Vietnam	\$5,442	\$168	\$-	\$-	\$4,496	\$137	\$13	\$-

**C. Funds borrowed from other banks**

For the six months ended June 30,								
Name	2006				2007			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Industrial and Commercial Bank of Vietnam	\$-	\$-	\$-	\$-	\$101,792	\$3,101	\$1,215	\$37

**D. Financial assets at fair value through profit or loss**

Name	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$6,219,878	\$192,387	\$7,795,726	\$237,457

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E. Receivables

Name	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	\$2,958	\$91	\$11,199	\$341
Cathay Capital Management	6,714	208	8,377	255
Cathay General Hospital	604	19	1,526	47
Cathay Real Estate Development Co., Ltd.	4,770,327	147,551	538	16
Cathay Securities Investment Trust Co., Ltd.	428	13	-	-
Lin Yuan Property Management	740	23	-	-
Cathay Securities Investment	-	-	23,008	701
San Ching Engineering Co., Ltd.	356	11	-	-
<b>Total</b>	<b>\$4,782,127</b>	<b>\$147,916</b>	<b>\$44,648</b>	<b>\$1,360</b>

F. Loans

Name	For the six months ended June 30, 2006			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Revenue (NT\$)	Interest Revenue (US\$)
Taiwan Real-estate Management Corp.	\$134,000	\$4,145	\$1,980	\$61
Cathay General Hospital	3,950,205	122,184	57,340	1,774
Others	84,210	2,604	1,138	35
<b>Total</b>	<b>\$4,168,415</b>	<b>\$128,933</b>	<b>\$60,458</b>	<b>\$1,870</b>

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Name	For the six months ended June 30, 2007			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Revenue (NT\$)	Interest Revenue (US\$)
Seaward Leasing	\$2,120,000	\$64,575	\$20,063	\$611
Taiwan Real-estate Management Corp.	125,000	3,808	1,796	55
Cathay General Hospital	4,734,653	144,217	76,687	2,336
Others	405,917	12,364	5,115	156
<b>Total</b>	<b>\$7,385,570</b>	<b>\$224,964</b>	<b>\$103,661</b>	<b>\$3,158</b>

G. Available-for-sale financial assets

Name	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$791,781	\$24,491	\$408,237	\$12,435

H. Deposit

Name	For the six months ended June 30, 2006			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Expense (NT\$)	Interest Expense (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$262,163	\$8,109	\$2,308	\$71
Cathay Real Estate Development Co., Ltd.	1,642,049	50,790	22	1
Others	3,482,315	107,712	24,952	772
<b>Total</b>	<b>\$5,386,527</b>	<b>\$166,611</b>	<b>\$27,282</b>	<b>\$844</b>

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Name	For the six months ended June 30, 2007			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Expense (NT\$)	Interest Expense (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$375,474	\$11,437	\$4,184	\$127
Cathay Real Estate Development Co., Ltd.	72,636	2,212	99	3
Others	2,398,624	73,062	20,116	613
<b>Total</b>	<b>\$2,846,734</b>	<b>\$86,711</b>	<b>\$24,399</b>	<b>\$743</b>

I. Property transactions

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

Name	Item	For the six months ended June 30, 2006	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay General Hospital etc.	\$5,904	\$183
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	1,500	46
Lin Yuan Property Management	Taipei Royalty Building etc.	76,959	2,380
	<b>Total</b>	<b>\$84,363</b>	<b>\$2,609</b>

Name	Item	For the six months ended June 30, 2007	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Lank Mark etc.	\$6,086	\$185
Lin Yuan Property Management	Cathay Building ect.	106,887	3,256
	<b>Total</b>	<b>\$112,973</b>	<b>\$3,441</b>

The total amounts of contracted projects for real estate as of June 30, 2006 and 2007 between the Company and San Ching Engineering Co., Ltd. were NT\$1,233,866 (US\$38,165) and NT\$22,567 (US\$687), respectively.

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b. Real estates acquired by Cathay Life:

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

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

The Company did not acquire any real estates from its related parties for the six months ended June 30, 2007.

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

Name	Rental income			
	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment	\$1,687	\$52	\$1,764	\$54
Cathay Capital Management	991	31	1,075	33
Cathay Real Estate Development Co., Ltd.	9,119	282	8,366	255
Cathay General Hospital	73,785	2,282	79,401	2,418
San Ching Engineering Co., Ltd.	3,728	115	3,953	120
Cathay Securities Investment Trust Co., Ltd.	6,426	199	6,520	199
Taiwan Asset Management Corporation	6,653	206	7,315	223
Taipei Smart Card Corp.	3,208	99	5,794	176
Seaward Leasing	-	-	719	22
Culture and Charity Foundation of CUB	500	16	500	15
Total	<u>\$106,097</u>	<u>\$3,282</u>	<u>\$115,407</u>	<u>\$3,515</u>



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Name	Guarantee deposits in			
	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment	\$877	\$27	\$877	\$27
Cathay Capital Management	479	15	479	15
Cathay Real Estate Development Co., Ltd.	3,645	113	3,645	111
Cathay General Hospital	6,840	211	8,455	257
San Ching Engineering Co., Ltd.	1,709	53	1,709	52
Cathay Securities Investment Trust Co., Ltd.	2,738	85	2,738	83
Taiwan Asset Management Corporation	3,477	107	3,477	106
Seaward Leasing	-	-	346	11
Total	\$19,765	\$611	\$21,726	\$662

Lease periods are usually 2-5 years and rentals are collected monthly.

d. Real estate rental expense from Cathay Life, Cathay United Bank and Cathay Futures.

Name	Rental expenses			
	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Real Estate Development Co., Ltd.	\$22,293	\$689	\$20,937	\$638
Lin Yuan Investment Co., Ltd.	1,053	33	1,256	38
Yi Ru Corporation	1,684	52	2,134	65
Seaward Leasing	-	-	7,430	226
Other	-	-	163	5
Total	\$25,030	\$774	\$31,920	\$972

Name	Guarantee deposits paid			
	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Real Estate Development Co., Ltd.	\$12,318	\$381	\$11,561	\$352
Lin Yuan Investment Co., Ltd.	628	19	628	19
Yi Ru Corporation	1,190	37	1,190	37
Seaward Leasing	-	-	33,393	1,017
Other	2	-	2	-
Total	\$14,138	\$437	\$46,774	\$1,425

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

### J. Other assets

#### Prepayment

Name	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Lin Yuan Investment Co., Ltd.	\$-	\$-	\$419	\$12
Yi Ru Corporation	462	14	356	11
Cathay Life Insurance Agent	1,562	49	-	-
Other	-	-	92	3
<b>Total</b>	<b>\$2,024</b>	<b>\$63</b>	<b>\$867</b>	<b>\$26</b>

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

Name	For the six months ended June 30, 2006			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Due to commercial banks				
Industrial and Commercial				
Bank of Vietnam	\$2,955	\$249	\$91	\$8

### L. Securities sold under agreements to repurchase

Name	June 30,			
	Ending balance			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Wan Pao Development Co., Ltd.	\$2,038,908	\$63,065	\$4,203,527	\$128,039
Cathay Real Estate Development Co., Ltd.	19,976	618	-	-
Lin Yuan Investment Co., Ltd.	12,983	402	-	-
Other related parties	941,498	29,121	820,917	25,005
<b>Total</b>	<b>\$3,013,365</b>	<b>\$93,206</b>	<b>\$5,024,444</b>	<b>\$153,044</b>

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Name	For the six months ended June 30,			
	Interest expenses			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Wan Pao Development Co., Ltd.	\$26,228	\$811	\$24,368	\$742
Cathay Securities Investment Trust Co., Ltd.	200	6	-	-
Cathay Real Estate Development Co., Ltd.	497	15	-	-
Lin Yuan Investment Co., Ltd.	115	4	-	-
Other related parties	5,784	179	7,696	235
Total	\$32,824	\$1,015	\$32,064	\$977

### M. Payables

Name	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Seaward Card	\$32,782	\$1,014	\$9,914	\$302
Lin Yuan Property Management	26,169	809	16,413	500
Cathay Real Estate Development Co., Ltd.	-	-	1,200	36
Industrial and Commercial Bank of Vietnam	60,060	1,858	-	-
Other	-	-	54	2
Total	\$119,011	\$3,681	\$27,581	\$840

### N. Advance receipts

Name	June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Taiwan Asset Management Corporation	\$-	\$-	\$2,484	\$76

### O. Net commission and handling fee

#### a. Handling fee Income

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment	\$-	\$-	\$954	\$29
Cathay Life Insurance Agent	1,874	58	-	-
Cathay securities investment Trust Co., Ltd.	433	13	9,609	293
Other	-	-	41	1
Total	\$2,307	\$71	\$10,604	\$323

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### b. Reinsurance income

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	\$243	\$8	\$1,805	\$55

### c. Commissions expense

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life Insurance Agent	\$66,988	\$2,072	\$11,257	\$343
Cathay Property Insurance Agent	16,345	506	350	11
Total	\$83,333	\$2,578	\$11,607	\$354

### d. Reinsurance commissions expense

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	\$7,842	\$243	\$422	\$13

## P. Net premiums from insurance business

### a. Insurance income

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay General Hospital	\$15,084	\$467	\$16,585	\$505
Cathay Real Estate Development Co., Ltd.	1,392	43	811	25
San Ching Engineering Co., Ltd.	596	18	625	19
China Eastern Airlines Co., Ltd.	163,725	5,064	104,327	3,178
CEA Finance Holding Co., Ltd.	304	9	930	28
Seaward Leasing	-	-	3,379	103
Shanghai China Eastern Media Co., Ltd.	56	2	29	1
Cathay Securities Investment Trust Co., Ltd.	447	14	541	16
China Eastern Aviation IMP/EXP Corp.	-	-	2,101	64
CEA Futures Brokerage Co., Ltd.	-	-	595	18
CEA Finance Co., Ltd.	-	-	1,147	35
China Eastern Airlines Jiangsu Ltd.	-	-	2,127	65
China Eastern Real Estate Investment Co., Ltd.	-	-	2,671	81
Other related parties	14,260	441	324,719	9,891
Total	\$195,864	\$6,058	\$460,587	\$14,029

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### b. Insurance claims payment

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
CEA Finance Holding Co.,Ltd.	\$-	\$-	\$52	\$2

### c. Reinsurance income

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	\$71,063	\$2,198	\$58,571	\$1,784

### d. Reinsurance claims payment

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Insurance (Bermuda)	\$67,259	\$2,080	\$6,025	\$184

## Q. Net other non-interest income

### a. Sales

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay General Hospital	\$8,608	\$266	\$3,076	\$94
Cathay Securities Investment	2,198	68	1,695	52
Other	922	29	1,793	54
Total	\$11,728	\$363	\$6,564	\$200

### b. Service Income

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay General Hospital	\$3,612	\$112	\$2,634	\$80
Other	1,731	53	1,089	33
Total	\$5,343	\$165	\$3,723	\$113

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c. Miscellaneous income

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$6,146	\$190	\$3,185	\$97
Cathay General Hospital	176	6	2,416	73
Other	-	-	1,341	41
Total	\$6,322	\$196	\$6,942	\$211

R. Sale of securities

For the six months ended June 30, 2006						
Name	Securities	Shares (in thousand)	Amount		Gain on disposal	
			(NT\$)	(US\$)	(NT\$)	(US\$)
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,400	\$47,554	\$1,471	\$3,707	\$115
Cathay Real Estate Development Co., Ltd.	Seaward Leasing	200,000	3,180,000	98,361	1,323,466	40,936
Seaward Leading	Waterland Securities Co., Ltd. etc.	-	187,708	5,806	-	-
Total			\$3,415,262	\$105,638	\$1,327,173	\$41,051

There were no related party transactions of securities for the six months ended June 30, 2007.

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### S. Operating expense

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Securities Investment	\$26,250	\$812	\$26,250	\$800
Seaward Card	236,925	7,328	172,791	5,263
Cathay Pacific Management	34,354	1,063	32,925	1,003
Cathay Pacific Partners	7,500	232	6,750	206
Lin Yuan Property Management	352,214	10,894	302,679	9,220
Cathay Real Estate Development Co., Ltd.	6,723	208	6,090	185
San Ching Engineering Co., Ltd.	2,024	63	2,018	61
Cathay General Hospital	1,724	53	2,676	82
Cathay Lin Yuan Security Co., Ltd.	-	-	1,154	35
Seaward Leasing	-	-	4,338	132
Others	123	4	36	1
Total	<u>\$667,837</u>	<u>\$20,657</u>	<u>\$557,707</u>	<u>\$16,988</u>

### T. Others

- a. Cathay United Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$1,411,880 (US\$43,671), in 2006. Cathay United Bank paid the amount of NT\$259,042 (US\$7,890) during the six-month period ended June 30, 2007. As of June 30, 2007, the accumulated amount paid was NT\$349,592 (US\$10,649).
- b. Cathay United Bank has paid decoration and fix fee to San Ching Engineering Corp. for the amount of NT\$72 (US\$2) and NT\$2,203 (US\$67) during the six-month periods ended June 30, 2006 and 2007, respectively.
- c. Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management in the amount of NT\$9,777 (US\$302) and NT\$8,935 (US\$272) during the six-month periods ended June 30, 2006 and 2007, respectively.
- d. Cathay United Bank entered into a contract with Taipei Smart Card Corp. for issuing Easy co-branded card. The contract lasts for three year starting 2006 and the royalty amounted NT\$103,125 (US\$3,190) (amortized NT\$2,865 (US\$87) per month) was paid in January, 2006.

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e. For prospective operation and concentration on banking development, the board of directors resolved to sell out the stocks of Seaward Leasing to the Cathay Real Estate Development for the amount of NT\$3,180,000 (US\$98,361) on June 30, 2006, with NT\$15.9 (US\$0.49) per share. The gain from disposal of the investment recognized by the equity method was NT\$1,323,466 (US\$40,936), with selling price NT\$3,170,460 (US\$98,066) (securities transaction cost NT\$9,540 (US\$295) was deducted) minus the carrying value NT\$1,846,994 (US\$57,129).

g. Cathay United Bank paid the amount of NT\$45,546 (US\$1,387) to certain managers according to the intercession content which dissolving the construction contract on Shih-Hua Hills and the repossessed the land by mediation.

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

A. Cash in bank

		For the six months ended June 30, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$3,284,871	4.375%- 5.2645%	\$78,653
	Cash in bank	1,266	0.10%-2.25%	41
	Total	<u>\$3,286,137</u>		<u>\$78,694</u>

		For the six months ended June 30, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$101,605	4.375%- 5.2645%	\$2,433
	Cash in bank	39	0.10%-2.25%	1
	Total	<u>\$101,644</u>		<u>\$2,434</u>

		For the six months ended June 30, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$3,489,990	4.375%- 5.498%	\$91,376
	Cash in bank	2,890	0.10%-2.35%	-
	Total	<u>\$3,492,880</u>		<u>\$91,376</u>



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		For the six months ended June 30, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$106,305	4.375%- 5.498%	\$2,783
	Cash in bank	88	0.10%-2.35%	-
	<b>Total</b>	<b>\$106,393</b>		<b>\$2,783</b>

**B. Receivables**

		June 30,			
Name	Item	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay United Bank	Receivables due to consolidated income tax	\$5,764	\$178	\$109,660	\$3,340
Cathay Life	Receivables due to consolidated income tax	1,530,763	47,348	-	-
Cathay Century	Receivables due to consolidated income tax	122,498	3,789	136,475	4,157
Cathay Capital Management	Receivables due to consolidated income tax	6,714	208	8,377	255
Cathay Securities	Receivables due to consolidated income tax	4,385	136	8,329	254
Cathay II Venture	Receivables due to consolidated income tax	483	15	1,456	44
<b>Total</b>		<b>\$1,670,607</b>	<b>\$51,674</b>	<b>\$264,297</b>	<b>\$8,050</b>

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C. Payables

Name	Item	June 30,			
		2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	Receivables due to consolidated income tax	\$17,721	\$548	\$737,751	\$22,472
Cathay United Bank	Receivables due to consolidated income tax	1,387,683	42,922	638,005	19,433
Cathay Pacific Venture	Receivables due to consolidated income tax	3,054	95	847	26
Cathay II Venture	Receivables due to consolidated income tax	1,329	41	-	-
<b>Total</b>		<b>\$1,409,787</b>	<b>\$43,606</b>	<b>\$1,376,603</b>	<b>\$41,931</b>

D. Operating expenses

Name	For the six months ended June 30,			
	2006(NT\$)	2006(US\$)	2007(NT\$)	2007(US\$)
Cathay Life	\$5,048	\$156	\$8,407	\$256
Lin Yuan Property Management	609	19	117	3
Symphox Information	-	-	722	22
Seaward Leasing	451	14	483	15
<b>Total</b>	<b>\$6,108</b>	<b>\$189</b>	<b>\$9,729</b>	<b>\$296</b>

(4) Subsidiaries' significant transactions with related parties are follows:

A. Cathay Life

a. Cash in banks

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

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

		For the six months ended June 30,2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$420,050	1.15%-2.49%	\$9,947
Bank	Cash in bank	2,708,327	0.00%-2.35%	1,650
Total		<u>\$3,128,377</u>		<u>\$11,597</u>

		For the six months ended June 30,2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$12,795	1.15%-2.49%	\$303
Bank	Cash in bank	82,495	0.00%-2.35%	50
Total		<u>\$95,290</u>		<u>\$353</u>

b. Other Receivables

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$1,069	\$33	\$260,490	\$7,935
Cathay Financial Holding	18,302	566	737,751	22,472
Total	<u>\$19,371</u>	<u>\$599</u>	<u>\$998,241</u>	<u>\$30,407</u>

c. Other financial assets – current

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

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

For the six months ended June 30,2007			
Name	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	\$2,450,000	1.80%-4.00%	\$5,896

For the six months ended June 30,2007			
Name	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	\$74,627	1.80%-4.00%	\$180

d. Secured loans

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

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

For the six months ended June 30,2007				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,449,654	\$4,445,684	3.31%-3.44%	\$72,855

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For the six months ended June 30, 2007				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General				
Hospital	\$135,536	\$135,415	3.31%-3.44%	\$2,219

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

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Securities				
Investment Trust Co., Ltd.	\$5,850,365	\$180,958	\$7,630,959	\$232,439

f. Property transactions

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

Name	Item	For the six months ended June 30, 2006	
		NT\$	US\$
Lin Yuan Property			
Management	Taipei Royalty Building etc.	\$76,959	\$2,380

  

Name	Item	For the six months ended June 30, 2007	
		NT\$	US\$
Lin Yuan Property			
Management	Cathay Building etc.	\$106,887	\$3,256

The total amounts of contracted projects for real estate as of June 30, 2006 and 2007 between Cathay Life and San Ching Engineering Co., Ltd. were NT\$1,233,866 (US\$38,165) and NT\$22,567 (US\$687), respectively.

g. Real estates acquisition

Cathay Life did not acquire any real estates from its related parties in the first half year of 2007. Please refer to page 57 for the detail of real estate acquisition from related parties for the first half year of 2006.

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### h. Guarantee deposits paid

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Futures	\$668,050	\$20,663	\$345,322	\$10,518

As of June 30, 2006 and 2007, the imputed interest income of guarantee deposits paid deposited in Cathay Futures were NT\$189 (US\$6) and NT\$78 (US\$2), respectively.

### i. Rental income

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay United Bank	\$124,531	\$3,852	\$136,276	\$4,151

### j. Other payables

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Financial Holding	\$1,530,763	\$47,348	\$-	\$-

### k. Insurance income

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay United Bank	\$206,174	\$6,377	\$222,268	\$6,770
Other related parties	14,260	441	324,719	9,891
Total	\$220,434	\$6,818	\$546,987	\$16,661

### l. Miscellaneous income

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Century	\$184,391	\$5,703	\$282,913	\$8,617

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

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### m. Insurance expense

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Century	\$108,721	\$3,363	\$84,459	\$2,573

The insurance expenses were insurance expenses for fixed assets, cash, public accident and etc. Amounts of NT\$4,794 (US\$148) and NT\$5,002 (US\$152) paid by Cathay Life on behalf the employees for fidelity bond insurance were included in insurance expenses for the six months ended June 30, 2006 and 2007.

### n. Operating expense

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay United Bank	\$-	\$-	\$136,122	\$4,146
Symphox Information	117,551	3,636	114,063	3,475
Lin Yuan Property Management	351,605	10,875	302,562	9,216
Total	\$469,156	\$14,511	\$552,747	\$16,837

### o. Other

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

Item	June 30,	
	2006	2007
Forward foreign exchange contracts	USD\$284,789	USD\$1,324,364
CCS contracts	USD\$793,168	USD\$1,473,439
Financial debentures	-	USD\$6,092

The above financial debentures were the debentures acquired by Cathay United Bank from the secondary market. The amount acquired in the first half year of 2007 was NT\$193,510 (US\$5,894).

In the first half year of 2007, Cathay Life had entered a credit assignment agreement with Cathay United Bank in an amount of NT\$344,055 (US\$10,480).

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B. Cathay United Bank

a. Loans and deposits

Item	For the six months ended June 30,							
	2006				2007			
	Ending Balance		Interest revenue (expense)		Ending Balance		Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans								
Seaward								
Leasing	\$1,950,000	\$60,315	\$14,282	\$442	\$2,120,000	\$64,575	\$20,063	\$611
Taiwan								
Real-estate								
Management								
Corp.	134,000	4,145	1,980	61	125,000	3,807	1,796	54
Cathay General								
Hospital	336,969	10,423	4,586	142	288,969	8,802	3,832	117
Other related								
parties	465,138	14,387	7,558	234	297,828	9,072	3,902	119
<b>Total</b>	<b>\$2,886,107</b>	<b>\$89,270</b>	<b>\$28,406</b>	<b>\$879</b>	<b>\$2,831,797</b>	<b>\$86,256</b>	<b>\$29,593</b>	<b>\$901</b>

Account	For the six months ended June 30,							
	2006				2007			
	Ending Balance		Interest revenue (expense)		Ending Balance		Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Deposits								
Cathay Life	\$4,288,789	\$132,657	\$(82,638)	\$(2,556)	\$5,578,377	\$169,917	\$(17,493)	\$(533)
Cathay								
Financial								
Holding	9,846,678	304,568	(72,873)	(2,254)	3,796,044	115,627	(91,376)	(2,783)
Cathay Futures	1,028,886	31,824	(6,129)	(190)	1,082,581	32,975	(7,277)	(222)
Cathay								
Securities	1,255,651	38,838	(9,801)	(303)	707,981	21,565	(7,098)	(216)
Cathay Century	596,174	18,440	(3,121)	(96)	642,296	19,564	(4,809)	(146)
Cathay Pacific								
Venture	387,656	11,991	(1,830)	(57)	228,648	6,965	(2,975)	(91)



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For the six months ended June 30,								
2006								
2007								
Account	Ending Balance		Interest revenue (expense)		Ending Balance		Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay								
Securities								
Investment								
Trust Co.,								
Ltd.	262,163	8,109	(2,308)	(71)	375,474	11,437	(4,184)	(127)
Cathay Real								
Estate								
Development								
Co., Ltd.	1,642,049	50,790	(22)	(1)	72,636	2,213	(99)	(3)
Other related								
parties	3,582,607	110,814	(25,693)	(795)	2,512,861	76,542	(21,007)	(640)
Total	<u>\$22,890,653</u>	<u>\$708,031</u>	<u>\$(204,415)</u>	<u>\$(6,323)</u>	<u>\$14,996,898</u>	<u>\$456,805</u>	<u>\$(156,318)</u>	<u>\$(4,761)</u>

For the six months ended June 30, 2006							
Name	Maximum amount		Ending balance		Rate	Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	<u>\$768,544</u>	<u>\$23,772</u>	<u>\$617,567</u>	<u>\$19,102</u>	4.38%-7.80%	<u>\$13,842</u>	<u>\$428</u>
Due from							
Commercial							
Banks Indovina							
Bank	<u>\$100,588</u>	<u>\$3,111</u>	<u>\$6,370</u>	<u>\$197</u>	0.50%-2.16%	<u>\$33</u>	<u>\$1</u>

For the six months ended June 30, 2007							
Name	Maximum amount		Ending balance		Rate	Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	<u>\$267,434</u>	<u>\$8,146</u>	<u>\$158,286</u>	<u>\$4,821</u>	5.10%-7.70%	<u>\$1,651</u>	<u>\$50</u>
Due from							
Commercial							
Banks							
Indovina Bank	<u>\$200,197</u>	<u>\$6,098</u>	<u>\$5,376</u>	<u>\$164</u>	0.50%-2.16%	<u>\$48</u>	<u>\$1</u>
Call loans from							
banks							
Indovina Bank	<u>\$372,134</u>	<u>\$11,335</u>	<u>\$-</u>	<u>\$-</u>	4.50%-8.70%	<u>\$(500)</u>	<u>\$(15)</u>

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

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b. Securities sold under agreements to repurchase

Name	June 30,			
	Ending balance			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Wan Pao Development Co., Ltd.	\$2,038,908	\$63,066	\$4,203,527	\$128,039
Other related parties	941,498	29,121	820,917	25,005
Total	\$2,980,406	\$92,187	\$5,024,444	\$153,044

Name	For the six months ended June 30,			
	Interest expense			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Wan Pao Development Co., Ltd.	\$(26,228)	\$(811)	\$(24,368)	\$(742)
Other related parties	(5,784)	(179)	(7,696)	(235)
Total	\$(32,012)	\$(990)	\$(32,064)	\$(977)

c. Notes receivable

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Real Estate Development Co., Ltd.	\$3,180,000	\$98,361	\$-	\$-

d. Receivables

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Financial Holding	\$1,387,683	\$42,922	\$638,005	\$19,434

e. Other receivables

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Indovina Bank	\$108,758	\$3,364	\$98,520	\$3,001

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f. Payables

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Financial Holding	\$-	\$-	\$109,660	\$3,340

g. Rental expense

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Life	\$123,672	\$3,825	\$136,276	\$4,151

h. Commission revenue

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Life	\$2,485	\$77	\$136,122	\$4,146

i. Accrued insurance expense

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Life	\$107,151	\$3,314	\$222,268	\$6,770

j. General expense

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Seaward Card	\$236,262	\$7,308	\$169,797	\$5,172
Symphox Information	88,346	2,732	234,674	7,148
Total	\$324,608	\$10,040	\$404,471	\$12,320

k. Other

- (a) Cathay United Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$1,411,880 (US\$43,671), in 2006. The Bank paid the amount of NT\$259,042 (US\$7,890) during the six-month period ended June 30, 2007. As of June 30, 2007, the accumulated paid amount was NT\$349,592 (US\$10,649).

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- (b) Cathay United Bank enters into a contract with Cathay Life Insurance Co., Ltd. to transferring credit facilities. The transferring loan amount was NT\$344,050 (US\$10,480) during the six-month period ended June 30, 2007.
- (c) Cathay United Bank entered into a contract with Taipei Smart Card Corp. for issuing Easy co-branded card. The contract lasts for three years starting 2006 and the royalty was paid amounted to NT\$103,125 (US\$3,190) (amortized NT\$2,865 (US\$87) per month) in January, 2006.
- (d) The Cathay Life Insurance Co., Ltd. held the dominant financial debenture with notional amounts of NT\$200,000 (US\$6,092) which issued by Cathay United in 2003.
- (e) For organization restructuring, Cathay United Bank's board of directors resolved to sell its 64,994 thousand shares of Cathay Futures Corp. to Cathay Securities Corp. on February 10, 2006. The carrying value on the date when the transaction occurred was NT\$736,454 (US\$22,779) and net selling price was NT\$708,275 (US\$21,908) (the security transaction cost NT\$2,132 (US\$66) was deducted). The loss from the transaction was NT\$28,179 (US\$872) classified as the loss from disposal of the investment recognized by equity method.
- (f) For prospective operation and concentration on banking development, the board of directors resolved to sell out the stocks of Seaward Leasing Ltd. to the Cathay Real Estate Development for the amount of NT\$3,180,000 (US\$98,361) on June 30, 2006, with NT\$15.9 (US\$0.49) per share. The gain from disposal of the investment recognized by the equity method was NT\$1,323,466 (US\$40,936), with selling price NT\$3,170,460 (US\$98,066) (securities transaction cost NT\$9,540 (US\$295) was deducted) minus the carrying value NT\$1,846,994 (US\$57,129).

**C. Cathay Century**

**a. Cash in banks**

		For the six months ended June 30, 2006		
Name	Item	Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$287,670	0.00%-0.10%	\$96
	Time deposits	290,155	1.72%-2.02%	3,271
Total		\$577,825		\$3,367

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		For the six months ended June 30, 2006		
Name	Item	Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$8,898	0.00%-0.10%	\$3
	Time deposits	8,975	1.72%-2.02%	101
Total		<u>\$17,873</u>		<u>\$104</u>

		For the six months ended June 30, 2007		
Name	Item	Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$255,846	0.00%-0.10%	\$130
	Time deposits	386,450	2.09%-2.21%	4,679
Total		<u>\$642,296</u>		<u>\$4,809</u>

		For the six months ended June 30, 2007		
Name	Item	Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$7,793	0.00%-0.10%	\$4
	Time deposits	11,771	2.09%-2.21%	142
Total		<u>\$19,564</u>		<u>\$146</u>

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

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$82,270</u>	<u>\$2,545</u>	<u>\$154,376</u>	<u>\$4,702</u>

c. Accrued marketing expense

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Life	<u>\$157,972</u>	<u>\$4,886</u>	<u>\$260,490</u>	<u>\$7,935</u>

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d. Other payables

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

e. Premiums income

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Life	\$108,721	\$3,363	\$84,459	\$2,573

f. Operating expense

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Life	\$323,128	\$9,995	\$282,913	\$8,618

g. 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

D. Cathay Securities

a. Cash in bank

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

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

		For the six months ended June 30, 2007		
Name	Item	Ending balance (NT\$)	Interest rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$115,601	0.10%-2.35%	\$42
	Negotiable certificates of deposit	560,000	1.50%-1.53%	6,806
	Time deposits	10,000	1.39%-1.76%	250
		<u>\$685,601</u>		<u>\$7,098</u>

		For the six months ended June 30, 2007		
Name	Item	Ending balance (US\$)	Interest rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$3,521	0.10%-2.35%	\$1
	Negotiable certificates of deposit	17,057	1.50%-1.53%	207
	Time deposits	305	1.39%-1.76%	8
		<u>\$20,883</u>		<u>\$216</u>

As of June 30, 2006 and 2007, except for NT\$900,000 (US\$27,838) and NT\$300,000 (US\$9,138) pledged as collaterals for the over-loaning of settlement accounts and recognized under restricted assets, the remaining negotiable certificates of deposit have not been pledged as collaterals.

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b. Open-end funds and currency market instruments

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Securities Investment Trust Co., Ltd.				
– Cathay Bond Fund	\$287,243	\$8,885	\$10,391	\$317

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

Name	For the six months ended June 30, 2006							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures	\$251	\$8	\$270	\$8	\$63	\$2	\$303,830	\$9,398

Name	For the six months ended June 30, 2007							
	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Futures	\$407	\$12	\$574	\$17	\$124	\$4	\$313,077	\$9,536

E. Cathay Pacific Venture

a. Cash in bank

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



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

		For the six months ended June 30, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$225,223	1.28%-1.49%	\$2,968
	Cash in bank	3,425	0.10%	7
	Total	<u>\$228,648</u>		<u>\$2,975</u>

		For the six months ended June 30, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$6,860	1.28%-1.49%	\$91
	Cash in bank	105	0.10%	-
	Total	<u>\$6,965</u>		<u>\$91</u>

F. Seaward Leasing

a. Cash in banks

		For the six months ended June 30, 2006		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in bank	<u>\$109,080</u>	0.00%-0.10%	<u>\$15</u>

		For the six months ended June 30, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in bank	<u>\$3,374</u>	0.00%-0.10%	<u>\$-</u>

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b. Short-term debts

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

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

The financial statement of Seaward Leasing are not included in the consolidated financial statements of the Company as June 30, 2007. Accordingly, disclosures of related party information for Seaward leasing as June 30, 2007 were not required.

G. Indovina Bank

a. Call Loans to Banks

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

Name	For the six months ended June 30, 2007			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$158,286	\$4,821	\$1,651	\$50
Industrial and Commercial Bank of Vietnam	101,792	3,101	1,211	37
Total	\$260,078	\$7,922	\$2,862	\$87

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b. Dividends Payable

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay United Bank	\$108,758	\$3,364	\$98,520	\$3,001

c. Call loans from banks

Name	For the six months ended June 30, 2006			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$6,370	\$197	\$33	\$1

Name	For the six months ended June 30, 2007			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$5,376	\$164	\$48	\$1

d. Call loans to banks

Name	For the six months ended June 30, 2006			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$-	\$-	\$-	\$-

Name	For the six months ended June 30, 2007			
	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$-	\$-	\$500	\$15

H. Cathay Futures

a. Cash in bank

Name	Item	For the six months ended June 30, 2006		
		Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$260,000	1.09%-2.10%	\$1,340
	Cash in bank	19,684	0.00%-1.20%	69
	Total	\$279,684		\$1,409

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		For the six months ended June 30, 2006		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$8,042	1.09%-2.10%	\$42
	Cash in bank	609	0.00%-1.20%	2
	Total	<u>\$8,651</u>		<u>\$44</u>

		For the six months ended June 30, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$275,000	1.34%-2.21%	\$1,737
	Cash in bank	9,574	0.00%-2.35%	9
	Total	<u>\$284,574</u>		<u>\$1,746</u>

		For the six months ended June 30, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$8,376	1.34%-2.21%	\$53
	Cash in bank	292	0.00%-2.35%	-
	Total	<u>\$8,668</u>		<u>\$53</u>

b. Customer's margin accounts

Name	June 30,					
	2006			2007		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	<u>\$748,936</u>	<u>\$23,165</u>	0.01%-2.10%	<u>\$797,877</u>	<u>\$24,303</u>	0.02%-2.35%

c. Futures customers' equity

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Life	\$668,050	\$20,663	\$345,322	\$10,519
Cathay Securities	303,830	9,398	313,077	9,536
Total	<u>\$971,880</u>	<u>\$30,061</u>	<u>\$658,399</u>	<u>\$20,055</u>

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I. Cathay Life (Shanghai)

Insurance income

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
China Eastern Airlines Co., Ltd.	\$163,726	\$5,064	\$103,769	\$3,161

J. Symphox Information

Sales Revenue

Name	For the six months ended June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay United Bank	\$127,633	\$3,948	\$157,889	\$4,809

K. Cathay Venture Capital

Available-for-sale financial assets

Name	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$699,483	\$21,636	\$245,845	\$7,488

L. Lucky Bank

a. Loans and deposits

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

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

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b. Call loans to banks

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

**26. Pledged assets**

As of June 30, 2006 and 2007, the Company and Subsidiaries' pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount			
		2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, Loan, others financial or leasing	\$8,817,364	\$272,730	\$516,060	\$15,719
Guarantee deposits paid	Government bonds	8,479,286	262,273	9,113,430	277,595
Financial assets at fair value through profit or loss	Business reserves and guarantees	185,740	5,745	124,902	3,805
Available-for-sale financial assets	Business reserves and guarantees	266,738	8,251	966,964	29,454
Held-to-maturity financial assets	Business reserves and guarantees	2,294,365	70,967	1,544,930	47,058
Investments in debt securities with no active market	Business reserves and guarantees	7,830,000	242,190	15,000,000	456,899
		<u>\$27,873,493</u>	<u>\$862,156</u>	<u>\$27,266,286</u>	<u>\$830,530</u>

**27. Commitment and contingent liabilities**

(1) Cathay United Bank

A. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank believes constituted a breach of Pacific SOGO's co-branded card contract with Cathay United Bank. Cathay United Bank has filed a motion of injunction against certain of Pacific SOGO's properties and the issuance of its own membership cards. About provisional measures, the Taipei District Court adjudged that Cathay United Bank in favor of the lawsuit on September 30, 2006. However, Pacific SOGO appealed and the appeal is being reviewed by the High Court. Furthermore, Cathay United Bank also filed an incidental civil procedures and claim, which is being review by the Taipei District Court, against Pacific SOGO. Then the Taipei District Court issued a judgment favoring Cathay United Bank on October, 2006, ordering Pacific SOGO to pay the punitive damages of NT\$400,000 (US\$12,372). Pacific SOGO appealed such order and the appeal is being reviewed by the High Court.

B. As of June 30, 2007, Cathay United Bank had entered into certain contracts to purchase premises and equipments totaling NT\$2,870,672 (US\$87,441) with prepayments of NT\$1,338,423 (US\$40,768).

(2) Cathay Century

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

(3) Cathay Futures

A. The ex-employees of Cathay Futures took a civil action of the dismiss legally paying with NT\$487 (US\$15) on March, 2007.

As of the date of this report, Court issued a judgment favoring Cathay Futures.

B. The building of management committee of original business address took a civil action of the park paying with NT\$966 (US\$29). As of the date of this report, the case is still in progress by District Court.

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(4) As of June 30, 2006 and 2007, the bank subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

	June 30,			
	2006 (NT\$)	2006 (US\$)	2007 (NT\$)	2007 (US\$)
Trust and security held for safekeeping	\$269,948,119	\$8,349,772	\$277,934,034	\$8,465,855
Travelers checks for sale	831,163	25,709	670,507	20,424
Bills for collection	58,180,410	1,799,580	46,189,380	1,406,926
Guarantees on duties and contracts	14,981,939	463,407	17,431,844	530,973
Unused commercial letters of credit	3,952,747	122,263	4,268,673	130,024
Irrevocable loan commitments	38,865,888	1,202,162	33,314,917	1,014,771
Credit card lines commitments	281,650,598	8,711,741	281,247,456	8,566,782
Stamp tax, securities and memorial				
currency consignments	1,727	53	1,727	53
Book-entry for government bonds and				
depository for short-term marketable				
securities under management	-	-	337,968,700	10,294,508

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

Periods	NT\$	US\$
July 1, 2007~June 30, 2008	\$667,573	\$20,334
July 1, 2008~June 30, 2012	2,081,981	63,417
Total	<u>\$2,749,554</u>	<u>\$83,751</u>

**28. Significant disaster losses:** None.

**29. Subsequent events:** None.

**30. Other significant matters**

(1) Pension related information

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



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(2) Financial instruments related information

A. The Company

a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$26,220,431	\$26,220,431	\$811,025	\$811,025
Receivables	2,300,555	2,300,555	71,159	71,159
Long-term investments in stocks				
under the equity method	188,754,101	188,754,101	5,838,358	5,838,358
Other financial assets	31,720	31,720	981	981
<u>Liabilities</u>				
Payables	15,391,209	15,391,209	476,066	476,066
Bonds payable	11,172,574	11,172,574	345,579	345,579
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	1,495,446	1,495,446	46,256	46,256
Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$24,114,697	\$24,114,697	\$734,532	\$734,532
Receivables	1,529,451	1,529,451	46,587	46,587
Long-term investments in stocks				
under the equity method	215,954,606	215,954,606	6,577,965	6,577,965
Other financial assets	31,720	31,720	966	966
<u>Liabilities</u>				
Payables	15,348,449	15,348,449	467,513	467,513
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	1,009,083	1,009,083	30,737	30,737

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- b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:
- (a) The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables payables and other financial assets.
- (b) The fair value of derivative and bonds payable was recognized by the present value of anticipate cash flow.
- c. The fair value of the Company's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Financial instruments	June 30, 2006			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$26,220,431	\$811,025
Receivables	-	-	2,300,555	71,159
Long-term investments in stocks under the equity method	-	-	188,754,101	5,838,358
Other financial assets	-	-	31,720	981
<u>Liabilities</u>				
Payables	-	-	15,391,209	476,066
Bonds payable	-	-	11,172,574	345,579
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	-	-	1,495,446	46,256

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Financial instruments	June 30, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$24,114,697	\$734,532
Receivables	-	-	1,529,451	46,587
Long-term investments in stocks under the equity method	-	-	215,954,606	6,577,965
Other financial assets	-	-	31,720	966
<u>Liabilities</u>				
Payables	-	-	15,348,449	467,513
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	-	-	1,009,083	30,737

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

### d. Information on financial risks

#### (a) Risk of interest rate

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

#### Fixed interest rate

Item	June 30, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through profit or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,495,446	\$46,256

  

Item	June 30, 2006					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through profit or loss	\$-	\$-	\$-	\$-	\$1,495,446	\$46,256

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June 30, 2007								
Item	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$1,009,083	\$30,737	\$-	\$-

June 30, 2007						
Item	Due in 4~5 year		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$1,009,083	\$30,737

### Floating interest rate

June 30, 2006								
Item	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$-	\$-	\$1,495,446	\$46,256

June 30, 2006						
Item	Due in 4~5 year		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$1,495,446	\$46,256

June 30, 2007								
Item	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value								
through profit or loss	\$-	\$-	\$-	\$-	\$1,009,083	\$30,737	\$-	\$-

June 30, 2007						
Item	Due in 4~5 year		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial liabilities at fair value through						
profit or loss	\$-	\$-	\$-	\$-	\$1,009,083	\$30,737

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

(b) Credit risk

The Company's exposure to credit risk is minimal.

e. Financial risk management objectives and policies

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

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

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

Market Risk

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

Credit Risk

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

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### Operational Risk

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

### Liquidity Risk

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

## B. Cathay Life

### a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$278,940,934	\$278,940,934	\$8,627,929	\$8,627,929
Notes receivable	9,380,157	9,380,157	290,138	290,138
Financial assets at fair value through profit or loss - current	113,655,799	113,655,799	3,515,490	3,515,490
Available-for-sale financial assets - current	84,926,091	84,926,091	2,626,851	2,626,851
Held-to-maturity financial assets - current	16,838,141	16,841,404	520,821	520,922
Investments in debt securities with no active market - current	2,875,399	2,875,399	88,939	88,939
Available-for-sale financial assets - noncurrent	136,104,172	136,104,172	4,209,842	4,209,842

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Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Held-to-maturity financial assets -				
noncurrent	512,429,815	490,096,770	15,849,979	15,159,195
Financial assets carried at cost - noncurrent	20,159,255	20,159,255	623,546	623,546
Investments in debt securities with no active				
market - noncurrent	42,802,550	41,443,364	1,323,927	1,281,886
Long-term investments in stocks under the				
equity method	4,181,686	4,181,686	129,344	129,344
Guarantee deposits paid	8,212,992	8,212,992	254,036	254,036
<u>Liabilities</u>				
Notes payable	15,680	15,680	485	485
Guarantee deposits received	1,562,848	1,562,848	48,340	48,340
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit				
or loss - current				
Futures	3,689,208	3,689,208	114,111	114,111
Option	875	875	27	27
Forward	4,672,455	4,672,455	144,524	144,524
IRS	158,565	158,565	4,905	4,905
Derivative financial assets for hedging -				
current				
IRS	326,925	326,925	10,112	10,112
<u>Liabilities</u>				
Financial liabilities at fair value through				
profit or loss - current				
Option	381	381	12	12
Forward	16,324,495	16,324,495	504,933	504,933
IRS	880,621	880,621	27,238	27,238
Derivative financial liabilities for hedging				
- current				
IRS	22,695	22,695	702	702

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Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$208,693,950	\$208,693,950	\$6,356,806	\$6,356,806
Notes receivable	9,427,652	9,427,652	287,166	287,166
Financial assets at fair value through profit or loss - current	92,314,258	92,314,258	2,811,887	2,811,887
Available-for-sale financial assets - current	208,231,727	208,231,727	6,342,727	6,342,727
Held-to-maturity financial assets - current	8,929,280	8,929,280	271,985	271,985
Investments in debt securities with no active market - current	5,784,912	5,786,617	176,208	176,260
Available-for-sale financial assets - noncurrent	193,994,896	193,994,896	5,909,074	5,909,074
Held-to-maturity financial assets - noncurrent	551,699,219	551,699,219	16,804,728	16,804,728
Financial assets carried at cost - noncurrent	19,665,955	19,665,955	599,024	599,024
Investments in debt securities with no active market - noncurrent	47,303,121	45,860,765	1,440,850	1,396,916
Long-term investments in stocks under the equity method	4,139,018	4,139,018	126,074	126,074
Guarantee deposits paid	8,283,705	8,283,705	252,321	252,321
<u>Liabilities</u>				
Notes payable	3,429	3,429	105	105
Guarantee deposits received	1,435,917	1,435,917	43,738	43,738
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Futures	1,657,439	1,657,439	50,486	50,486
Option	152,898	152,898	4,657	4,657
Forward	16,759,752	16,759,752	510,501	510,501
IRS	283,526	283,526	8,636	8,636
Derivative financial assets for hedging - current				
IRS	193,039	193,039	5,880	5,880



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Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	\$3,537	\$3,537	\$108	\$108
Forward	15,655,928	15,655,928	476,878	476,878
IRS	102,391	102,391	3,119	3,119
Derivative financial liabilities for hedging - current				
IRS	107,267	107,267	3,268	3,268

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

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

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

(c) Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for Cathay Life's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay Life uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

(d) The fair value of Cathay Life's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

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c. The following table summarizes the fair value information of Cathay Life's financial assets and liabilities at June 30, 2006 and 2007:

Item	June 30, 2006			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and				
loss - current	\$107,542,178	\$3,326,390	\$6,113,621	\$189,100
Available-for-sale financial assets - current	84,922,322	2,626,734	3,769	117
Held-to-maturity financial assets - current	12,052,090	372,784	4,789,314	148,138
Investment in debt securities with no active				
market - current	-	-	2,875,399	88,939
Available-for-sale financial assets - noncurrent	110,301,306	3,411,733	25,802,866	798,109
Held-to-maturity financial assets - noncurrent	72,181,695	2,232,654	417,915,075	12,926,541
Financial assets carried at cost - noncurrent	-	-	20,159,255	623,546
Investment in debt securities with no active				
market - noncurrent	-	-	41,443,364	1,281,886
Long-term investments in stocks under the				
equity method	-	-	4,181,686	129,344
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit and				
loss - current				
Futures	3,689,208	114,111	-	-
Option	875	27	-	-
Forward	-	-	4,672,455	144,524
IRS	-	-	158,565	4,905
Derivative financial assets for hedging - current				
IRS	-	-	326,925	10,112
<u>Liabilities</u>				
Financial liabilities at fair value through profit				
and loss - current				
Option	381	12	-	-
Forward	-	-	16,324,495	504,933
IRS	-	-	880,621	27,238
Derivative financial liabilities for hedging -				
current				
IRS	-	-	22,695	702

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Item	June 30, 2007			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or				
loss - current	\$81,087,878	\$2,469,932	\$11,226,380	\$341,955
Available-for-sale financial assets - current	208,230,673	6,342,695	1,054	32
Held-to-maturity financial assets - current	8,556,353	260,626	352,629	10,741
Investments in debt securities with no active				
market - current	-	-	5,786,617	176,260
Available-for-sale financial assets - noncurrent	184,962,384	5,633,944	9,032,512	275,130
Held-to-maturity financial assets - noncurrent	95,081,910	2,896,190	434,810,210	13,244,295
Financial assets carried at cost - noncurrent	-	-	19,665,955	599,024
Investment in debt securities with no active				
market - noncurrent	-	-	45,860,765	1,396,916
Long-term investments in stocks under the				
equity method	-	-	4,139,018	126,074
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or				
loss - current				
Futures	1,657,439	50,486	-	-
Option	2,728	83	150,170	4,574
Forward	-	-	16,759,752	510,501
IRS	-	-	283,526	8,636
Derivative financial assets for hedging - current				
IRS	-	-	193,039	5,880
<u>Liabilities</u>				
Financial liabilities at fair value through profit or				
loss - current				
Option	3,537	108	-	-
Forward	-	-	15,655,928	476,878
IRS	-	-	102,931	3,135
Derivative financial liabilities for hedging -				
current				
IRS	-	-	107,267	3,268

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### d. Information on financial risk

#### (a) Interest rate risk

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

#### Non-derivative financial instruments of fixed interest rate

Item	June 30, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit and loss	\$-	\$-	\$622,883	\$19,266	\$284,270	\$8,793	\$-	\$-
Available-for-sale financial assets	2,821,039	87,258	1,666,574	51,549	1,080,059	33,407	911,221	28,185
Held-to-maturity financial assets	16,350,407	505,735	7,792,466	241,029	716,389	22,159	12,821,608	396,585
Investments in debt securities with								
no active market	502,274	15,536	-	-	1,258,431	38,925	447,447	13,840

Item	June 30, 2006					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit and loss	\$1,068,887	\$33,062	\$28,983,407	\$896,486	\$30,959,447	\$957,607
Available-for-sale financial assets	4,839,715	149,697	84,204,684	2,604,537	95,523,292	2,954,633
Held-to-maturity financial assets	14,318,003	442,870	247,961,871	7,669,715	299,960,744	9,278,093
Investments in debt securities with						
no active market	615,072	19,025	29,199,429	903,168	32,022,653	990,494

#### Non-derivative financial instruments of float interest rate

Item	June 30, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit and loss	\$6,818,078	\$210,890	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	43,007,781	1,330,275	-	-	-	-	-	-
Held-to-maturity financial assets	229,307,212	7,092,707	-	-	-	-	-	-
Investments in debt securities with								
no active market	13,655,296	422,372	-	-	-	-	-	-

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Item	June 30, 2006					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit and loss	\$-	\$-	\$-	\$-	\$6,818,078	\$210,890
Available-for-sale financial assets	-	-	-	-	43,007,781	1,330,275
Held-to-maturity financial assets	-	-	-	-	229,307,212	7,092,707
Investments in debt securities with						
no active market	-	-	-	-	13,655,296	422,372

### Derivative financial instruments

Item	June 30, 2006							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$260,750	\$8,066	\$24,868	\$769	\$3,847	\$119	\$7,541	\$233
Derivative financial assets for								
hedging	-	-	34,790	1,076	48,952	1,514	133,728	4,136
Financial liabilities at fair value								
through profit or loss	117,317	3,629	15,369	475	2,085	65	38,863	1,202
Derivative financial liabilities for								
hedging	-	-	6,355	197	6,608	204	-	-

Item	June 30, 2006					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$9,368	\$290	\$100,490	\$3,108	\$406,864	\$12,585
Derivative financial assets for						
hedging	32,839	1,016	76,616	2,370	326,925	10,112
Financial liabilities at fair value						
through profit or loss	60,073	1,858	647,369	20,024	881,076	27,253
Derivative financial liabilities for						
hedging	9,732	301	-	-	22,695	702

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### Non-derivative financial instruments of fixed interest rate

Item	June 30, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$626,126	\$19,072	\$1,483,269	\$45,180	\$100,208	\$3,052	\$1,055,891	\$32,162
Available-for-sale financial assets	3,615,879	110,140	1,866,197	56,844	458,017	13,951	5,937,351	180,851
Held-to-maturity financial assets	7,995,953	243,556	1,643,055	50,047	12,340,042	375,877	13,545,281	412,589
Investments in debt securities with								
no active market	334,091	10,176	878,745	26,767	1,291,906	39,351	1,108,287	33,758

Item	June 30, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$3,283,131	\$100,004	\$21,605,108	\$658,091	\$28,153,733	\$857,561
Available-for-sale financial assets	8,558,632	260,695	92,168,014	2,807,433	112,604,090	3,429,914
Held-to-maturity financial assets	9,973,898	303,805	432,552,170	13,175,515	478,050,399	14,561,389
Investments in debt securities with						
no active market	1,199,427	36,535	34,864,379	1,061,967	39,676,835	1,208,554

### Non-derivative financial instruments of float interest rate

Item	June 30, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$7,750,073	\$236,067	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	90,270,613	2,749,638	-	-	-	-	-	-
Held-to-maturity financial assets	82,578,100	2,515,324	-	-	-	-	-	-
Investments in debt securities with								
no active market	13,411,198	408,505	-	-	-	-	-	-

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Item	June 30, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$7,750,073	\$236,067
Available-for-sale financial assets	-	-	-	-	90,270,613	2,749,638
Held-to-maturity financial assets	-	-	-	-	82,578,100	2,515,324
Investments in debt securities with						
no active market	-	-	-	-	13,411,198	408,505

### Derivative financial instruments

Item	June 30, 2007							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$796	\$24	\$-	\$-	\$3,246	\$99	\$27,977	\$852
Derivative financial assets for								
hedging	2,280	69	18,966	578	-	-	124,984	3,807
Financial liabilities at fair value								
through profit or loss	2,960	90	19,771	602	36,182	1,102	21,888	667
Derivative financial liabilities for								
hedging	985	30	23,102	704	25,217	768	15,584	475

Item	June 30, 2007					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$10,054	\$306	\$217,975	\$6,640	\$260,048	\$7,921
Derivative financial assets for						
hedging	37,564	1,144	9,245	282	193,039	5,880
Financial liabilities at fair value						
through profit or loss	17	1	27,160	827	107,978	3,289
Derivative financial liabilities for						
hedging	-	-	42,379	1,291	107,267	3,268

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(b) Credit risk

Cathay Life's exposure to credit risk is minimal.

e. Hedging activities

Cash flow hedges - IRS

Cathay Life held interest swap agreements to hedge the risks from interest rate fluctuation at June 30, 2006 and 2007. The terms of the agreements are as follows:

a. June 30, 2006

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$372,500	\$11,522	ARMS	Each quarter	2009/3/24
500,000	15,466	4.0005%-6ml	Yearly	2008/9/26
500,000	15,466	7.6%-90DCP	Half year	2007/10/10
500,000	15,466	7.05%-90DCP	Half year	2007/10/10
300,000	9,279	5.5%-6ml	Half year	2007/12/26
500,000	15,466	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,186	4.003%-6ml	Half year	2008/6/13
500,000	15,466	4%-12ml	Yearly	2008/6/5
300,000	9,279	4.3%-12ml	Yearly	2010/6/20
900,000	27,838	90DCP	Each quarter	2015/2/4
400,000	12,372	90DCP	Each quarter	2015/3/17
50,000	1,547	90DCP	Each quarter	2009/3/15
500,000	15,466	If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
200,000	6,186	7.603%-6ml	Half year	2007/7/31
300,000	9,279	7.5%-6ml	Half year	2007/7/31
300,000	9,279	If 6ml<6.9%,3.8% If 6ml>6.9%,0%	Half year	2007/7/31



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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,186	0~0.5Y:3.8%,0.5Y+6ml :3.0% 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1%-2.5%, 2.5-3.5Y:1%-3.0%, 3.5-4.5Y:1%-3.5%, 4.5-5.5Y;1%-4.0%, 5.5-6.5Y:1%-4.5%, 6.5-7.0Y:1%-5.0%	Half year	2011/3/19
200,000	6,186	If6ml<0.95%,6ml If0.95%<6ml<2.0%,3.5% If2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,279	5.1%-6ml	Half year	2007/12/19
300,000	9,279	If0.95%<6ml<2.0%,3.5% If2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,186	4.000%-6ml	Half year	2010/4/7
300,000	9,279	4.0002%-6ml	Half year	2010/4/7
500,000	15,466	4.0006%-6ml	Half year	2010/4/7
500,000	15,466	4.0007%-6ml	Half year	2010/4/7
250,000	7,733	90DCP	Each quarter	2008/8/10
900,000	27,838	90DCP	Each quarter	2010/8/18
600,000	18,559	90DCP	Each quarter	2010/8/19
450,000	13,919	90DCP	Each quarter	2008/8/22
330,000	10,207	90DCP	Each quarter	2008/8/24
300,000	9,279	5.35%-6ml	Each quarter	2008/1/8
200,000	6,186	4.0003%-6ml	Half year	2010/4/7
300,000	9,279	5.37%-6ml	Yearly	2011/3/15
200,000	6,186	5.85%-6ml	Half year	2009/1/13
50,000	1,547	4.15%-6ml	Half year	2009/1/16
200,000	6,186	6.3%-6ml	Yearly	2010/11/27

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b. June 30, 2007

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$310,000	\$9,443	ARMS	Each quarter	2009/3/24
350,000	10,661	4.0005%-6ml	Half year	2008/9/26
500,000	15,230	The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP	Each quarter	2007/10/10
500,000	15,230	7.05%-90BACP	Each quarter	2007/10/10
300,000	9,138	5.5%-6m Libor	Half year	2007/12/26
500,000	15,230	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,092	4.003%-6ml	Half year	2008/6/13
500,000	15,230	4%-12m Libor	Yearly	2008/6/5
300,000	9,138	4.3%-12m Libor	Yearly	2010/6/20
500,000	15,230	If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
200,000	6,092	7.603%-6ml	Half year	2007/7/31
300,000	9,138	2005/6/17~2005/7/31 : 7.25%-6ml 2005/7/31~2006/7/31 : 7.5%-6ml 2006/7/31~2007/7/31 : 7.75%-6ml	Half year	2007/7/31
300,000	9,138	If 6ml<6.9%,3.8% If 6ml>6.9%,0%	Half year	2007/7/31
200,000	6,092	0.5Y:3.8%, 3.0%*n/N if 6ml 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1.0%-2.5%, 2.5-3.5Y:1.0%-3.0%, 3.5-4.5Y:1.0%-3.5%, 4.5-5.5Y;1.0%-4.0%, 5.5-6.5Y:1.0%-4.5%, 6.5-7.0Y:1.0%-5.0%	Half year	2011/3/19
300,000	9,138	5.1%-6m Libor	Half year	2007/12/19
200,000	6,092	If 6ml<0.95%, Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,138	If 6ml<0.95%,Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,092	4.000%-6ml	Half year	2010/4/7
300,000	9,138	4.0002%-6ml	Half year	2010/4/7
500,000	15,230	4.0006%-6ml	Half year	2010/4/7
500,000	15,230	4.0007%-6ml	Half year	2010/4/7
250,000	7,615	90DCP	Each quarter	2008/8/10
900,000	27,414	90DCP	Each quarter	2010/8/18
600,000	18,276	90DCP	Each quarter	2010/8/19
450,000	13,707	90DCP	Each quarter	2008/8/22
330,000	10,052	90DCP	Each quarter	2008/8/24
300,000	9,138	5.35%-6ml	Half year	2008/1/8
200,000	6,092	4.0003%-6ml	Half year	2010/4/7
300,000	9,138	5.37%-6ml	Half year	2011/3/15
200,000	6,092	5.85%-6ml	Half year	2009/1/13
50,000	1,523	4.15%-6ml	Half year	2009/1/16
200,000	6,092	6.3%-6ml	Half year	2010/11/27
300,000	9,138	180DCP + 40bps	Half year	2008/3/24
300,000	9,138	180DCP	Half year	2008/6/12
2,000,000	60,920	90DCP+75bps	Each quarter	2008/7/19
1,150,000	35,029	90DCP+30bps	Each quarter	2008/9/17
100,000	3,046	180DCP+30bps	Half year	2008/12/18
200,000	6,092	180DCP+18bps	Half year	2008/7/11
900,000	27,414	90DCP+100bps	Each quarter	2009/5/20
2,700,000	82,242	90DCP+25bps	Each quarter	2013/8/24
2,000,000	60,920	90DCP+23bps	Each quarter	2013/12/14
2,000,000	60,920	90DCP+26.5bps	Each quarter	2013/12/14
1,300,000	39,598	90DCP+45bps	Each quarter	2013/12/17
787,920	24,000	1.25% + 3m Libor	Each quarter	2009/9/23
787,920	24,000	6m Libor	Half year	2013/9/20
459,620	14,000	6m Libor	Half year	2014/3/20
787,920	24,000	6m Libor	Half year	2014/3/24

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

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Cathay Life's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$433,993 (US\$13,424) and NT\$220,700 (US\$6,723) as of June 30, 2006 and 2007.

### f. Financial risk management objectives and policies

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

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

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

#### Market Risk

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

#### Credit Risk

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

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

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

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

#### Operational Risk

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

#### Liquidity Risk

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

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### C. Cathay United Bank

#### a. Information of fair value

Item	June 30, 2006			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$51,805,390	\$1,602,394	\$51,805,390	\$1,602,394
Available-for-sale financial assets	52,916,689	1,636,767	52,916,689	1,636,767
Held-to-maturity financial assets and debt securities with no active market	243,530,946	7,532,661	243,514,043	7,532,139
Investment accounted for using equity method	2,022,405	62,555	2,022,405	62,555
Others	840,468,859	25,996,562	840,468,859	25,996,562
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	49,395,298	1,527,847	49,395,298	1,527,847
Financial debentures payable	17,282,698	534,572	17,282,698	534,572
Others	1,070,813,548	33,121,359	1,070,813,548	33,121,359
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	1,495,794	46,266	1,495,794	46,266
Interest rate swap	737,509	22,812	737,509	22,812
Cross currency swap	1,072	33	1,072	33
Futures	(862)	(27)	(862)	(27)
Options	48,645	1,505	48,645	1,505
Credit derivatives	31,731	981	31,731	981
Credit default swap	562	17	562	17
<u>Liabilities</u>				
Forward	1,374,484	42,514	1,374,484	42,514
Interest rate swap	2,486,851	76,921	2,486,851	76,921
Cross currency swap	622,015	19,240	622,015	19,240
Futures	8,553	265	8,553	265
Options	56,618	1,751	56,618	1,751
Credit derivatives	117,955	3,648	117,955	3,648
Credit default swap	836	26	836	26

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Item	June 30, 2007			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$44,798,347	\$1,364,555	\$44,798,347	\$1,364,555
Available-for-sale financial assets	57,377,590	1,747,718	57,377,590	1,747,718
Held-to-maturity financial assets and debt securities with no active market	281,899,976	8,586,658	289,838,783	8,828,473
Investment accounted for using equity method	2,187,755	66,639	2,187,755	66,639
Others	840,651,145	25,606,188	840,651,145	25,606,188
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	43,834,863	1,335,208	43,834,863	1,335,208
Financial debentures payable	17,686,802	538,739	17,686,802	538,739
Others	1,116,653,146	34,013,194	1,116,653,146	34,013,194
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	1,603,961	48,857	1,603,961	48,857
Non-delivery forward	280,436	8,542	280,436	8,542
Currency Swap	444,494	13,539	444,494	13,539
Interest rate swap	1,023,157	31,165	1,023,157	31,165
Futures	(12,905)	(393)	(12,905)	(393)
Options	12,910	393	12,910	393
Credit derivatives	22,900	698	22,900	698
Credit default swap	(67)	(2)	(67)	(2)
<u>Liabilities</u>				
Forward	1,311,014	39,933	1,311,014	39,933
Non-delivery forward	277,005	8,438	277,005	8,438
Currency Swap	672,599	20,487	672,599	20,487
Interest rate swap	2,506,204	76,339	2,506,204	76,339
Cross currency swap	557,266	16,974	557,266	16,974
Options	12,354	376	12,354	376
Credit derivatives	28,158	858	28,158	858
Credit default swap	(281)	(9)	(281)	(9)

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

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- (a) The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, refundable deposits, guarantee deposits, borrowed funds, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate fair value because of the relatively short period of time between their origination and expected realization.
- (b) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity financial assets. If no quoted market prices exist for certain of Cathay United Bank's financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay United Bank uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics.
- (c) Discounts, loans and deposits are classified as interest-bearing financial assets. Thus, their face value is equivalent to their fair value.

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

- (d) The value of debt securities with no active market, financial assets carried at cost and investments accounted for using equity method is determined by pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. If fair value of equity security can not reliable measurement, fair value is equal to carrying value.
- (e) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to assess the fair value of such instruments.
- (f) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, Cathay United Bank assesses fair value by using pricing models.



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

Item	June 30,2006			
	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$51,805,390	\$1,602,394	\$-	\$-
Available-for-sale financial assets	52,916,689	1,636,767	-	-
Held-to-maturity financial assets and debt securities				
without active market	190,767,421	5,900,632	52,746,622	1,631,507
Others	(Note)	(Note)	(Note)	(Note)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	685,817	21,213	48,709,481	1,506,634
Financial debentures payable	-	-	17,282,698	534,572
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	-	-	1,495,794	46,266
Interest rate swap	-	-	737,509	22,812
Cross currency swap	-	-	1,072	33
Futures	(862)	(27)	-	-
Options	752	23	47,893	1,482
Credit derivatives	-	-	31,731	981
Credit default swap	-	-	562	17
<u>Liabilities</u>				
Forward	-	-	1,374,484	42,514
Interest rate swap	-	-	2,486,851	76,921
Cross currency swap	-	-	622,015	19,240
Futures	8,553	265	-	-
Options	4,023	124	52,595	1,627
Credit derivatives	-	-	117,955	3,648
Credit default swap	-	-	836	26

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Item	June 30,2007			
	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$43,041,436	\$1,311,040	\$1,756,911	\$53,515
Available-for-sale financial assets	54,717,055	1,666,679	2,660,535	81,040
Held-to-maturity financial assets and debt securities				
without active market	214,277,285	6,526,874	67,611,498	2,059,443
Others	(Note)	(Note)	(Note)	(Note)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	43,834,863	1,335,208
Financial debentures payable	-	-	17,686,802	538,739
Others	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	-	-	1,603,961	48,857
Non-delivery forward	-	-	280,436	8,542
Currency swap	-	-	444,494	13,539
Interest rate swap	-	-	1,023,157	31,165
Futures	(12,905)	(393)	-	-
Options	578	18	12,332	375
Credit derivatives	-	-	22,900	698
Credit default swap	-	-	(67)	(2)
<u>Liabilities</u>				
Forward	-	-	1,311,014	39,933
Non-delivery forward	-	-	277,005	8,438
Currency swap	-	-	672,599	20,487
Interest rate swap	-	-	2,506,204	76,339
Cross currency swap	-	-	557,266	16,974
Options	22	1	12,332	375
Credit derivatives	-	-	28,158	858
Credit default swap	-	-	(281)	(9)

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

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- d. Gains or losses recognized for the changes in fair value of financial asset or liabilities determined by pricing models were gain NT\$42,662(US\$1,320) and loss NT\$277,982 (US\$8,467) for the six-month periods ended June 30, 2006 and 2007, respectively.
- e. The interest income arising from other than financial assets or liabilities at fair value through profit or loss for the six-month periods ended June 30, 2006 and 2007 were NT\$20,578,085 (US\$636,501) and NT\$18,961,671 (US\$577,571), and expenses were NT\$7,760,375 (US\$240,036) and NT\$9,028,325 (US\$275,002), respectively.
- f. Cathay United Bank recognized an unrealized gains or losses of NT\$182,943 (US\$5,659) and NT\$261,307 (US\$7,959) in shareholders' equity for the changes in fair value of available-for-sale financial assets and realized gains of NT\$188,952 (US\$5,844) and NT\$369,738 (US\$11,262) in income statement for the six-month periods ended June 30, 2006 and 2007, respectively.
- g. Interest income of NT\$18 from financial assets were impaired which were assessed by discount rate of cash flow for the six-month periods ended June 30, 2006 and 2007.
- h. Information on financial risk

- (a) Market risk

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

- Ⓐ Interest rate risk

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

- Ⓑ Foreign exchange risk

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

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### © Equity securities price risk

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

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

June 30, 2006

Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Interest rate	\$92,170	\$2,851	\$138,367	\$4,280	\$55,596	\$1,720
Foreign exchange	43,812	1,355	117,919	3,647	164	5
Equity Securities price	44,607	1,380	66,969	2,071	17,301	535

June 30, 2007

Factors of market risk	Average balance		Maximum balance		Minimum balance	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Interest rate	\$106,565	\$3,246	\$163,705	\$4,986	\$43,942	\$1,338
Foreign exchange	97,494	2,970	388,037	11,820	3,842	117
Equity Securities price	118,237	3,601	250,352	7,626	31,352	955

Cathay United Bank enters into a variety of derivatives transactions for both trading and nontrading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage Cathay United Bank exposure to risks and to generate revenues through trading activities. Cathay United Bank provides trades derivative instruments on behalf of customers and for its own positions. Cathay United Bank provides derivative contracts to address customer demands for customized derivatives and also takes proprietary positions for its own accounts.

Market risk factor sensitivity is one of the tools to manage market risk. Market risk factor sensitivities of a position are defined as the change in the value of a position caused by a unit shift in a given market factor. Market risk factor sensitivities include interest rate, foreign exchange rate and equity factor sensitivities.

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Foreign exchange rate factor sensitivities (“FX delta”) represent the foreign exchange portfolios caused by the underlying currency exchange rate at the balance sheet date.

Interest rate factor sensitivities (the present value of one basis point, or “PVBP”) represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting a portfolio. Cathay United Bank’s interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

Equity factor sensitivities (“Equity delta”) represent the change of the equity portfolio of the underlying stocks prices. Cathay United Bank equity portfolios include stocks and equity index options.

	(In thousands of US dollars)	
	<u>Currency</u>	<u>June 30, 2007</u>
<u>FX factor sensitivity (FX Delta)</u>		
	JPY	\$(275)
	USD	(6,913)
	NTD	7,052
<u>Interest rate factor sensitivity (PVBP)</u>		
	JPY	1
	USD	(801)
	NTD	(922)
<u>Equity factor sensitivity (Equity Delta)</u>		
	NTD	30,305

### (b) Credit risk

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

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

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

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

Item	June 30, 2006 (Restated)			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$51,805,390	\$1,602,394	\$51,805,390	\$1,602,394
Available-for-sale financial assets	52,916,689	1,636,767	52,916,689	1,636,767
Held-to-maturity financial assets and debt securities with no active market	243,514,043	7,532,139	243,514,043	7,532,139,
Investment accounted for using equity method	2,022,405	62,555	2,022,405	62,555
Others	840,468,859	25,996,562	840,468,859	25,996,562
Guarantees on duties and contracts	-	-	15,289,727	472,927
Unused commercial letters of credit	-	-	3,644,959	112,742
Irrevocable loan commitments	-	-	38,865,888	1,202,162
Credit card line commitments	-	-	281,650,598	8,711,741

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Item	June 30, 2006 (Restated)			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	\$1,495,794	\$46,266	\$1,495,794	\$46,266
Interest rate swap	737,509	22,812	737,509	22,812
Cross currency swap	1,072	33	1,072	33
Options	48,645	1,505	48,645	1,505
Credit derivatives	31,731	981	31,731	981
Credit default swap	562	17	562	17
June 30, 2007				
Item	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
	<u>Non-derivative financial instruments</u>			
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$44,798,347	\$1,364,555	\$44,798,347	\$1,364,555
Available-for-sale financial assets	57,377,590	1,747,718	57,377,590	1,747,718
Held-to-maturity financial assets and debt securities with no active market	281,838,783	8,584,794	281,838,783	8,584,794
Investment accounted for using equity method	2,187,755	66,639	2,187,755	66,639
Others	840,651,145	25,606,188	840,651,145	25,606,188
Guarantees on duties and contracts	-	-	17,431,844	530,973
Unused commercial letters of credit	-	-	4,268,673	130,024
Irrevocable loan commitments	-	-	33,314,917	1,014,771
Credit card line commitments	-	-	281,247,456	8,566,782
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	1,603,961	48,857	1,603,961	48,857
Non-delivery forward	280,436	8,542	280,436	8,542
Currency swap	444,494	13,539	444,494	13,539
Interest rate swap	1,023,157	31,165	1,023,157	31,165
Options	12,910	393	12,910	393
Credit derivatives	22,900	698	22,900	698

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- ⑥ Cathay United Bank does not believe it has high levels of risk concentration with regard to any single customer or transaction. However, Cathay United Bank is likely to be exposed to region or industry concentration risk. Cathay United Banks' information of concentration of credit risk is as follows:

	June 30,			
	2006		2007	
Loans, customers' liabilities under acceptances and guarantees account	(NT\$)	(US\$)	(NT\$)	(US\$)
<b>Industry type</b>				
Manufacturing	\$90,584,841	\$2,801,882	\$107,316,059	\$3,268,841
Financial institutions and insurance	39,617,949	1,225,424	48,150,828	1,466,672
Leasing and real estate	69,986,276	2,164,747	67,827,910	2,066,035
Individuals	402,040,756	12,435,532	412,576,972	12,567,072
Others	116,090,784	3,590,807	118,262,338	3,602,264
Total	718,320,606	22,218,392	754,134,107	22,970,884
Valuation allowance	(10,799,682)	(334,045)	(11,904,778)	(362,619)
Maximum credit risk exposed	<u>\$707,520,924</u>	<u>\$21,884,347</u>	<u>\$742,229,329</u>	<u>\$22,608,265</u>
<b>Geographic Region</b>				
Domestic	\$679,328,909	\$21,012,339	\$704,933,640	\$21,472,240
South East Asia	10,315,341	319,064	12,367,268	376,706
North East Asia	-	-	133,330	4,061
America	8,935,666	276,389	10,227,417	311,527
Others	19,740,690	610,600	26,472,452	806,350
Total	718,320,606	22,218,392	754,134,107	22,970,884
Valuation allowance	(10,799,682)	(334,045)	(11,904,778)	(362,619)
Maximum credit risk exposed	<u>\$707,520,924</u>	<u>\$21,884,347</u>	<u>\$742,229,329</u>	<u>\$22,608,265</u>

### (c) Liquidity risk

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

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



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

The liquidity risk rate was 28.14%. Capital and working capital of the Bank have sufficed to deliver contracts. Cathay United Bank has raised sufficient capital to execute the obligations so that it is without liquidity risk.

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

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

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of June 30, 2007, there is no significant change in these dates.

As of June 30, 2006 and 2007, the effective interest rates of financial instruments held and issued by Cathay United Bank are classified as follows:

Financial instruments	Effective interest rate (%)	
	June 30, 2006	June 30, 2007
Available-for-sale financial assets		
Bonds	1.3653-6.83732	1.66761-6.83339
Overseas financial instruments	3.65-4.6	4.501-5.735
Held-to-maturity financial assets		
Bonds	1.64-6.95	1.6495-6.95
Overseas financial instruments	0.61-7.625	3.45-6.65
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.52-1.9	1.76-3
Overseas financial instruments	0-8.32	0-7.51
Financial debentures payable	4.15-5.59	2-5.593

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### i. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Fair value			
		June 30, 2006		June 30, 2007	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Financial debentures payable	Interest rate swap	\$1,278,00	\$39,530	\$1,038,13	\$31,622
		0		4	

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

### D. Cathay Century

#### a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$1,948,591	\$1,948,591	\$60,272	\$60,272
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

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Secured loans	1,747,000	1,747,000	54,036	54,036
	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying		Carrying	
Item	amount	Fair value	amount	Fair value
<b><u>Non-derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
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	13,880	13,880
Guarantee deposits paid	406,507	406,507	12,574	12,574
<b><u>Liabilities</u></b>				
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
<b><u>Derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Financial assets at fair value through				
profit or loss - current				
Futures Contract	7,655	7,655	237	237
Options Contract	515	515	16	16
<b><u>Liabilities</u></b>				
Financial liabilities at fair value through				
profit or loss - current				
Foreign exchange SWAP	32,213	32,213	996	996

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Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
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 sand 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
<b><u>Liabilities</u></b>				
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
<b><u>Derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Financial assets at fair value through profit or loss - current				
Futures Contract	7,000	7,000	213	213
Options Contract	586	586	18	18
<b><u>Liabilities</u></b>				
Financial liabilities at fair value through profit or loss - current				

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Foreign exchange SWAP	3,432	3,432	105	105
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- b. The methods and assumptions used to estimate the fair values of the financial instruments are as follows:
- (a) The fair value of Cathay Century's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.
  - (b) The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
  - (c) Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for Cathay Century's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. Cathay Century uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
  - (d) The fair value of Cathay Century's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

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- c. The following table summarizes the fair value information of Cathay Century's financial assets and liabilities at June 30, 2006 and 2007:

Item	June 30, 2006			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$363,386	\$11,240	\$-	\$-
Available-for-sale financial assets-current	2,224,091	68,793	-	-
Investment in debt securities with no active market-current	-	-	253,025	7,826
Held-to-maturity financial assets-noncurrent	-	-	3,544,387	109,632
Financial assets carried at cost-noncurrent	-	-	36,000	1,114
Investment in debt securities with no active market-noncurrent	-	-	305,871	9,461
Long-term investments in stocks under the equity method	-	-	448,748	13,880
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	7,655	237	-	-
Option	515	16	-	-
<u>Liabilities</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	32,213	996	-	-

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Item	June 30, 2007			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$973,666	\$29,658	\$-	\$-
Available-for-sale financial assets-current	2,703,447	82,347	-	-
Investment in debt securities with no active market-current	-	-	76,478	2,330
Held-to-maturity financial assets-noncurrent	-	-	4,271,002	130,094
Financial assets carried at cost-noncurrent	-	-	60,000	1,828
Investment in debt securities with no active market-noncurrent	-	-	227,795	6,939
Long-term investments in stocks under the equity method	-	-	438,651	13,361
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Futures	7,000	213	-	-
Option	586	18	-	-
<u>Liabilities</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	3,432	105	-	-

d. Information on financial risk

(a) Risk of interest rate

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

## English Translation of Financial Statements Originally Issued in Chinese

### Fixed interest rate

June 30, 2006

Item	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
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 year		Over 5 year		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		

June 30, 2007

Item	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
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 year		Over 5 year		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		

### (b) Credit risk

Cathay Century's exposure to credit risk is minimal.

### e. Hedging activities

#### Fair value hedges

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		June 30, 2006		June 30, 2007	
		(NT\$)	(US\$)	(NT\$)	(US\$)



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Overseas investments in bonds	Foreign exchange SWAP	<u>\$(32,213)</u>	<u>\$(996)</u>	<u>\$(3,432)</u>	<u>\$(104)</u>
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f. Financial risk management objectives policies

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

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

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

### Market Risk

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

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

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

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### Credit risk

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

### Operational Risk

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

### Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.

## E. Cathay Securities

### a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative financial instruments</u></b>				
<u>Assets</u>				
Cash and cash equivalents	\$493,652	\$493,652	\$15,269	\$15,269
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	609,763	609,763	18,861	18,861
Operating securities – net	129,905	129,905	4,018	4,018
Receivable amount for margin loans	543,597	543,597	16,814	16,814

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Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative financial instruments</u></b>				
<u>Assets</u>				
Securities refinancing margin deposits	\$499	\$499	\$15	\$15
Receivables	6,578	6,578	204	204
Restricted assets – current	900,000	900,000	27,838	27,838
Long-term investments under equity method	721,851	721,851	22,327	22,327
Available-for-sale financial assets-noncurrent	18	18	1	1
Operating deposits	215,098	215,098	6,653	6,653
Settlement and clearance funds	56,335	56,335	1,742	1,742
Guarantee deposits paid	19,238	19,238	595	595
<u>Liabilities</u>				
Securities sold under agreements to repurchase	10,040	10,040	311	311
Securities financial guarantee deposits-in	3,665	3,665	113	113
Deposit payable for securities financing	4,050	4,050	125	125
Payables	23,506	23,506	727	727
Guarantee deposits-in	484	484	15	15
<b><u>Derivative financial instruments</u></b>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Call options-futures	11	11	-	-
Margin for futures trading – own funds	303,830	303,830	9,398	9,398
Derivative financial instrument assets – GreTai (over-the-counter)	10,842	10,842	335	335
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Put options – futures	4	4	-	-
Other financial liabilities – current	75,282	75,282	2,329	2,329

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Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative financial instruments</u></b>				
<u>Assets</u>				
Cash and cash equivalents	\$475,377	\$475,377	\$14,480	\$14,480
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	130,027	130,027	3,961	3,961
Operating securities – net	1,063,563	1,063,563	32,396	32,396
Receivable amount for margin loans	943,591	943,591	28,742	28,742
Receivables	59,260	59,260	1,804	1,804
Restricted assets – current	300,000	300,000	9,138	9,138
Long-term investments under equity method	717,306	717,306	21,849	21,849
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	225,097	225,097	6,856	6,856
Settlement and clearance funds	50,550	50,550	1,540	1,540
Guarantee deposits paid	28,326	28,326	863	863
<u>Liabilities</u>				
Securities financing guarantee deposits-in	6,029	6,029	184	184
Deposit payable for securities financing	6,662	6,662	203	203
Payables	56,442	56,442	1,719	1,719
Guarantee deposits-in	141	141	4	4
<b><u>Derivative financial instruments</u></b>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	313,077	313,077	9,536	9,536
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,200	1,200	36	36
Repurchase of issued call (put) warrants	(331)	(331)	(10)	(10)
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	5,115	5,115	156	156
Other financial liabilities – current	238,315	238,315	7,259	7,259

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

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

(b) Long-term investments under equity method and available-for-sale financial assets – noncurrent are estimated based on market prices, if available. If long-term investments under equity method and available-for-sale financial assets – noncurrent of Cathay Securities are not traded on the open market, the carrying amount on the balance sheet date is used to estimate the fair value.

(c) If there is a quoted market price on the open market, the quoted market price of financial assets and liabilities is regarded as fair value. Otherwise, if the market for a financial instrument is not active, Cathay Securities assesses fair value by using pricing model. A pricing model incorporates all factors that market participants would consider in setting a price.

The following table summarizes the fair value of financial assets and liabilities as of June 30, 2006 and 2007:

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

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Financial instruments	June 30, 2006			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<u>Assets</u>				
Margin for futures trading – own funds	303,830	9,398	-	-
Derivative financial instrument assets – GreTai (over-the-counter)	-	-	10,842	335
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current Put options – futures	4	-	-	-
Other financial liabilities – current	-	-	75,282	2,329
Financial instruments	June 30, 2007			
	Based on the quoted market		Based on pricing models	
	price			
	NT\$	US\$	NT\$	US\$
<u>Assets</u>				
Financial assets at fair value through profit or loss – current Open-end funds and currency market instruments	\$130,027	\$3,961	\$-	\$-
Operating securities – net	1,063,563	32,396	-	-
Margin for futures trading – own funds	313,077	9,536	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current Liabilities for issuance of call (put) warrants	1,200	36	-	-
Repurchase of issued call (put) warrants	(331)	(10)	-	-
Derivative financial instrument liabilities-GreTei (over-the-counter)	-	-	5,115	156
Other financial liabilities – current	-	-	238,315	7,259

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

c. Financial risk management objectives and policies

(a) Market risk

Cathay Securities invests in equity securities that have active public market prices. When adverse market conditions exist, Cathay Securities is exposed to market risk as prices fluctuate. Although Cathay Securities controls and quantifies its market risk by establishing stop-loss limits and measuring Value-at-Risk, evaluates its risk utilizing historical prices and controls its overall investment portfolio, it is still exposed to market risk.

(b) Credit risk

In accordance with Cathay Securities’ policy, credit evaluations are required for all credit transactions. Credit limits are established based on customers’ credit ratings. Margin ratios are also evaluated continuously to control default risk.

The counterparties to Cathay Securities’ other financial assets (including cash and cash equivalents and all other current and non current investments) are all creditworthy and well-known financial institutions in the ROC. As a result, counterparty credit risk is relatively low.

(c) Liquidity risk

Cathay Securities believes its working capital is sufficient for its operations and that the risk of contract defaults resulting from a lack of capital is low.

The financial assets held by Cathay Securities all have active markets and can be sold at prices approximate to fair values. As the result, Cathay Securities believes there is no significant cash flow risk.

(d) Cash flow risk from interest rate fluctuations

Cathay Securities currently has no exposure to floating interest rates related to financial assets or liabilities and thus Cathay Securities believes there is no significant cash flow risk from interest rate fluctuations.

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Cathay Securities also held Real Estate Asset Trust (REAT) beneficiary certificates. The value of these certificates may decline if interest rates increase and thus they are subject to valuation risk. However, the term of the certificates is 5 years, and as a result, the risk is relatively lower. In addition, Cathay Securities will take appropriate actions with respect to these certificates based on interest rate fluctuations.

### d. Derivatives

#### (a) Issuance call warrants

##### Ⓐ Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2006		June 30, 2007	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Issuance of call warrants	NT\$- (US\$-)	NT\$- (US\$-)	NT\$13,300 (US\$405)	NT\$- (US\$-)

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

##### Ⓑ Market price risk

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

##### Ⓒ Liquidity risk, cash flow risk and future cash requirements

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



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

### ㊦ Types, purposes, and strategies for derivatives

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

### ㊦ Financial statement presentation of derivative financial instruments

As of June 30, 2007, disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

#### **Balance sheet**

	June 30, 2007	
	Financial liabilities at fair value through profit or loss-current	
	NT\$	US\$
Liabilities for issuance of call (put) warrants	\$1,200	\$36
Repurchase of issued call (put) warrants	(331)	(10)
Total	<u>\$869</u>	<u>\$26</u>

#### **Statement of income**

	For the six months ended June 30, 2007		
	Profit from issuing call (put) warrants		Comments
	NT\$	US\$	
Liabilities for issuance of call (put) warrants	\$5,180	\$158	Fair value method
Repurchase of issued call (put) warrants			
Loss on disposal	(10,391)	(317)	
Gain from valuation	146	4	Fair value method
Gain from expiration of warrants issued valuation	<u>11,120</u>	<u>339</u>	
Total	<u>\$6,055</u>	<u>\$184</u>	

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(b) Structured notes transactions

① Nominal principal or contract amount and credit risk

	June 30, 2006		June 30, 2007	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>Financial instruments</u>				
<u>For trading purposes</u>				
Equity-linked notes	NT\$73,200 (US\$2,264)	NT\$- (US\$-)	NT\$- (US\$-)	NT\$- (US\$-)
Principal guaranteed notes	NT\$- (US\$-)	NT\$- (US\$-)	NT\$240,100 (US\$7,313)	NT\$- (US\$-)

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

② Market risk

In structured notes transactions, Cathay Securities receives proceeds from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities invests in linked and fixed income assets that are subject to regulations and open market pricing. Since hedging positions for derivative instruments and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range and that, as a result, there is no significant market risk.

③ Risk from liquidity, cash flow and future cash requirements

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

④ Types, purposes, and strategies for financial derivatives

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

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

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

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

As of June 30, 2006 and 2007, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

#### Balance sheet

	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instrument assets –				
GreTai (over-the-counter) (note 1)				
Structured notes transactions	\$10,842	\$335	\$-	\$-
Derivative financial instrument liabilities –				
GreTai (over-the-counter) (note 2)				
Structured notes transactions	-	-	5,115	156
Other financial liabilities – current				
Principal of structured notes	75,282	2,329	238,315	7,259

Note 1: Recorded as “Financial assets at fair value through profit or loss – current” in balance sheet.

Note 2: Recorded as “Financial liabilities at fair value through profit or loss – current” in balance sheet.

#### Statement of income

	For the six months ended June 30, 2006		For the six months ended June 30, 2007		Comments
	(NT\$)	(US\$)	(NT\$)	(US\$)	
	Loss from derivative financial instruments – Gre Jai (over the counter)				
Loss from structured notes	<u>\$(6,480)</u>	<u>\$(200)</u>	<u>\$(4,478)</u>	<u>\$(136)</u>	Fair value method

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e. Futures and options transactions

As of June 30, 2006 and 2007, Cathay Securities' unexercised options were as follows:

June 30, 2006

Item	Nature of Transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Options	TXO-Put	Sell	1	\$ (9)	\$ -	\$ 4	\$ -
Options	TXO-Put1	Buy	30	\$ 54	\$ 2	\$ 11	-

June 30, 2007

Item	Nature of Transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	(NT\$)	(US\$)	(NT\$)	(US\$)
Futures	TAIEX futures	Buy	20	\$ 35,383	\$ 1,078	\$ 35,232	\$ 1,073

(a) Nominal principal or contract amount and credit risk

	June 30, 2006	
Financial instruments	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TXO	NT\$63 (US\$2)	NT\$- (US\$-)
	<u>NT\$63 (US\$2)</u>	<u>NT\$- (US\$-)</u>
	June 30, 2007	
Financial instruments	Nominal principal/ contract amount	Credit risk
<u>For trading purposes</u>		
TAIEX futures	NT\$35,383 (US\$1,078)	NT\$- (US\$-)
	<u>NT\$35,383 (US\$1,078)</u>	<u>NT\$- (US\$-)</u>

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

(b) Market risk

Cathay Securities market risk from futures and options transactions arises from the purchase and sale of futures and options and the volatility of indexes. Since the fair values of futures and options are available and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range. However market risk still exists.

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

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

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

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

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

(e) Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in “financial assets at fair value through profit or loss – current (margin for futures trading – own funds) on the balance sheet. For the six months ended June 30, 2006 and 2007, the related gain (loss) of futures and options on the statement of income were as follows:

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Item	For the six months ended June 30, 2006		For the six months ended June 30, 2007	
	NT\$	US\$	NT\$	US\$
	Gain from derivative financial instruments – futures			
Gain on futures contracts - realized	\$260	\$8	\$3,034	\$92
Gain on futures contracts - unrealized	255	8	151	5
Gain from options transactions - realized	1,771	55	1,187	36
Loss from options transactions - unrealized	(128)	(4)	-	-
Total	<u>\$2,158</u>	<u>\$67</u>	<u>\$4,372</u>	<u>\$133</u>

F. Cathay Pacific Venture

a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash in bank	\$387,657	\$387,657	\$11,991	\$11,991
Other receivables (contain transactions with related parties)	1,808	1,808	56	56
Other current assets	5,234	5,234	162	162
Available-for-sale financial assets-noncurrent	100,912	100,912	3,121	3,121
<u>Liabilities</u>				
Other payables (contain transactions with related parties)	196	196	6	6

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Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash in bank	\$228,669	\$228,669	\$6,965	\$6,965
Available-for-sale financial assets-current	223,310	223,310	6,802	6,802
Other receivables (contain transactions with related parties)	1,294	1,294	39	39
Other current assets	660	660	20	20
Available-for-sale financial assets-noncurrent	224,762	224,762	6,846	6,846
<u>Liabilities</u>				
Other payables (contain transactions with related parties)	242	242	7	7

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

(a) The fair value of Cathay Pacific Venture short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, other receivables (contain transactions with related parties), other current assets, accrued expenses and other current liabilities.

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

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

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G. Cathay Futures

a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$199,735	\$199,735	\$6,178	\$6,178
Customers' margin accounts	1,193,986	1,193,986	36,931	36,931
Futures trading deposits receivable	717	717	22	22
Accounts receivable – related parties	62	62	2	2
Other receivables (contain transactions with related parties)	11,507	11,507	356	356
Available-for-sale financial assets-noncurrent	30,500	30,500	943	943
Operating deposits	80,000	80,000	2,474	2,474
Settlement and clearance funds	57,000	57,000	1,763	1,763
Guarantee deposits paid	1,247	1,247	39	39
<u>Liabilities</u>				
Futures customers' equity	1,193,694	1,193,694	36,922	36,922
Payables (contain transactions with related parties)	1,932	1,932	60	60
Advance receipts	259	259	8	8
Other payable (contain transactions with related parties)	3,538	3,538	109	109
Guarantee deposits in	146	146	5	5



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Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$224,625	\$224,625	\$6,842	\$6,842
Customers' margin accounts	957,571	957,571	29,168	29,168
Futures trading deposits receivable	538	538	16	16
Accounts receivable-related parties	124	124	4	4
Other receivable (contain transactions with related parties)	5,806	5,806	177	177
Available-for-sale financial assets-noncurrent	30,500	30,500	929	929
Operating deposits	60,000	60,000	1,828	1,828
Settlement and clearance funds	62,000	62,000	1,889	1,889
Guarantee deposits paid	1,279	1,279	39	39
<u>Liabilities</u>				
Futures customers' equity	957,277	957,277	29,159	29,159
Payables (contain transactions with related parties)	1,661	1,661	51	51
Advance receipts	295	295	9	9
Other payable (contain transactions with related parties)	3,793	3,793	116	116

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

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

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- (b) The fair value of financial assets at fair value through profit or loss is valued at market prices.
- (c) The fair value of available-for-sale financial assets-noncurrent is valued at market price or other financial information when available.
- c. Information on financial risk
- (a) The fair values of the shares on listed companies or derivative instruments held by Cathay Futures fluctuate along with the related stock market factors.
- (b) Credit risk – Appropriate credit evaluation processes and continuous monitor of credit-lines are in place for all customers of the brokerage department. In addition, all transactions conducted by proprietary trading department go through Taiwan Futures Exchange and therefore no significant credit risk is expected.
- (c) Liquidity risk and cash flow risk – Cathay Futures has sufficient working capital for its operation and there is no liquidity risk on default. In addition, except for the financial assets carried at cost and long term investment under equity method which are embedded of liquidity risks due to lack of active market, all other stocks Cathay Futures held are able to be disposed rapidly at prices close to fair values.

The realized gains or losses on the derivatives (TSIF and TSIO - proprietary) of Cathay Futures for June 30, 2006 and 2007 are as follows:

	June 30,			
	2006		2007	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Gain on derivatives	\$6,783	\$210	\$-	\$-
Losses on derivatives	(3,764)	(117)	-	-
Net	\$3,019	\$93	\$-	\$-

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H. Symphox Information

a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Cash and cash equivalents	\$83,592	\$83,592	\$2,586	\$2,586
Financial assets at fair value				
through profit or loss-current	138,432	138,432	4,282	4,282
Receivables (contain transactions with related parties)	199,284	199,284	6,164	6,164
Guarantee deposits paid	10,970	10,970	339	339
<b><u>Liabilities</u></b>				
Payables (contain transactions with related parties)	125,767	125,767	3,890	3,890
Guarantee deposits in	87	87	3	3
Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b><u>Non-derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Cash and cash equivalents	\$83,855	\$83,855	\$2,554	\$2,554
Financial assets at fair value				
through profit or loss-current	203,877	203,877	6,210	6,210
Receivables (contain transactions with related parties)	177,755	177,755	5,414	5,414
Guarantee deposits paid	8,172	8,172	249	249
<b><u>Liabilities</u></b>				
Payables (contain transactions with related parties)	122,200	122,200	3,722	3,722

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Guarantee deposits in	84	84	3	3
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b. The methods and assumptions used to estimate the fair value of the financial instruments are as follows:

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

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

I. Cathay Venture Capital

a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$12,423	\$12,423	\$384	\$384
Available-for-sale financial assets- current	709,645	709,645	21,950	21,950
Available-for-sale financial assets- noncurrent	287,291	287,291	8,886	8,886
Financial assets carried at cost - noncurrent	570,258	570,258	17,639	17,639

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$26,653	\$26,653	\$812	\$812
Financial assets at fair value through profit or loss-current	13,938	13,938	425	425
Available-for-sale financial assets- current	245,845	245,845	7,488	7,488

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Available-for-sale financial				
assets- noncurrent	374,519	374,519	11,408	11,408
Financial assets carried at cost - noncurrent	861,035	861,035	26,227	26,227

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

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

(b) When financial instruments have activity market, the fair value is the market price. Estimation by evaluation method if there have no activity market.

(c) The fair value of financial instruments is valued at market price or other financial information when available.

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

	June 30,							
	2006				2007			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
Financial assets at fair value								
through profit or								
loss-current	\$-	\$-	\$-	\$-	\$13,938	\$425	\$-	\$-
Available-for-sale financial								
assets-current	709,645	21,950	-	-	245,845	7,488	-	-
Available-for-sale financial								
assets-noncurrent	287,291	8,886	-	-	374,519	11,408	-	-
Financial assets carried at								
cost - noncurrent	570,258	17,639	-	-	861,035	26,227	-	-

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I. Cathay II Venture Capital

a. Information of fair value

Item	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$6,561	\$6,561	\$203	\$203
Available-for-sale financial assets- current	92,298	92,298	2,855	2,855
Available-for-sale financial assets- noncurrent	360,669	360,669	11,156	11,156
Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$4,237	\$4,237	\$129	\$129
Available-for-sale financial assets- current	85,265	85,265	2,597	2,597
Available-for-sale financial assets- noncurrent	276,004	276,004	8,407	8,407

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

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

(b) When financial instruments have activity market, the fair value is the market price. Estimation by evaluation method if there have no activity market.

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(c) The fair value of financial instruments is valued at market price or other financial information when available.

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

<u>Item</u>	June 30,							
	2006				2007			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Available-for-sale financial								
assets-current	\$92,298	\$2,855	\$-	\$-	\$85,265	\$2,597	\$-	\$-
Available-for-sale financial								
assets-noncurrent	360,669	11,156	-	-	276,004	8,407	-	-

### K. Cathay Life (Shanghai)

#### a. Information of fair value

<u>Item</u>	June 30, 2006			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,054,898	\$1,054,898	\$32,629	\$32,629
Financial assets at fair value through				
profit or loss-current	542,101	542,101	16,768	16,768
Available-for-sale financial				
assets-noncurrent	403,499	403,499	12,481	12,481
Held-to-maturity financial				
assets-noncurrent	438,363	438,363	13,559	13,559
Investment in debt securities with no				
active market-noncurrent	679,314	679,314	21,012	21,012
Guarantee deposits paid	662,663	662,663	20,497	20,497

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<u>Liabilities</u>				
Guarantee deposits in	574	574	18	18
	June 30,2007			
	(NT\$)		(US\$)	
Item	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,883,597	\$1,883,597	\$57,374	\$57,374
Financial assets at fair value through profit or loss-current	165,982	165,982	5,056	5,056
Available-for-sale financial assets-current	344,803	344,803	10,503	10,503
Held-to-maturity financial assets-current	43,005	42,944	1,310	1,308
Available-for-sale financial assets-noncurrent	617,472	617,472	18,808	18,808
Held-to-maturity financial assets-noncurrent	384,180	365,030	11,702	11,119
Investment in debt securities with no active market-noncurrent	1,505,892	1,503,319	45,869	45,791
Guarantee deposits paid	698,901	698,901	21,288	21,288
<u>Liabilities</u>				
Guarantee deposits in	1,343	1,343	41	41

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

- (a) The fair value of Cathay Life (Shanghai) short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents and premium receivables.
- (b) When financial instruments have activity market, the fair value is the market price. Estimation by evaluation method if there have no activity market.
- (c) The fair value of the guarantee deposits paid and guarantee deposits in is based on the carrying amount.



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- c. The fair value of the Cathay life (Shanghai) financial assets and liabilities determined by market price or pricing models are summarized as following:

Item	June 30,							
	2006				2007			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value								
through profit or								
loss-current	\$542,101	\$16,768	\$-	\$-	\$165,982	\$5,056	\$-	\$-
Available-for-sale financial								
assets-current	-	-	-	-	344,803	10,503	-	-
Held-to-maturity financial								
assets-current	-	-	-	-	42,944	1,308	-	-
Available-for-sale financial								
assets-noncurrent	403,499	12,481	-	-	617,472	18,808	-	-
Held-to-maturity financial								
assets-noncurrent	438,363	13,559	-	-	365,030	11,119	-	-
Investment in debt securities								
with no active market-								
noncurrent	-	-	679,314	21,012	-	-	1,503,319	45,791

(3) Discretionary account management

Item	June 30, 2006			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$6,101,128	\$188,714	\$6,101,128	\$188,714
Repurchase bonds	4,866,991	150,541	4,866,991	150,541
Convertible bonds	27,512	851	27,512	851
Short-term notes	37,012	1,145	37,012	1,145
Bonds	2,891,806	89,446	2,891,806	89,446
Cash in banks	338,855	10,481	338,855	10,481
Net other assets less liabilities	3,090	96	3,090	96

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Total	\$14,266,394	\$441,274	\$14,266,394	\$441,274
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Item	June 30, 2007			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$18,782,311	\$572,108	\$18,782,311	\$572,108
Repurchase bonds	7,934,303	241,679	7,934,303	241,679
Short-term notes	100,229	3,053	100,229	3,053
Cash in banks	709,631	21,615	709,631	21,615
Net other assets less liabilities	366	11	366	11
<b>Total</b>	<b>\$27,526,840</b>	<b>\$838,466</b>	<b>\$27,526,840</b>	<b>\$838,466</b>

As of June 30, 2006 and 2007, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$12,900,000 (US\$399,010), and NT\$22,850,000 (US\$696,010), respectively.

(4) Capital adequacy ration on a consolidated basis:

A. Capital adequacy ratios

As of June 30, 2006

Item	Ownership interest	Eligible capital		Legal capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	191,827,458	5,933,420	191,427,301	5,921,042
Cathay United Bank	100.00%	92,834,641	2,871,470	56,864,344	1,758,872
Lucky Bank	81.35%	3,202,841	99,067	2,439,516	75,457
Cathay Securities	100.00%	2,895,215	89,552	239,612	7,411
Cathay Life	100.00%	101,215,771	3,130,707	53,927,318	1,668,027
Cathay Century	100.00%	4,380,697	135,499	1,040,304	32,178
Cathay Pacific Venture	100.00%	600,792	18,583	298,861	9,244
Cathay Venture	15.00%	264,508	8,182	132,845	4,109
Cathay II Venture	100.00%	828,620	25,630	411,953	12,742
Cathay Capital Management	100.00%	40,610	1,256	24,114	746
Less: Item		(208,069,448)	(6,435,801)	(188,754,101)	(5,838,357)
Subtotal		(A) 190,021,705	5,877,565	(B) 118,052,067	3,651,471
Consolidated capital adequacy ratios			(C)=(A)/(B)		160.96%

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As of June 30, 2007

Item	Ownership interest	Eligible capital		Legal capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	227,861,769	6,940,657	218,975,445	6,669,980
Cathay United Bank	100.00%	92,702,226	2,823,705	62,866,275	1,914,903
Cathay Securities	100.00%	2,946,626	89,754	535,512	16,312
Cathay Life	100.00%	123,179,042	3,752,027	75,473,834	2,298,929
Cathay Century	100.00%	4,908,816	149,522	1,168,646	35,597
Cathay Pacific Venture	100.00%	767,439	23,376	383,842	11,692
Cathay Venture	15.00%	258,441	7,872,	129,492	3,944
Cathay II Venture	100.00%	876,494	26,698	439,080	13,374
Cathay Capital Management	100.00%	40,823	1,243	24,991	761
Less: Item		(234,071,108)	(7,129,793)	(215,954,606)	(6,577,965)
Subtotal		(A) 219,470,568	6,685,061	(B) 144,042,511	4,387,527
Consolidated capital adequacy ratios			(C)=(A)/(B)		152.37%

**B. Eligible capital**

As of June 30, 2006

Item	(NT\$)	(US\$)
Common Stock	85,646,481	2,649,133
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated t financial debenture	-	-
Capital collected in advance	4,263,443	131,873
Capital surplus	69,953,056	2,163,720
Legal reserve	8,188,136	253,267
Special reserve	-	-
Accumulated profit	18,113,107	560,257
Equity adjustments	6,251,468	193,364
Less : Goodwill	-	-
Less : Deferred assets	(588,233)	(18,194)
Less : Treasury stock	-	-
Consolidated eligible capital	191,827,458	5,933,420

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As of June 30, 2007

Item	(NT\$)	(US\$)
Common Stock	92,770,191	2,825,775
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	-	-
Capital collected in advance	-	-
Capital surplus	81,971,167	2,496,837
Legal reserve	9,245,862	281,628
Special reserve	-	-
Accumulated profit	25,512,939	777,123
Equity adjustments	22,793,682	694,294
Less : Goodwill	-	-
Less : Deferred assets	(292,025)	(8,895)
Less : Treasury stock	(4,140,047)	(126,105)
Consolidated eligible capital	227,861,769	6,940,657

(5) Business or trading behaviors within Subsidiaries:

A. Business or trading behaviors

Please find Note 5 (business with stakeholders) for your reference.

B. Integrate business activities:

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

C. Cross utilization of information:

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

D. Locations and business utilities:

The Company has established national presence to provide customers with one-stop

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services not only in insurance but also in banking and securities services. Since July 2002, The Company has built up four flagship stores of wealth management in Taipei, Taichung and Kaohsiung. In November 2002, we upgraded 5 insurance branches into wealth management service locations.

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

Allocated to each subsidiaries by business features.

(6) Material contract: None.

(7) Presentation of financial statements:

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

### **31. Information regarding investment in Mainland China**

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of June 30, 2007, Cathay Life's remittances to this company totaled approximately US\$48,330.

### **32. Segment information**

For the six months ended June 30, 2006

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	13,469,255	30,263,365	149,100	(550)	(374,194)	43,506,976
Non-interest income	3,788,934	60,784,987	1,695,415	147,689	(148,527)	66,268,498
Provision for premiums reserve	-	(72,465,845)	(554,078)	-	-	(73,019,923)
Total income	17,258,189	18,582,507	1,290,437	147,139	(522,721)	36,755,551
Provision for loan losses	(8,927,651)	-	-	-	-	(8,927,651)
Operating expenses	(5,495,725)	(17,094,547)	(706,606)	(149,130)	(480,248)	(23,926,256)
Income from continuing operations before income taxes	2,834,813	1,487,960	583,831	(1,991)	(1,002,969)	3,901,644

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Income taxes (expense) benefit	276,821	1,935,851	(114,828)	(5,273)	(147,242)	1,945,329
Cumulative effect of changes in accounting principles	726,679	3,319,319	60,141	29	(856,845)	3,249,323
Consolidated income	3,838,313	6,743,130	529,144	(7,235)	(2,007,056)	9,096,296

For the six months ended June 30, 2006

Item	Bank division (US\$)	Life insurance division (US \$)	Property and casualty insurance division (US \$)	Securities division (US \$)	Others division (US \$)	Total (US \$)
Net interest income	416,617	936,077	4,612	(17)	(11,574)	1,345,715
Non-interest income	117,196	1,880,142	52,441	4,568	(4,594)	2,049,753
Provision for premiums reserve	-	(2,241,443)	(17,138)	-	-	(2,258,581)
Total income	533,813	574,776	39,915	4,551	(16,168)	1,136,887
Provision for loan losses	(276,141)	-	-	-	-	(276,141)
Operating expenses	(169,988)	(528,752)	(21,856)	(4,613)	(14,855)	(740,064)
Income from continuing operations before income taxes	87,684	46,024	18,059	(62)	(31,023)	120,682
Income taxes (expense) benefit	8,562	59,878	(3,552)	(163)	(4,554)	60,171
Cumulative effect of changes in accounting principles	22,477	102,670	1,860	1	(26,503)	100,505
Consolidated income	118,723	208,572	16,367	(224)	(62,080)	281,358

For the six months ended June 30, 2007

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Others division (NT\$)	Total (NT\$)
Net interest income	10,455,943	33,696,042	173,708	19,089	(86,416)	44,258,366
Non income other than interest	2,929,018	71,612,550	2,142,323	149,180	32,386	76,865,457
Provision for premiums reserve	-	(69,606,472)	(571,080)	-	-	(70,177,552)
Total income	13,384,961	35,702,120	1,744,951	168,269	(54,030)	50,946,271
Bad debt expenses-Loan	(1,554,629)	(142,389)	-	-	-	(1,697,018)
Operating expenses	(5,483,754)	(19,644,855)	(709,557)	(152,226)	(393,051)	(26,383,443)
Income from continuing operations before income taxes	6,346,578	15,914,876	1,035,394	16,043	(447,081)	22,865,810
Income taxes (expense) benefit	(1,188,798)	(593,009)	(166,797)	(9,579)	(130,980)	(2,089,163)
Consolidated income	5,157,780	15,321,867	868,597	6,464	(578,061)	20,776,647

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

For the six months ended June 30, 2007

Item	Bank division (US\$)	Life insurance division (US \$)	Property and casualty insurance division (US \$)	Securities division (US \$)	Others division (US \$)	Total (US \$)
Net interest income	318,487	1,026,380	5,291	581	(2,632)	1,348,107
Non income other than interest	89,218	2,181,314	65,255	4,544	987	2,341,318
Provision for premiums reserve	-	(2,120,209)	(17,395)	-	-	(2,137,604)
Total income	407,705	1,087,485	53,151	5,125	(1,645)	1,551,821
Bad debt expenses-Loan	(47,354)	(4,337)	-	-	-	(51,691)
Operating expenses	(167,035)	(598,382)	(21,613)	(4,636)	(11,972)	(803,638)
Income from continuing operations before income taxes	193,316	484,766	31,538	489	(13,617)	696,492
Income taxes (expense) benefit	(36,210)	(18,062)	(5,081)	(292)	(3,991)	(63,636)
Consolidated income	157,106	466,704	26,457	197	(17,608)	632,856

### 33. Parent company financial statements

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

#### Cathay Financial Holding Co., Ltd.

#### Balance Sheets

As of June 30, 2006 and 2007

(Expressed in thousands of dollars)

	June 30, 2006		June 30, 2007	
	NT \$	US \$	NT \$	US \$
<b>Assets</b>				
Cash and cash equivalents	\$26,220,431	\$811,025	\$24,114,697	\$734,532
Receivables -net	2,300,555	71,159	1,529,451	46,587
Investments-equity method	188,754,101	5,838,358	215,954,606	6,577,966
Other financial assets -net	31,720	981	31,720	966
Property and equipment -net	4,629	143	4,171	127
Goodwill and intangible assets -net	92	3	1,373	42
Other assets -net	3,178,606	98,317	2,925,640	89,115
<b>Total assets</b>	<u>\$220,490,134</u>	<u>\$6,819,986</u>	<u>\$244,561,658</u>	<u>\$7,449,335</u>
<b>Liabilities &amp; stockholders' equity</b>				
Financial liabilities at fair value through profit or loss	\$1,495,446	\$46,256	\$1,009,083	\$30,737
Payables	15,391,209	476,066	15,348,449	467,513
Bonds payable	11,172,574	345,579	-	-
Other liabilities	15,214	470	50,332	1,533
<b>Total liabilities</b>	<u>28,074,443</u>	<u>868,371</u>	<u>16,407,864</u>	<u>499,783</u>
<b>Stockholders' equity</b>				
Capital stock				
Common stock	85,646,481	2,649,133	92,770,191	2,825,775
Stock dividend to be distributed	4,263,443	131,873	-	-
Capital surplus	69,953,056	2,163,720	81,971,167	2,496,837
Retained earnings				
Legal reserve	8,188,136	253,267	9,245,862	281,628
Undistributed earnings	18,113,107	560,257	25,512,939	777,123
Other stockholders' equity				
Unrealized revaluation increments	2,106	65	2,106	64
Cumulative translation adjustments	43,856	1,357	166,614	5,075
Unrealized gains or losses on financial instruments	6,207,343	192,000	22,625,535	689,173
Treasury stock	-	-	(4,140,047)	(126,106)
Net loss not recognized as pension cost	(1,837)	(57)	(573)	(17)
<b>Total stockholders' equity</b>	<u>192,415,691</u>	<u>5,951,615</u>	<u>228,153,794</u>	<u>6,949,552</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$220,490,134</u>	<u>\$6,819,986</u>	<u>\$244,561,658</u>	<u>\$7,449,335</u>



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

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

**Statements of Income**

**For the six-month periods ended June 30, 2006 and 2007**

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

	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007					
	NT \$	US \$	NT \$	US \$				
<b>Income</b>								
Gain on investment-equity method	\$10,727,773	\$331,821	\$20,850,988	\$635,120				
Gain on financial assets and liabilities at fair value through profit or loss	-	-	4,750	145				
Gain on foreign exchange	-	-	48,038	1,463				
Other operating income	16,667	516	9,294	283				
<b>Total income</b>	<b>10,744,440</b>	<b>332,337</b>	<b>20,913,070</b>	<b>637,011</b>				
<b>Expenses and loss</b>								
Interest income	504,102	15,592	561,922	17,116				
Less: interest expenses	(797,231)	(24,659)	(557,644)	(16,986)				
Net interest income	(293,129)	(9,067)	4,278	130				
Loss on financial assets and liabilities at fair value through profit	(350,361)	(10,837)	-	-				
Losses on foreign exchange	(11,884)	(368)	-	-				
Operating expenses	(113,669)	(3,516)	(104,168)	(3,173)				
<b>Income from continuing operations before income taxes</b>	<b>9,975,397</b>	<b>308,549</b>	<b>20,813,180</b>	<b>633,968</b>				
<b>Income taxes expense</b>	<b>(136,425)</b>	<b>(4,220)</b>	<b>(130,104)</b>	<b>(3,963)</b>				
<b>Cumulative effect of changes in accounting principles</b>	<b>(858,814)</b>	<b>(26,564)</b>	<b>-</b>	<b>-</b>				
<b>Net income</b>	<b>\$8,980,158</b>	<b>\$277,765</b>	<b>\$20,683,076</b>	<b>\$630,005</b>				
<b>Earnings per share (expressed in dollars)</b>								
Primary earnings per share:	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes	Before taxes	After taxes
Net income from continuing operations	\$1.11	\$1.10	\$0.03	\$0.03	\$2.27	\$2.25	\$0.07	\$0.07
Cumulative effect of changes in accounting principles	(0.13)	(0.10)	-	-	-	-	-	-
Net income	\$0.98	\$1.00	\$0.03	\$0.03	\$2.27	\$2.25	\$0.07	\$0.07
Fully-diluted earnings per share:								
Net income from continuing operations	\$1.11	\$1.09	\$0.03	\$0.03	\$2.26	\$2.25	\$0.07	\$0.07
Cumulative effect of changes in accounting principles	(0.12)	(0.09)	-	-	-	-	-	-
Net income	\$0.99	\$1.00	\$0.03	\$0.03	\$2.26	\$2.25	\$0.07	\$0.07

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd.

Statements of Changes in Stockholders' Equity

For the six-month periods ended June 30, 2006 and 2007

(Expressed in thousands of dollars)

Summary	Retained earnings												Other stockholders' equity											
	Common stock		Stock dividend to be distributed		Capital surplus		Legal reserve		Special reserve		Undistributed earnings		Unrealized revaluation increments		Cumulative translation adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as pension cost		Total	
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
<b>Balance on January 1, 2006</b>	\$85,242,234	\$2,636,629	\$-	\$-	\$68,092,037	\$2,106,157	\$6,009,431	\$185,878	\$226,579	\$7,008	\$28,146,255	\$870,593	\$3,048	\$94	\$81,154	\$2,510	\$(68,263)	\$(2,111)	\$-	\$-	\$(1,837)	\$(57)	\$187,730,638	\$5,806,701
Appropriations and distribution for 2005																								
Legal reserve							2,178,705	67,389			(2,178,705)	(67,389)											-	-
Special reserve									(226,579)	(7,008)	226,579	7,008											-	-
Cash dividends											(12,790,330)	(395,618)											(12,790,330)	(395,618)
Stock dividend to be distributed			4,263,443	131,873							(4,263,443)	(131,873)											-	-
Remuneration paid to directors and supervisors											(5,700)	(176)											(5,700)	(176)
Bonus paid to employees											(1,707)	(53)											(1,707)	(53)
Effect on first time of adoption of unrealized gains on financial instruments																	10,485,096	324,315					10,485,096	324,315
Convertible notes converted into common stock	404,247	12,504			1,861,019	57,563																	2,265,266	70,067
Reserve for land revaluation increment													(942)	(29)									(942)	(29)
Cumulative translation adjustments															(37,298)	(1,153)							(37,298)	(1,153)
Unrealized gains or losses of financial instruments																	(4,209,490)	(130,204)					(4,209,490)	(130,204)
Net income for the six-month periods ended June 30, 2006											8,980,158	277,765											8,980,158	277,765
<b>Balance on June 30, 2006</b>	<u>\$85,646,481</u>	<u>\$2,649,133</u>	<u>\$4,263,443</u>	<u>\$131,873</u>	<u>\$69,953,056</u>	<u>\$2,163,720</u>	<u>\$8,188,136</u>	<u>\$253,267</u>	<u>\$-</u>	<u>\$-</u>	<u>\$18,113,107</u>	<u>\$560,257</u>	<u>\$2,106</u>	<u>\$65</u>	<u>\$43,856</u>	<u>\$1,357</u>	<u>\$6,207,343</u>	<u>\$192,000</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(1,837)</u>	<u>\$(57)</u>	<u>\$192,415,691</u>	<u>\$5,951,615</u>
<b>Balance on January 1, 2007</b>	\$92,068,174	\$2,804,392	\$-	\$-	\$78,867,213	\$2,402,291	\$8,188,136	\$249,410	\$-	\$-	\$19,710,210	\$600,372	\$2,106	\$64	\$105,170	\$3,203	\$21,345,473	\$650,182	\$(4,140,047)	\$(126,106)	\$(573)	\$(17)	\$216,145,862	\$6,583,791
Legal reserve							1,057,726	32,218			(1,057,726)	(32,218)											-	-
Cash dividends											(13,815,539)	(420,820)											(13,815,539)	(420,820)
Remuneration paid to directors and supervisors											(5,700)	(174)											(5,700)	(174)
Bonus paid to employees											(1,382)	(42)											(1,382)	(42)
Convertible notes converted into common stock	702,017	21,383			3,104,004	94,548																	3,806,021	115,931
Capital surplus					(87)	(3)																	(87)	(3)
Cumulative translation adjustments															61,444	1,872							61,444	1,872
Unrealized gains or losses of financial instruments																	1,280,062	38,991					1,280,062	38,991
Other capital surplus					37	1																	37	1
Net income for the six-month periods ended June 30, 2007											20,683,076	630,005											20,683,076	630,005
<b>Balance on June 30, 2007</b>	<u>\$92,770,191</u>	<u>\$2,825,775</u>	<u>\$-</u>	<u>\$-</u>	<u>\$81,971,167</u>	<u>\$2,496,837</u>	<u>\$9,245,862</u>	<u>\$281,628</u>	<u>\$-</u>	<u>\$-</u>	<u>\$25,512,939</u>	<u>\$777,123</u>	<u>\$2,106</u>	<u>\$64</u>	<u>\$166,614</u>	<u>\$5,075</u>	<u>\$22,625,535</u>	<u>\$689,173</u>	<u>\$(4,140,047)</u>	<u>\$(126,106)</u>	<u>\$(573)</u>	<u>\$(17)</u>	<u>\$228,153,794</u>	<u>\$6,949,552</u>

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

**Cathay Financial Holding Co., Ltd.**  
**Statements of Cash Flows**  
**For the six-month periods ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Net income	\$8,980,158	\$277,765	\$20,683,076	\$630,005
Adjustments:				
Amortizations	27	1	293	9
Depreciation	616	19	553	17
Investment income from equity method in excess of cash dividends received	5,583,647	172,708	(9,120,582)	(277,812)
Increase (Decrease) in bonds payable redemption premium	195,469	6,046	(47,238)	(1,439)
Effects of exchange rate changes	(12,833)	(397)	(69,238)	(2,109)
Cumulative effect of changes in accounting principles	858,814	26,564	-	-
Changes in operating assets and liabilities				
Decrease in accounts receivable	703,448	21,758	506,298	15,422
(Increase) decrease in deferred income tax assets	(100,827)	(3,119)	133,387	4,063
Decrease in other financial assets	68,280	2,112	-	-
Increase in other assets	(871)	(27)	(217)	(7)
Decrease in accounts payable	(1,354,900)	(41,908)	(875,048)	(26,654)
Increase (Decrease) in financial liabilities at fair value through profit or loss	350,361	10,837	(4,750)	(145)
Increase in income tax payable	608,180	18,812	59,507	1,813
Decrease in deferred income tax liabilities	-	-	(24,011)	(731)
Increase (Decrease) in other liabilities	4,234	131	(390)	(12)
<b>Net cash provided by operating activities</b>	<b>15,883,803</b>	<b>491,302</b>	<b>11,241,640</b>	<b>342,420</b>
<b>Cash flows from investing activities</b>				
Acquisition of property and equipment	(269)	(8)	(302)	(9)
Decrease (Increase) in other assets	38,426	1,188	(25,798)	(786)
<b>Net cash provided by (used in) investing activities</b>	<b>38,157</b>	<b>1,180</b>	<b>(26,100)</b>	<b>(795)</b>
<b>Cash flows from financing activities</b>				
Decrease in bonds payable	(162,801)	(5,035)	(419,951)	(12,792)
Disposal of treasury stock	-	-	37	1
<b>Net cash used in financing activities</b>	<b>(162,801)</b>	<b>(5,035)</b>	<b>(419,914)</b>	<b>(12,791)</b>
<b>Effects of exchange rate changes</b>	<b>12,833</b>	<b>397</b>	<b>69,238</b>	<b>2,109</b>
<b>Increase in cash and cash equivalents</b>	<b>15,771,992</b>	<b>487,844</b>	<b>10,864,864</b>	<b>330,943</b>
<b>Cash and cash equivalents at the beginning of the periods</b>	<b>10,448,439</b>	<b>323,181</b>	<b>13,249,833</b>	<b>403,589</b>
<b>Cash and cash equivalents at the end of the periods</b>	<b>\$26,220,431</b>	<b>\$811,025</b>	<b>\$24,114,697</b>	<b>\$734,532</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$592,618	\$18,330	\$641,061	\$19,527
Income tax paid	\$470,515	\$14,554	\$28,406	\$865
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$2,265,266	\$70,067	\$3,806,021	\$115,931

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

**34. The major subsidiaries' condensed balance sheets and Statements of Changes in Stockholders' Equity**

**Cathay Life Insurance Co., Ltd.  
Condensed Balance Sheets  
June 30, 2006 and 2007  
(Expressed in thousands of dollars)**

Item	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$544,902,406	\$16,854,389	\$594,228,828	\$18,100,178
Loans	454,521,365	14,058,811	509,816,875	15,528,994
Funds and investments	836,964,528	25,888,170	935,869,593	28,506,537
Property and equipment	13,271,228	410,493	12,815,269	390,352
Intangible assets	309,512	9,574	335,798	10,228
Other assets	131,546,448	4,068,866	224,929,625	6,851,344
<b>Total assets</b>	<b>\$1,981,515,487</b>	<b>\$61,290,303</b>	<b>\$2,277,995,988</b>	<b>\$69,387,633</b>
<b>Liabilities</b>				
Current liabilities	\$31,782,431	\$983,063	\$43,343,661	\$1,320,246
Long-term liabilities	1,660,742	51,369	1,569,479	47,806
Other liabilities	1,850,351,884	57,233,278	2,106,695,312	64,169,824
<b>Total liabilities</b>	<b>1,883,795,057</b>	<b>58,267,710</b>	<b>2,151,608,452</b>	<b>65,537,876</b>
<b>Stockholders' equity</b>				
Capital stock	50,686,158	1,567,775	50,686,158	1,543,898
Capital surplus	10,105	312	9,648	294
Retained earnings	40,997,145	1,268,084	54,051,362	1,646,401
Others	6,027,022	186,422	21,640,368	659,164
<b>Total stockholders' equity</b>	<b>97,720,430</b>	<b>3,022,593</b>	<b>126,387,536</b>	<b>3,849,757</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,981,515,487</b>	<b>\$61,290,303</b>	<b>\$2,277,995,988</b>	<b>\$69,387,633</b>

**Cathay Life Insurance Co., Ltd.  
Condensed Statements of Income  
For the six months ended June 30, 2006 and 2007  
(Expressed in thousands of dollars, except earnings per share)**

Item	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$276,514,717	\$8,552,883	\$386,510,092	\$11,773,076
Operating costs	(269,705,671)	(8,342,272)	(365,045,936)	(11,119,279)
Operating gross profit	6,809,046	210,611	21,464,156	653,797
Operating expenses	(5,498,574)	(170,077)	(5,401,899)	(164,542)
Non-operating revenues & gains	630,645	19,507	750,923	22,873
Non-operating expenses & losses	(13,544)	(419)	(51,524)	(1,569)
Income from continuing operations before income taxes	\$1,927,573	\$59,622	\$16,761,656	\$510,559
Cumulative effect of changes in accounting principles	\$3,315,855	\$102,563	\$-	\$-
Net income	\$7,179,279	\$222,062	\$16,168,646	\$492,496
<b>Earnings per share (in dollars)</b>				
Income from continuing operations before income taxes	\$0.38	\$0.01	\$3.31	\$0.10
Cumulative effect of changes in accounting principles	\$0.66	\$0.02	\$-	\$-
Net income	\$1.42	\$0.04	\$3.19	\$0.10

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

Statements of Changes in Stockholders' Equity  
**Cathay Century Insurance Co., Ltd.**  
**Condensed Balance Sheets**  
**June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$6,790,313	\$210,031	\$7,784,957	\$237,129
Loans	1,747,000	54,037	2,279,562	69,435
Funds and investments	4,335,006	134,086	4,997,448	152,222
Fixed assets	49,010	1,516	40,493	1,234
Intangible assets	13,363	413	6,360	194
Other assets	540,013	16,703	642,580	19,573
<b>Total assets</b>	<b>\$13,474,705</b>	<b>\$416,786</b>	<b>\$15,751,400</b>	<b>\$479,787</b>
<b>Liabilities</b>				
Current liabilities	\$1,387,797	\$42,926	\$2,001,556	\$60,967
Long-term liabilities	8,855	274	3,405	104
Other liabilities	8,860,090	274,051	10,137,227	308,779
<b>Total liabilities</b>	<b>10,256,742</b>	<b>317,251</b>	<b>12,142,188</b>	<b>369,850</b>
<b>Stockholders' equity</b>				
Capital stock	2,317,006	71,667	2,317,006	70,576
Capital surplus	2,021	63	1,929	59
Retained earnings	837,870	25,916	1,096,371	33,396
Others	61,066	1,889	193,906	5,906
<b>Total stockholders' equity</b>	<b>3,217,963</b>	<b>99,535</b>	<b>3,609,212</b>	<b>109,937</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$13,474,705</b>	<b>\$416,786</b>	<b>\$15,751,400</b>	<b>\$479,787</b>

**Cathay Century Insurance Co., Ltd.**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$10,383,664	\$321,177	\$11,570,834	\$352,447
Operating costs	(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	(919,995)	(28,456)	(1,053,329)	(32,084)
Non-operating revenues	940	29	2,258	69
Non-operating expenses	(55)	(2)	(48)	(2)
Income from continuing operations before income taxes	\$548,700	\$16,972	\$846,333	\$25,779
Cumulative effect of changes in accounting principles	\$60,141	\$1,860	\$-	\$-
<b>Net income</b>	<b>\$494,013</b>	<b>\$15,280</b>	<b>\$679,537</b>	<b>\$20,699</b>
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$2.37	\$0.07	\$3.65	\$0.11
Cumulative effect of changes in accounting principles	\$0.26	\$0.01	\$-	\$-
<b>Net income</b>	<b>\$2.13</b>	<b>\$0.07</b>	<b>\$2.93</b>	<b>\$0.09</b>

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

Statements of Changes in Stockholders' Equity  
**Cathay Life Insurance Ltd.(Shanghai)**  
**Condensed Balance Sheets**  
**June30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$2,142,902	\$66,282	\$2,703,391	\$82,345
Loans	1,682	52	1,897	58
Funds and investments	1,521,176	47,051	2,507,545	76,380
Fixed assets	27,474	850	51,797	1,578
Intangible assets	2,555	79	3,181	97
Other assets	662,663	20,497	698,900	21,288
<b>Total assets</b>	<b>\$4,358,452</b>	<b>\$134,811</b>	<b>\$5,966,711</b>	<b>\$181,746</b>
<b>Liabilities</b>				
Current liabilities	\$11,162	\$345	\$27,017	\$823
Other liabilities	1,256,505	38,865	2,736,654	83,358
<b>Total liabilities</b>	<b>1,267,667</b>	<b>39,210</b>	<b>2,763,671</b>	<b>84,181</b>
<b>Stockholders' equity</b>				
Capital stock	3,257,376	100,754	3,257,376	99,220
Retained earnings	(220,411)	(6,818)	(251,301)	(7,655)
Others	53,820	1,665	196,965	6,000
<b>Total stockholders' equity</b>	<b>3,090,785</b>	<b>95,601</b>	<b>3,203,040</b>	<b>97,565</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$4,358,452</b>	<b>\$134,811</b>	<b>\$5,966,711</b>	<b>\$181,746</b>

**Cathay Life Insurance Ltd.(Shanghai)**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$684,059	\$21,159	\$1,016,968	\$30,977
Operating costs	(600,244)	(18,567)	(784,007)	(23,881)
Operating gross profit	83,815	2,592	232,961	7,096
Operating expenses	(117,450)	(3,632)	(192,745)	(5,871)
Non-operating revenues	-	-	47	1
Non-operating expenses	0	0	(4)	-
Loss from continuing operations before income taxes	\$(33,635)	\$(1,040)	\$40,259	\$1,226
Cumulative effect of changes in accounting principles	\$3,464	\$107	\$-	\$-
<b>Net loss</b>	<b>\$(30,171)</b>	<b>\$(933)</b>	<b>\$40,259</b>	<b>\$1,226</b>
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

Note : Cathay Life Insurance (Shanghai) is a limited company, there is no information about earnings per share.

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

Statements of Changes in Stockholders' Equity  
**Cathay United Bank Co., Ltd.**  
**Condensed Balance Sheets**  
**June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Cash and cash equivalents	\$32,797,654	\$1,014,465	\$26,983,076	\$821,903
Due from the Central Bank and call loans to banks	38,804,598	1,200,266	37,932,008	1,155,407
Financial assets at fair value through profit or loss	54,119,841	1,673,982	48,173,233	1,467,355
Securities purchased under agreements to resell	811,465	25,100	471,586	14,364
Receivables-net	70,269,510	2,173,508	45,452,188	1,384,471
Loans and advances to customers-net	691,670,514	21,394,077	723,545,164	22,039,146
Held-to-maturity financial assets-net	52,916,689	1,636,767	57,377,590	1,747,718
Investments-equity method	6,383,600	197,451	5,928,264	180,575
Premises and equipment-net	2,022,405	62,555	2,187,755	66,639
Investments in debt securities with no active market	237,147,346	7,335,210	275,971,712	8,406,083
Other financial assets-net	4,699,466	145,359	4,486,166	136,648
Property and equipment-net	26,161,143	809,191	25,354,838	772,307
Intangible assets-net	515,275	15,938	400,421	12,197
Other assets-net	6,979,782	215,892	10,912,477	332,393
<b>Total assets</b>	<b>\$1,225,299,288</b>	<b>\$37,899,761</b>	<b>\$1,265,176,478</b>	<b>\$38,537,206</b>
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$106,708,246	\$3,300,595	\$64,386,977	\$1,961,224
Payables	25,963,607	803,081	22,594,076	688,214
Deposits and remittances	907,473,052	28,069,071	1,008,604,716	30,722,044
Financial liabilities at fair value through profit or loss	52,784,610	1,632,682	48,161,048	1,466,983
Securities sold under agreements to repurchase	28,836,207	891,933	19,225,421	585,605
Funds borrowed from the Central and other banks	811,625	25,104	821,000	25,008
Financial debentures payable	17,282,698	534,572	17,686,802	538,739
Other financial liabilities	1,591,585	49,229	1,348,984	41,090
Other liabilities	2,041,514	63,146	1,961,248	59,740
<b>Total liabilities</b>	<b>1,143,493,144</b>	<b>35,369,413</b>	<b>1,184,790,272</b>	<b>36,088,647</b>
<b>Shareholders' equity</b>				
Capital stock	48,689,413	1,506,013	48,689,413	1,483,077
Capital reserves	15,049,931	465,510	15,213,565	463,404
Retained earnings	18,099,621	559,840	15,867,463	483,322
Others	(32,821)	(1,015)	615,765	18,756
<b>Total shareholders' equity</b>	<b>81,806,144</b>	<b>2,530,348</b>	<b>80,386,206</b>	<b>2,448,559</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,225,299,288</b>	<b>\$37,899,761</b>	<b>\$1,265,176,478</b>	<b>\$38,537,206</b>

**Cathay United Bank Co., Ltd.**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars, except per share information)**

Items	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Net interest income	\$13,327,126	\$412,222	\$10,173,442	\$309,882
Non-interest income	3,644,835	112,738	3,348,820	102,005
Net operating income	16,971,961	524,960	13,522,262	411,887
Provision for loan losses	(8,855,330)	(273,904)	(1,554,629)	(47,354)
Operating expenses	(6,186,898)	(191,367)	(6,423,539)	(195,660)
Income from continuing operations before income taxes	\$1,929,733	\$59,689	\$5,544,094	\$168,873
Cumulative effect of changes in accounting principles	\$726,679	\$22,477	\$-	\$-
<b>Net income</b>	<b>\$2,966,587</b>	<b>\$91,760</b>	<b>\$4,385,094</b>	<b>\$133,570</b>
<b>Earnings per share (in dollars)</b>				
Income from continuing operations before income taxes	\$0.46	\$0.01	\$0.90	\$0.03
Cumulative effect of changes in accounting principles	\$0.15	\$-	\$-	\$-
<b>Net income</b>	<b>\$0.61</b>	<b>\$0.02</b>	<b>\$0.90</b>	<b>\$0.03</b>

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

Statements of Changes in Stockholders' Equity  
**Indovina Bank Limited**  
**Condensed Balance Sheets**  
**June 30, 2006 and 2007**  
(Expressed in thousands of dollars)

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Cash and cash equivalents	\$652,013	\$20,168	\$617,727	\$18,816
Due from the Central Bank and call loans to banks	538,848	16,667	1,068,514	32,547
Financial assets at fair value through profit or loss	62,374	1,929	162,932	4,963
Available-for-sale financial assets	319,255	9,875	-	-
Investments in debt securities with no active market	-	-	319,460	9,731
Receivables-net	76,374	2,362	152,410	4,642
Loans and advances to customers-net	7,052,149	218,130	10,455,415	318,471
Premises and equipment-net	115,868	3,584	155,689	4,742
Other assets-net	352	11	258	8
<b>Total assets</b>	<b>\$8,817,233</b>	<b>\$272,726</b>	<b>\$12,932,405</b>	<b>\$393,920</b>
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$1,664,363	\$51,480	\$1,497,582	\$45,616
Payables	860,300	26,610	497,679	15,159
Deposits and remittances	5,218,989	161,429	9,429,541	287,224
<b>Total liabilities</b>	<b>7,743,652</b>	<b>239,519</b>	<b>11,424,802</b>	<b>347,999</b>
<b>Shareholders' equity</b>				
Capital stock	791,657	24,487	1,118,158	34,059
Retained earnings	260,753	8,065	353,311	10,762
Others	21,171	655	36,134	1,100
<b>Total shareholders' equity</b>	<b>1,073,581</b>	<b>33,207</b>	<b>1,507,603</b>	<b>45,921</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$8,817,233</b>	<b>\$272,726</b>	<b>\$12,932,405</b>	<b>\$393,920</b>

**Indovina Bank Limited**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2006 and 2007**  
(Expressed in thousands of dollars, except per share information)

Items	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Net interest income	\$156,407	\$4,838	\$282,979	\$8,620
Non-interest income	76,737	2,373	15,993	487
Net operating revenue	233,144	7,211	298,972	9,107
Provision for loan losses	(2,978)	(92)	(41,551)	(1,266)
Operating expenses	(66,080)	(2,044)	(92,697)	(2,824)
Income from continuing operations before income taxes	\$164,086	\$5,075	\$164,724	\$5,017
Net income	\$130,732	\$4,044	\$134,926	\$4,110
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

Note : Indovina Bank is a subsidiary of foreign bank. Thus, there is no information about earnings per share.



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

Statements of Changes in Stockholders' Equity

**Cathay Securities Corporation  
Condensed Balance Sheets  
June 30, 2006 and 2007  
(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$3,002,305	\$92,865	\$3,286,980	\$100,121
Funds and investments	721,869	22,328	717,324	21,850
Property and equipment	99,076	3,065	81,876	2,494
Intangible assets	19,343	598	9,588	292
Other assets	312,513	9,666	309,720	9,434
<b>Total assets</b>	<b>\$4,155,106</b>	<b>\$128,522</b>	<b>\$4,405,488</b>	<b>\$134,191</b>
<b>Liabilities</b>				
Current liabilities	\$120,331	\$3,722	\$324,470	\$9,884
Long-term liabilities	211	7	633	19
Other liabilities	14,673	454	36,250	1,104
<b>Total liabilities</b>	<b>135,215</b>	<b>4,183</b>	<b>361,353</b>	<b>11,007</b>
<b>Stockholders' equity</b>				
Capital stock	3,700,000	114,445	3,700,000	112,702
Capital surplus	258,434	7,993	258,434	7,872
Retained earnings	61,457	1,901	85,701	2,610
<b>Total stockholders' equity</b>	<b>4,019,891</b>	<b>124,339</b>	<b>4,044,135</b>	<b>123,184</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$4,155,106</b>	<b>\$128,522</b>	<b>\$4,405,488</b>	<b>\$134,191</b>

**Cathay Securities Corporation  
Condensed Statements of Income**

**For the six months ended June 30, 2006 and 2007  
(Expressed in thousands of dollars, except for earnings per share)**

Items	January 1 ~ June 30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Revenue	\$182,885	\$5,657	\$226,872	\$6,911
Expenses	(173,227)	(5,358)	(196,350)	(5,981)
Income (loss) from continuing operations before income taxes	\$9,658	\$299	\$30,522	\$930
Cumulative effect of changes in accounting principles	\$173	\$5	\$-	\$-
<b>Net income (loss)</b>	<b>\$4,558</b>	<b>\$141</b>	<b>\$20,944</b>	<b>\$638</b>
<b>Earnings per share (in dollars)</b>				
Income (loss) from continuing operations before income taxes	\$0.03	\$-	\$0.08	\$-
<b>Net income (loss)</b>	<b>\$0.01</b>	<b>\$-</b>	<b>\$0.06</b>	<b>\$-</b>

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

Statements of Changes in Stockholders' Equity  
**Cathay Pacific Venture Capital Co., Ltd.**  
**Condensed Balance Sheets**  
**June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$396,198	\$12,255	\$455,816	\$13,884
Funds and investments	204,831	6,335	311,867	9,500
<b>Total assets</b>	<b>\$601,029</b>	<b>\$18,590</b>	<b>\$767,683</b>	<b>\$23,384</b>
<b>Liabilities</b>				
Current liabilities	\$237	\$7	\$244	\$7
<b>Total liabilities</b>	<b>237</b>	<b>7</b>	<b>244</b>	<b>7</b>
<b>Stockholders' equity</b>				
Capital stock	600,000	18,558	600,000	18,276
Retained earnings	(40,587)	(1,255)	6,327	193
Equity adjustment	41,379	1,280	161,112	4,908
<b>Total stockholders' equity</b>	<b>600,792</b>	<b>18,583</b>	<b>767,439</b>	<b>23,377</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$601,029</b>	<b>\$18,590</b>	<b>\$767,683</b>	<b>\$23,384</b>

**Cathay Pacific Venture Capital Co., Ltd.**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$5,608	\$174	\$8,900	\$271
Operating costs	(9,142)	(283)	(1,557)	(47)
Operating gross profit	(3,534)	(109)	7,343	224
Operating expenses	(7,830)	(242)	(7,116)	(217)
Non-operating revenues	366	11	-	-
Income from continuing operations before income taxes	\$(10,998)	\$(340)	\$227	\$7
Net income	\$(9,547)	\$(295)	\$980	\$30
Earning per share (in dollars)				
Income from continuing operations before income taxes	\$(0.18)	\$(0.01)	\$-	\$-
Net income	\$(0.16)	\$-	\$0.02	\$-

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

Statements of Changes in Stockholders' Equity  
**Cathay Venture Capital Co., Ltd.**  
**Condensed Balance Sheets**  
**June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$727,932	\$22,516	\$292,262	\$8,902
Funds and investments	1,049,201	32,453	1,434,294	43,689
Total assets	<u>\$1,777,133</u>	<u>\$54,969</u>	<u>\$1,726,556</u>	<u>\$52,591</u>
Liabilities				
Current liabilities	\$13,745	\$425	\$3,619	\$110
Total liabilities	<u>13,745</u>	<u>425</u>	<u>3,619</u>	<u>110</u>
Stockholders' equity				
Capital stock	1,500,000	46,397	1,500,000	45,690
Retained earnings	120,546	3,729	29,343	894
Equity adjustment	142,842	4,418	193,594	5,897
Total stockholders' equity	<u>1,763,388</u>	<u>54,544</u>	<u>1,722,937</u>	<u>52,481</u>
Total liabilities and stockholders' equity	<u>\$1,777,133</u>	<u>\$54,969</u>	<u>\$1,726,556</u>	<u>\$52,591</u>

**Cathay Venture Capital Co., Ltd.**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$155,731	\$4,817	\$33,266	\$1,013
Operating costs	(8,848)	(274)	-	-
Operating gross profit	146,883	4,543	33,266	1,013
Operating expenses	(15,001)	(464)	(14,550)	(443)
Non-operating revenues	-	-	147	5
Non-operating expenses	(3)	-	-	-
Income from continuing operations before income taxes	<u>\$131,879</u>	<u>\$4,079</u>	<u>\$18,863</u>	<u>\$575</u>
Net income	<u>\$121,636</u>	<u>\$3,762</u>	<u>\$18,067</u>	<u>\$550</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$0.88</u>	<u>\$0.03</u>	<u>\$0.13</u>	<u>\$-</u>
Net income	<u>\$0.81</u>	<u>\$0.03</u>	<u>\$0.12</u>	<u>\$-</u>

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

Statements of Changes in Stockholders' Equity  
**Cathay II Venture Capital Co., Ltd.**  
**Condensed Balance Sheets**  
**June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$105,586	\$3,266	\$91,682	\$2,793
Funds and investments	723,717	22,385	786,479	23,956
Total assets	<u>\$829,303</u>	<u>\$25,651</u>	<u>\$878,161</u>	<u>\$26,749</u>
Liabilities				
Current liabilities	\$683	\$21	\$1,667	\$51
Total liabilities	<u>683</u>	<u>21</u>	<u>1,667</u>	<u>51</u>
Stockholders' equity				
Capital stock	600,000	18,558	600,000	18,276
Retained earnings	101,507	3,140	122,840	3,742
Equity adjustment	127,113	3,932	153,654	4,680
Total stockholders' equity	<u>828,620</u>	<u>25,630</u>	<u>876,494</u>	<u>26,698</u>
Total liabilities and stockholders' equity	<u>\$829,303</u>	<u>\$25,651</u>	<u>\$878,161</u>	<u>\$26,749</u>

**Cathay II Venture Capital Co., Ltd.**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$97,527	\$3,017	\$21,127	\$644
Operating gross profit	97,527	3,017	21,127	644
Operating expenses	(5,308)	(165)	(4,897)	(150)
Income from continuing operations before income taxes	<u>\$92,219</u>	<u>\$2,852</u>	<u>\$16,230</u>	<u>\$494</u>
Net income	<u>\$96,137</u>	<u>\$2,974</u>	<u>\$15,398</u>	<u>\$469</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$1.54</u>	<u>\$0.05</u>	<u>\$0.27</u>	<u>\$0.01</u>
Net income	<u>\$1.60</u>	<u>\$0.05</u>	<u>\$0.26</u>	<u>\$0.01</u>

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

Statements of Changes in Stockholders' Equity  
**Symphox Information Co., Ltd.**  
**Condensed Balance Sheets**  
**June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$486,575	\$15,050	\$509,823	\$15,529
Fixed assets	163,477	5,057	148,888	4,535
Intangible assets	6,545	203	6,842	208
Other assets	14,367	444	11,865	362
<b>Total assets</b>	<b>\$670,964</b>	<b>\$20,754</b>	<b>\$677,418</b>	<b>\$20,634</b>
<b>Liabilities</b>				
Current liabilities	\$237,937	\$7,359	\$236,327	\$7,198
Other liabilities	87	3	84	3
<b>Total liabilities</b>	<b>238,024</b>	<b>7,362</b>	<b>236,411</b>	<b>7,201</b>
<b>Stockholders' equity</b>				
Capital stock	499,000	15,435	499,000	15,199
Retained earnings	(66,060)	(2,043)	(57,993)	(1,766)
<b>Total stockholders' equity</b>	<b>432,940</b>	<b>13,392</b>	<b>441,007</b>	<b>13,433</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$670,964</b>	<b>\$20,754</b>	<b>\$677,418</b>	<b>\$20,634</b>

**Symphox Information Co., Ltd.**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June30, 2006		January 1 ~ June 30, 2007	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$445,183	\$13,770	\$518,149	\$15,783
Operating costs	(423,464)	(13,098)	(464,905)	(14,161)
Operating gross profit	21,719	672	53,244	1,622
Operating expenses	(38,252)	(1,183)	(51,299)	(1,563)
Non-operating revenues	1,899	59	2,226	68
Non-operating expenses	(20)	(1)	(560)	(17)
Income from continuing operations before income taxes	\$(14,654)	\$(453)	\$3,611	\$110
Cumulative effect of changes in accounting principles	\$1,809	\$56	\$-	\$-
<b>Net income</b>	<b>\$(12,845)</b>	<b>\$(397)</b>	<b>\$3,611</b>	<b>\$110</b>
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$(0.26)	\$(0.01)	\$0.07	\$-
<b>Net income</b>	<b>\$(0.26)</b>	<b>\$(0.01)</b>	<b>\$0.07</b>	<b>\$-</b>

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

Statements of Changes in Stockholders' Equity

**Cathay Futures Corp.**

**Condensed Balance Sheets**

**June 30, 2006 and 2007**

**(Expressed in thousands of dollars)**

Items	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$1,406,435	\$43,503	\$1,189,405	\$36,229
Funds and investments	30,500	943	30,500	929
Fixed assets	333,149	10,305	328,434	10,004
Intangible assets	13,104	405	9,955	304
Other assets	144,817	4,479	129,876	3,956
<b>Total assets</b>	<b>\$1,928,005</b>	<b>\$59,635</b>	<b>\$1,688,170</b>	<b>\$51,422</b>
<b>Liabilities</b>				
Current liabilities	\$1,199,423	\$37,099	\$963,224	\$29,340
Other liabilities	6,664	206	7,573	230
<b>Total liabilities</b>	<b>1,206,087</b>	<b>37,305</b>	<b>970,797</b>	<b>29,570</b>
<b>Stockholders' equity</b>				
Capital stock	650,000	20,105	650,000	19,799
Retained earnings	71,918	2,225	67,373	2,053
<b>Total stockholders' equity</b>	<b>721,918</b>	<b>22,330</b>	<b>717,373</b>	<b>21,852</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,928,005</b>	<b>\$59,635</b>	<b>\$1,688,170</b>	<b>\$51,422</b>

**Cathay Futures Corp.**

**Condensed Statements of Income**

**For the six months ended June 30, 2006 and 2007**

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

Operating expenses	(33,116)	(1,024)	(25,552)	(778)
Non-operating revenues	23,044	713	10,139	309
Non-operating expenses	(9,273)	(287)	(252)	(8)
Income from continuing operations before income taxes	\$11,303	\$350	\$(1,182)	\$(36)
Cumulative effect of changes in accounting principles	\$159	\$5	\$-	\$-
<b>Net income</b>	<b>\$11,445</b>	<b>\$354</b>	<b>\$(1,183)</b>	<b>\$(36)</b>
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$0.17	\$0.01	\$(0.02)	\$-
<b>Net income</b>	<b>\$0.17</b>	<b>\$0.01</b>	<b>\$(0.02)</b>	<b>\$-</b>