

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

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

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**English Translation of Report Originally Issued in Chinese**

Independent Auditors' Report

Cathay Life Insurance Co., Ltd.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2006 and 2007, and the results of its operations and their cash flows for the six-month periods then ended in conformity with "Business Entity Accounting Act", "Regulation on Business Entity Accounting Handling", "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the ROC.

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

In addition, we have also audited the consolidated financial statements of the Company as of and for the six-month periods ended June 30, 2006 and 2007, on which we have expressed a modified unqualified report and an unqualified review report, respectively.

Ernst & Young  
Taipei, Taiwan  
The Republic of China  
July 27, 2007

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**

**Balance sheets**

**As of June 30, 2006 and 2007**

**(Expressed in thousands of dollars)**

Assets	Notes	June 30, 2006		June 30, 2007	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4	\$278,940,934	\$8,627,929	\$208,693,950	\$6,356,806
Financial assets at fair value through profit or loss - current	2,5	122,176,902	3,779,057	111,167,873	3,386,167
Available-for-sale financial assets - current	2,6	84,926,091	2,626,851	208,231,727	6,342,727
Held-to-maturity financial assets - current	2	16,838,141	520,821	8,929,280	271,985
Derivative financial assets for hedging - current	2,7	326,925	10,112	193,039	5,880
Investments in debt securities with no active market - current	2	2,875,399	88,939	5,784,912	176,208
Notes receivable	2	9,380,157	290,138	9,427,652	287,166
Reinsurance accounts receivable		109,082	3,374	132,286	4,029
Other accounts receivable	2	25,044,323	774,646	30,656,734	933,803
Other financial assets - current		-	-	8,450,000	257,387
Prepayments		18,087	559	118,240	3,602
Deferred income tax assets - current	2,23	4,030,351	124,663	2,109,462	64,254
Other current assets		236,014	7,300	333,673	10,164
Subtotal		<u>544,902,406</u>	<u>16,854,389</u>	<u>594,228,828</u>	<u>18,100,178</u>
<b>Loans</b>					
Policy loans	2,8	171,013,101	5,289,610	179,206,147	5,458,609
Secured loans		283,508,264	8,769,201	330,610,728	10,070,385
Subtotal		<u>454,521,365</u>	<u>14,058,811</u>	<u>509,816,875</u>	<u>15,528,994</u>
<b>Funds and investments</b>					
Available-for-sale financial assets - noncurrent	2,9	136,104,172	4,209,842	193,994,896	5,909,074
Held-to-maturity financial assets - noncurrent	2,10	512,429,815	15,849,979	551,699,219	16,804,728
Financial assets carried at cost - noncurrent	2,11	20,159,255	623,546	19,665,955	599,024
Investments in debt securities with no active market - noncurrent	2	42,802,550	1,323,927	47,303,121	1,440,851
Long-term investments in stocks under the equity method	2,13	4,181,686	129,344	4,139,018	126,074
Investments in real estate	2,14	104,937,050	3,245,810	105,267,384	3,206,439
Other financial assets - noncurrent		16,350,000	505,722	13,800,000	420,347
Subtotal		<u>836,964,528</u>	<u>25,888,170</u>	<u>935,869,593</u>	<u>28,506,537</u>
<b>Property and equipment</b>					
Land	2,15	4,791,136	148,195	4,734,936	144,226
Buildings and construction		10,035,621	310,412	10,092,275	307,410
Computer equipment		1,564,356	48,387	1,664,071	50,688
Communication and transportation equipment		35,510	1,098	18,619	567
Other equipment		3,272,224	101,213	2,945,805	89,729
Revaluation increments		1,472	46	1,054	32
Less: Accumulated depreciation		(6,357,323)	(196,639)	(6,562,940)	(199,907)
Less: Accumulated impairment		(85,519)	(2,645)	(85,519)	(2,605)
Construction in progress and prepayment for equipment		13,751	426	6,968	212
Subtotal		<u>13,271,228</u>	<u>410,493</u>	<u>12,815,269</u>	<u>390,352</u>
<b>Intangible assets</b>					
Computer software cost	2,16	309,512	9,574	335,798	10,228
Subtotal		<u>309,512</u>	<u>9,574</u>	<u>335,798</u>	<u>10,228</u>
<b>Other assets</b>					
Guarantee deposits paid	2	8,212,992	254,036	8,283,705	252,321
Deferred income tax assets - noncurrent	2,23	453,543	14,029	430,804	13,122
Other overdue receivables	2,17	34,786	1,075	26,830	817
Separate account products assets	2	120,318,957	3,721,589	211,438,582	6,440,408
Other assets - other		2,526,170	78,137	4,749,704	144,676
Subtotal		<u>131,546,448</u>	<u>4,068,866</u>	<u>224,929,625</u>	<u>6,851,344</u>
<b>Total assets</b>		<u><u>\$1,981,515,487</u></u>	<u><u>\$61,290,303</u></u>	<u><u>\$2,277,995,988</u></u>	<u><u>\$69,387,633</u></u>

he 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, respective

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**

**Balance sheets - (continued)**

**As of June 30, 2006 and 2007**

**(Expressed in thousands of dollars)**

Liabilities & stockholders' equity	Notes	June 30, 2006		June 30, 2007	
		NT\$	US\$	NT\$	US\$
<b>Current liabilities</b>					
Financial liabilities at fair value through profit or loss - current	2,18	\$17,205,497	\$532,183	\$15,761,856	\$480,105
Derivative financial liabilities for hedging - current	2,19	22,695	702	107,267	3,268
Notes payable		15,680	485	3,429	105
Commissions payable		1,156,898	35,784	1,547,537	47,138
Life insurance proceeds payable		3,187	99	5,295	161
Reinsurance accounts payable		134,926	4,173	63,787	1,943
Other payable		13,110,515	405,522	25,745,192	784,197
Accounts collected in advance		133,033	4,115	109,298	3,329
Subtotal		<u>31,782,431</u>	<u>983,063</u>	<u>43,343,661</u>	<u>1,320,246</u>
<b>Long-term liabilities</b>					
Reserve for land revaluation increment tax	2	3,581	111	3,581	109
Accrued pension liability	2,30	1,657,161	51,258	1,565,898	47,697
Subtotal		<u>1,660,742</u>	<u>51,369</u>	<u>1,569,479</u>	<u>47,806</u>
<b>Reserve for operations and liabilities</b>					
Unearned premium reserve	2	10,368,366	320,704	10,824,317	329,708
Reserve for life insurance liabilities		1,693,362,974	52,377,451	1,854,715,503	56,494,532
Special reserve		17,296,479	534,998	17,839,544	543,392
Loss and loss expense provisions		1,268,868	39,247	1,315,886	40,082
Subtotal		<u>1,722,296,687</u>	<u>53,272,400</u>	<u>1,884,695,250</u>	<u>57,407,714</u>
<b>Other liabilities</b>					
Guarantee deposits received		1,562,848	48,340	1,435,917	43,738
Separate account products liabilities	2	120,318,957	3,721,589	211,438,582	6,440,408
Other liabilities - other		6,173,392	190,949	9,125,563	277,964
Subtotal		<u>128,055,197</u>	<u>3,960,878</u>	<u>222,000,062</u>	<u>6,762,110</u>
Total liabilities		<u>1,883,795,057</u>	<u>58,267,710</u>	<u>2,151,608,452</u>	<u>65,537,876</u>
<b>Stockholders' equity</b>					
<b>Capital stock</b>					
Common stock	2,20	50,686,158	1,567,775	50,686,158	1,543,898
Capital surplus	2	10,105	313	9,648	294
<b>Retained earnings</b>					
Legal reserve	2,21	19,684,163	608,851	21,188,906	645,413
Special reserve		14,133,703	437,170	16,693,810	508,492
Unappropriated retained earnings		7,179,279	222,062	16,168,646	492,496
<b>Equity adjustment</b>					
Unrealized gains on financial instruments	2,21	6,035,801	186,694	21,558,014	656,656
Unrealized revaluation increments	2	2,105	65	2,105	64
Cumulative conversion adjustments	2	(10,884)	(337)	80,249	2,444
Total stockholders' equity		<u>97,720,430</u>	<u>3,022,593</u>	<u>126,387,536</u>	<u>3,849,757</u>
Total liabilities and stockholders' equity		<u>\$1,981,515,487</u>	<u>\$61,290,303</u>	<u>\$2,277,995,988</u>	<u>\$69,387,633</u>

he 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, respective

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

## Cathay Life Insurance Co., Ltd.

## Statements of income

For the six months ended June 30, 2006 and 2007

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

Item	Notes	January 1-June 30, 2006		January 1-June 30, 2007	
		NT\$	US\$	NT\$	US\$
Operating revenues	2,25				
Premiums income		\$127,368,772	\$3,939,647	\$138,165,532	\$4,208,514
Reinsurance commission earned		190,590	5,895	158,570	4,830
Claims recovered from reinsurers		104,231	3,224	206,542	6,291
Recovered premiums reserve		54,151,442	1,674,960	69,572,417	2,119,172
Recovered special reserve		474,262	14,669	455,096	13,862
Recovered claims reserve		-	-	1,470	45
Handling fees earned		481,361	14,889	845,853	25,765
Interest income		30,400,332	940,313	33,632,309	1,024,438
Gains from valuation on financial assets		5,507,537	170,354	10,467,534	318,840
Gains on long-term equity investments		190,556	5,894	171,139	5,213
Gains on foreign exchange		-	-	3,046,056	92,783
Gains on disposal of investments		15,528,172	480,302	8,131,852	247,696
Gains on investments - real estate		5,436,402	168,153	3,782,007	115,200
Separate account products revenues		36,681,060	1,134,583	117,873,715	3,590,427
Subtotal		276,514,717	8,552,883	386,510,092	11,773,076
Operating costs	2,25				
Reinsurance premiums ceded		(295,304)	(9,134)	(292,616)	(8,913)
Brokerage expenses		(13,012,415)	(402,487)	(14,364,322)	(437,536)
Commissions expenses		(117,665)	(3,639)	(33,128)	(1,009)
Insurance claims payment		(69,853,125)	(2,160,629)	(88,303,583)	(2,689,722)
Provision for premiums reserve		(125,372,595)	(3,877,903)	(138,419,278)	(4,216,244)
Provision for special reserve		(326,455)	(10,098)	(572,107)	(17,426)
Contribution to the stabilization funds		(127,253)	(3,936)	(138,039)	(4,205)
Provision for claims reserve		(835,232)	(25,835)	(13,553)	(413)
Handling fees paid		(545,125)	(16,861)	(660,108)	(20,107)
Interest expenses		(86,711)	(2,682)	(17,768)	(541)
Losses from valuation on financial liabilities		(17,147,105)	(530,377)	(4,215,330)	(128,399)
Losses on foreign exchange		(5,265,274)	(162,860)	-	-
Separate account products expenses		(36,681,060)	(1,134,583)	(117,873,715)	(3,590,427)
Other operating cost		(40,352)	(1,248)	(142,389)	(4,337)
Subtotal		(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	2,25				
Marketing expenses		(1,508,087)	(46,647)	(1,369,513)	(41,716)
Administrative and general expenses		(3,990,487)	(123,430)	(4,032,386)	(122,826)
Subtotal		(5,498,574)	(170,077)	(5,401,899)	(164,542)
Operating income		1,310,472	40,534	16,062,257	489,255
Non-operating revenues & gains	2,25				
Gains on disposal of property and equipment		2,266	70	1,776	54
Other non-operating revenues & gains		628,379	19,436	749,147	22,819
Subtotal		630,645	19,506	750,923	22,873
Non-operating expenses & losses	2,25				
Losses on disposal of property and equipment		(410)	(13)	(144)	(4)
Miscellaneous expenses		(13,134)	(406)	(51,380)	(1,565)
Subtotal		(13,544)	(419)	(51,524)	(1,569)
Income from continuing operations before income taxes		1,927,573	59,621	16,761,656	510,559
Income taxes benefit (expense)	2,23	1,935,851	59,878	(593,010)	(18,063)
Income from continuing operations after income taxes		3,863,424	119,499	16,168,646	492,496
Cumulative effect of changes in accounting principles	3	3,315,855	102,563	-	-
Net income		\$7,179,279	\$222,062	\$16,168,646	\$492,496
Earnings per share (In dollars)	24				
Income from continuing operations after income taxes		\$0.76	\$0.02	\$3.19	\$0.10
Cumulative effect of changes in accounting principles		0.66	0.02	-	-
Net income		\$1.42	\$0.04	\$3.19	\$0.10

he 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, respective

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

**Cathay Life Insurance Co., Ltd.**  
**Statements of changes in stockholders' equity**  
**For the six months ended June 30, 2006 and 2007**  
**(Expressed in thousands of dollars)**

Summary	Retained earnings										Equity adjustment						Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized (losses) gains of financial instruments		Unrealized revaluation increments		Cumulative conversion			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2006	\$50,686,158	\$1,567,775	\$10,105	\$313	\$17,891,897	\$553,414	\$11,082,320	\$342,788	\$17,922,656	\$554,366	\$-	\$-	\$3,048	\$94	\$(4,119)	\$(128)	\$97,592,065	\$3,018,622
Unrealized gains on financial instruments - for first time adoption	-	-	-	-	-	-	-	-	-	-	9,914,421	306,663	-	-	-	-	9,914,421	306,663
Appropriations and Distributions for 2005																		
Legal reserve	-	-	-	-	1,792,266	55,437	-	-	(1,792,266)	(55,437)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,051,383	94,382	(3,051,383)	(94,382)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(13,057,689)	(403,888)	-	-	-	-	-	-	(13,057,689)	(403,888)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(250)	-	-	-	-	-	-	(8,100)	(250)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,218)	(409)	-	-	-	-	-	-	(13,218)	(409)
Land revaluation increments	-	-	-	-	-	-	-	-	-	-	-	-	(943)	(29)	-	-	(943)	(29)
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(3,878,620)	(119,969)	-	-	-	-	(3,878,620)	(119,969)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,765)	(209)	(6,765)	(209)
Net income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	7,179,279	222,062	-	-	-	-	-	-	7,179,279	222,062
Balance on June 30, 2006	\$50,686,158	\$1,567,775	\$10,105	\$313	\$19,684,163	\$608,851	\$14,133,703	\$437,170	\$7,179,279	\$222,062	\$6,035,801	\$186,694	\$2,105	\$65	\$(10,884)	\$(337)	\$97,720,430	\$3,022,593
Balance on January 1, 2007	\$50,686,158	\$1,543,898	\$9,648	\$294	\$19,684,163	\$599,579	\$14,133,703	\$430,511	\$15,047,432	\$458,344	\$20,222,726	\$615,983	\$2,105	\$64	\$34,973	\$1,065	\$119,820,908	\$3,649,738
Appropriations and Distributions for 2006																		
Legal reserve	-	-	-	-	1,504,743	45,834	-	-	(1,504,743)	(45,834)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,560,107	77,981	(2,560,107)	(77,981)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,962,644)	(333,921)	-	-	-	-	-	-	(10,962,644)	(333,921)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(247)	-	-	-	-	-	-	(8,100)	(247)
Bonus paid to employees	-	-	-	-	-	-	-	-	(11,838)	(361)	-	-	-	-	-	-	(11,838)	(361)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	1,335,288	40,673	-	-	-	-	1,335,288	40,673
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,276	1,379	45,276	1,379
Net income for the six months ended June 30, 2007	-	-	-	-	-	-	-	-	16,168,646	492,496	-	-	-	-	-	-	16,168,646	492,496
Balance on June 30, 2007	\$50,686,158	\$1,543,898	\$9,648	\$294	\$21,188,906	\$645,413	\$16,693,810	\$508,492	\$16,168,646	\$492,496	\$21,558,014	\$656,656	\$2,105	\$64	\$80,249	\$2,444	\$126,387,536	\$3,849,757

(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 financial statements.

**Cathay Life Insurance Co., Ltd.**  
**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\$
Cash flows from operating activities				
Net income for the periods	\$7,179,279	\$222,062	\$16,168,646	\$492,496
Adjustments:				
Gains from valuation on financial assets	(5,507,537)	(170,354)	(10,467,534)	(318,840)
Losses from valuation on financial liabilities	17,147,105	530,378	4,215,330	128,399
(Recovered) provision bad debt	(3,762)	(116)	63,078	1,921
Depreciation	1,158,589	35,836	1,257,234	38,295
Amortization	41,861	1,295	62,754	1,911
Provision or recovered for each reserve	71,908,578	2,224,206	68,975,955	2,101,004
Gains on disposal of long-term investments held for disposal	(3,707)	(115)	-	-
Gains on disposal of property and equipment	(1,856)	(57)	(1,632)	(50)
Gains on disposal of investments in real estate	(1,004,697)	(31,076)	(1,241,651)	(37,821)
Gains on long-term equity investments (in excess of) less than cash dividends received	(67,971)	(2,102)	105,848	3,224
Effects of exchange rate changes	(4,207)	(130)	(52,852)	(1,610)
Cumulative effect of changes in accounting principles	(3,315,855)	(102,563)	-	-
Decrease (increase) in financial assets at fair value through profit or loss - current	6,175,380	191,011	(2,513,599)	(76,564)
Decrease (increase) in available-for-sale financial assets - current	39,733,189	1,228,988	(48,704,791)	(1,483,545)
(Increase) decrease in held-to-maturity financial assets - current	(4,921,853)	(152,238)	4,383,953	133,535
Decrease (increase) in derivative financial assets for hedging - current	107,068	3,312	(148,124)	(4,512)
Increase in investments in debt securities with no active market - current	(1,897,588)	(58,694)	(783,083)	(23,853)
Decrease in notes receivable	4,634,475	143,349	3,114,354	94,863
Increase in reinsurance accounts receivable	(109,081)	(3,374)	(113,058)	(3,444)
Increase in other accounts receivable	(8,272,752)	(255,885)	(3,506,278)	(106,801)
Increase in other financial assets - current	-	-	(1,450,000)	(44,167)
Decrease (increase) in prepayments	27,514	851	(99,670)	(3,036)
(Increase) decrease in deferred income tax assets - current	(4,030,351)	(124,663)	176,566	5,378
Decrease in other current assets	3,495,833	108,130	31,478	959
Decrease in deferred income tax assets - noncurrent	6,576	203	29,244	891
Increase in other assets - other	(1,072,451)	(33,172)	(587,609)	(17,898)
Decrease in financial liabilities at fair value through profit or loss - current	(4,078,169)	(126,142)	(28,951)	(882)
Increase in derivative financial liabilities for hedging - current	22,695	702	83,400	2,540
Increase in notes payable	14,029	434	955	29
(Decrease) increase in commissions payable	(230,642)	(7,134)	557,879	16,993
(Decrease) increase in life insurance proceeds payable	(823)	(26)	4,392	134
Decrease in reinsurance accounts payable	(56,863)	(1,759)	(132,701)	(4,042)
Increase in other payable	7,669,905	237,238	10,657,381	324,623
Decrease in accounts collected in advance	(349,953)	(10,824)	(15,285)	(465)
Decrease in deferred income tax liabilities - current	(396,408)	(12,261)	-	-
Increase (decrease) in accrued pension liability	29,843	923	(117,284)	(3,572)
Decrease in other liabilities - other	(5,149,479)	(159,279)	(3,669,061)	(111,759)
Net cash provided by operating activities	118,875,914	3,676,954	36,255,284	1,104,334
Cash flows from investing activities				
Disposal of long-term investments held for disposal	47,411	1,466	-	-
Increase in policy loans	(4,518,911)	(139,775)	(3,434,239)	(104,607)
Increase in secured loans	(6,851,064)	(211,910)	(23,506,696)	(716,013)
Increase in available-for-sale financial assets - noncurrent	(26,012,995)	(804,609)	(21,585,321)	(657,488)
Increase in held-to-maturity financial assets - noncurrent	(65,195,420)	(2,016,561)	(27,488,623)	(837,302)
Decrease (increase) in financial assets carried at cost - noncurrent	291,592	9,019	(44,319)	(1,350)
Decrease (increase) in investments in debt securities with no active market	1,826,200	56,486	(4,520,935)	(137,707)
Disinvestment of long-term investments	-	-	199,662	6,082
Disposal of investments in real estate	1,681,674	52,016	1,994,110	60,741
Acquisition of investments in real estate	(4,386,853)	(135,690)	(4,791,331)	(145,944)
Increase in other financial assets - noncurrent	(10,350,000)	(320,136)	(3,450,000)	(105,087)
Disposal of property and equipment	8,651	268	4,571	139
Acquisition of property and equipment	(129,461)	(4,004)	(150,104)	(4,572)
Acquisition of intangible assets	(173,166)	(5,356)	(68,563)	(2,088)
Increase in guarantee deposits paid	(23,514)	(727)	(102,603)	(3,125)
Increase in other overdue receivables	(5,923)	(183)	(12,535)	(382)
Net cash used in investing activities	(113,791,779)	(3,519,696)	(86,956,926)	(2,648,703)

(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 financial statements.**



**Cathay life insurance Co., Ltd.**  
**Statements of cash flows - (continued)**  
**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	
	NTS	US\$	NTS	US\$
Cash flows from financing activities				
Decrease in guarantee deposits received	(80,836)	(2,500)	(28,401)	(865)
Cash dividends	(13,057,689)	(403,888)	(10,962,644)	(333,921)
Bonus paid to employees	(13,218)	(409)	(11,838)	(361)
Remuneration paid to directors and supervisors	(8,100)	(250)	(8,100)	(247)
Net cash used in financing activities	<u>(13,159,843)</u>	<u>(407,047)</u>	<u>(11,010,983)</u>	<u>(335,394)</u>
Effects of exchange rate changes	4,207	130	52,852	1,610
Decrease in cash and cash equivalents	(8,071,501)	(249,659)	(61,659,773)	(1,878,153)
Cash and cash equivalents at the beginning of the periods	287,012,435	8,877,588	270,353,723	8,234,959
Cash and cash equivalents at the end of the periods	<u>\$278,940,934</u>	<u>\$8,627,929</u>	<u>\$208,693,950</u>	<u>\$6,356,806</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$71,831	\$2,222	\$2,239	\$68
Interest paid (excluding capitalized interest)	<u>\$71,831</u>	<u>\$2,222</u>	<u>\$2,239</u>	<u>\$68</u>
Income tax paid	<u>\$610,411</u>	<u>\$18,881</u>	<u>\$559,570</u>	<u>\$17,044</u>

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

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

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

**Cathay Life Insurance Co., Ltd.**

**Notes to financial statements**

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

**As of June 30, 2006 and 2007**

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Act (the “Company Act”) of the Republic of China (“ROC”). The Company mainly engages in the business of life insurance. On December 31, 2001, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holding”) by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent acts of the ROC.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of June 30, 2006 and 2007, the total numbers of employees were 26,867 and 27,918, respectively.

2. Summary of significant accounting policies

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

(1) Current and non-current assets and liabilities

Current assets are assets which can be liquidated or disposed within one year. Assets other than current assets are non-current assets. Current liabilities are liabilities which will be paid-off within one year. Liabilities other than current liabilities are non-current liabilities.

(2) Cash and cash equivalents

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

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**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

(3) Recognition of financial assets and liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC (“ROC SFAS”) No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries”. 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”, “financial assets carried at cost” and “derivative financial assets for hedging”. Financial liabilities are categorized as the “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging” and “financial liabilities carried at amortized cost”. Financial assets are measured at fair value plus the cost of ownership or issuance cost at the initial recognition.

All “regular way” purchases and sales of financial assets are recorded on the trade date (i.e. the date that the Company commits to purchase or sell the asset). “Regular way” purchases or sales are transactions of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

A. Financial assets at fair value through profit or loss

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

B. Held-to-maturity financial assets

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

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**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

C. Investments in debt securities with no active market

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

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 profit or loss.

E. 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.

F. Derivative financial assets for hedging

Derivative financial assets that have been designated in hedge accounting and are effective hedging instruments shall be measured at fair value.

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

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**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

(4) 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 in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the transfer is accounted for as a borrowing with collateral.

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

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

**(6) Derivative financial instruments**

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

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

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**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

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

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. The variation will be recognized in profit or loss.
- 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 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:

**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 or 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.

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**Note to financial statements-continued**

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For fair value hedge relating to item 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 no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

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

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

**Cash flow hedges**

Cash flow hedges are 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 forecasted 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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**Note to financial statements-continued**

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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.

**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 hedge 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 and doubtful debts**

Based on the regulation the Company estimated the possible bad debts of accounts receivable and secured loans by evaluating customers' financial results, payments histories, collaterals and past due periods.

**(8) Long-term investments in stocks under the equity method**

Long-term investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was analyzed and accounted for in conformity with the acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method". Goodwill is no longer amortized.

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**Note to financial statements-continued**

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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 additional paid-in capital and the long-term investment under the equity method accounts.

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

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

The Company prepares semi-annual and annual consolidated financial statements which included parent company, parent controlled or significant subsidiaries.

(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 or losses are recorded in operating gains or 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 business leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

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**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

(10) 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 increments shall be recorded at “unrealized reevaluation increments” under stockholders’ equity.

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

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for as non-operating gain or loss.

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

(11) Intangible assets

The Company adopted the ROC SFAS No. 37 “Accounting for Intangible Assets” on January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair 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 are deemed finite.

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

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

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**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

(12) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From July 1, 2002 to June 30, 2007, an aggregate of NT\$1,384,615 (US\$42,175) was appropriated to this fund.

(13) Accounting for assets impairment

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

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

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

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

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

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**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

(14) Real estate securitization

The Company 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.

(15) Guaranteed depository insurance payment

According to Article 141 of the ROC Insurance Act (the “Insurance Act”), an amount equal to 15% of the Company’s capital stock must be deposited in the form of a bond with the Central Bank of China (the “Central Bank”) as the “Guaranteed Depository Insurance”.

(16) Reserve for operations

Reserves for operations are organized according to the Insurance Act. These reserves include the unearned premium reserve, claim reserve, special reserve, and reserve for life insurance. Actuaries provide the figures for these reserves.

In addition, according to the MOF regulation which became effective from December 30, 2002, the surplus from the “Special Reserve for the Loss Movement” should be placed as special reserve under proprietary equity after the Board of Directors approved the surplus appropriation. This amount may not be distributed or used for other purposes unless approved by the MOF.

The Company had a surplus of NT\$16,693,810 (US\$508,492) from the “Special Reserve for the Loss Movement” as of June 30, 2007.

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**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

(17) Insurance premium income and expenses

In accordance with “The General Accounting Systems for Insurance Companies” published by the Finance Ministry of the ROC, the Company records direct premiums as income at the time of cash receipts. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(18) Pension plan

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

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

In compliance with ROC Securities and Futures Commissions (“SFC”) regulations, the Company adopted the ROC SFAS No. 18, “Accounting for Pensions”. An actuarial valuation of pension liability is performed 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.

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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**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

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(19) Foreign currency transactions

A. Conversion 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. Conversion of foreign subsidiaries' financial statements

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

(20) Income taxes

The Company adopted SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences between deferred income tax liabilities, deferred income tax assets, prior year's loss carry forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets will not be realized. The prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

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

The Company has adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with income tax credits. Accordingly, the income tax credits resulting from expenditures on the purchase of equipment and technology, research and development, education training, and investment in equity are accounted for by the flow-through method.

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

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on its undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effects due to the adopt foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its parent company.

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

(21) Capital expenditure expenses

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

(22) Separate account products

The Company sells Separate account products, of which the insured should pay the insurance fees according to the agreement amount less the expenses incurred by the insured. In addition, the investment distribution is approved by the insured and then transferred to specific accounts as requested by the insured. The value of these specific accounts is determined based on the market value on the applicable day, and its net value is determined based on the accounting principles and practices generally accepted in the ROC.



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The Company has established special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of “Accounting standards in separate account”. The above accounts are recorded under the line items of “Separate account products assets”, “Separate account products liabilities”, “Separate account products revenues” and “Separate account products expenses”.

(23) Conversion to U.S. dollars

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

3. Changes in accounting and its effects

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

The above change in accounting principles increased the Company’s assets, liability and stockholders’ equity - unrealized (losses) gains of financial instruments by NT\$15,291,670 (US\$472,987), NT\$2,061,394 (US\$63,761) and NT\$9,914,421 (US\$306,663) as of January 1, 2006, respectively. It also increased the Company’s net income and earnings per share by NT\$3,315,855 (US\$102,563) and NT\$0.66 (US\$0.02), respectively, for the six months ended June 30, 2006.

The Company adopted the ROC Statement of Financial Accounting Standards No.5, “Accounting for long-term investments in stocks under the equity method” (“SFAS No.5 (r5)”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company’s share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is not amortized. Such change in accounting principles decreased the Company’s long-term equity investments by NT\$1,401(US\$43) as of June 30, 2006, and decreased the Company’s net income by NT\$1,401(US\$43) for the six months ended June 30, 2006. The Company considers the effect insignificant.

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**As of June 30, 2006 and 2007**

4. Cash and cash equivalents

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$278,285	\$8,608	\$307,220	\$9,358
Cash in banks	4,645,956	143,704	12,309,822	374,956
Time deposits	231,773,334	7,168,987	177,322,238	5,401,226
Cash equivalents	42,243,359	1,306,630	18,754,670	571,266
Total	<u>\$278,940,934</u>	<u>\$8,627,929</u>	<u>\$208,693,950</u>	<u>\$6,356,806</u>

As of June 30, 2006 and 2007, the amounts of time deposits with maturities beyond one year were NT\$185,690 (US\$5,744) and NT\$123,310 (US\$3,756), respectively.

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

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$19,702,733	\$609,426	\$18,275,007	\$556,656
Overseas stocks	2,216,337	68,554	1,861,427	56,699
Beneficiary certificates	51,981,047	1,607,827	29,890,318	910,457
Exchange traded funds	1,821,761	56,349	398,915	12,151
Overseas bonds	13,678,375	423,086	20,793,977	633,383
Corporate bonds	537,474	16,625	3,345,367	101,899
Government bonds	22,249,501	688,200	8,434,222	256,906
Financial debentures	518,779	16,046	997,400	30,381
Derivative financial instruments	3,834,474	118,604	2,141,200	65,221
Structured time deposits	-	-	2,000,000	60,920
Subtotal	116,540,481	3,604,717	88,137,833	2,684,673
Add: Adjustment of valuation	5,636,421	174,340	23,030,040	701,494
Total	<u>\$122,176,902</u>	<u>\$3,779,057</u>	<u>\$111,167,873</u>	<u>\$3,386,167</u>

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**As of June 30, 2006 and 2007**

6. Available-for-sale financial assets - current

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$61,586,648	\$1,904,938	\$130,448,184	\$3,973,444
Overseas stocks	6,798,666	210,290	20,383,839	620,891
Beneficiary certificates	3,279,554	101,440	12,574,940	383,032
Exchange traded funds	122,857	3,800	4,888,119	148,892
Real estate investment trust	3,302,115	102,138	8,711,176	265,342
Financial debentures	-	-	2,400,000	73,104
Corporate bonds	216,007	6,681	3,816,507	116,250
Overseas bonds	2,137,816	66,125	2,641,072	80,447
Subtotal	77,443,663	2,395,412	185,863,837	5,661,402
Add: Adjustment of valuation	7,482,428	231,439	22,367,890	681,325
Total	<u>\$84,926,091</u>	<u>\$2,626,851</u>	<u>\$208,231,727</u>	<u>\$6,342,727</u>

7. Derivative financial assets for hedging - current

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	326,925	10,112	193,039	5,880
Total	<u>\$326,925</u>	<u>\$10,112</u>	<u>\$193,039</u>	<u>\$5,880</u>

8. Loans

(1) Policy loans

A. Policy loans were secured by policies issued by the Company.

B. Pursuant to MOF regulations, insurance applicants who are unable to meet their insurance installments after their second installment becomes overdue can make written statements, requesting that the Company pay the premium and interest payable by using the Company's "policy value reserve" prior to the due date or before the insurance contract's termination date. However, applicants may also choose to inform the Company by writing to stop paying such installments.

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**Note to financial statements-continued**

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**As of June 30, 2006 and 2007**

(2) Secured loans

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Secured loans	\$283,391,178	\$8,765,579	\$330,566,450	\$10,069,036
Less: Allowance for bad debts	(300,821)	(9,304)	(329,158)	(10,026)
Subtotal	<u>283,090,357</u>	<u>8,756,275</u>	<u>330,237,292</u>	<u>10,059,010</u>
Overdue receivables	1,393,023	43,087	1,244,788	37,916
Less: Allowance for bad debts	(975,116)	(30,161)	(871,352)	(26,541)
Subtotal	<u>417,907</u>	<u>12,926</u>	<u>373,436</u>	<u>11,375</u>
Total	<u>\$283,508,264</u>	<u>\$8,769,201</u>	<u>\$330,610,728</u>	<u>\$10,070,385</u>

Secured loans are secured by government bonds, stocks, corporate bonds and real estate.

9. Available-for-sale financial assets – noncurrent

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$16,533,924	\$511,411	\$14,507,474	\$441,897
Government bonds	16,350,376	505,734	23,112,376	704,001
Financial debentures	28,378,871	877,788	77,947,777	2,374,285
Collateralized loans obligation and collateralized bonds obligation	931,734	28,820	7,767,475	236,597
Overseas bonds	<u>75,962,548</u>	<u>2,349,599</u>	<u>71,537,481</u>	<u>2,179,028</u>
Subtotal	138,157,453	4,273,352	194,872,583	5,935,808
Less: Adjustment of valuation	(2,053,281)	(63,510)	(877,687)	(26,734)
Total	<u>\$136,104,172</u>	<u>\$4,209,842</u>	<u>\$193,994,896</u>	<u>\$5,909,074</u>

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**Note to financial statements-continued**

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**As of June 30, 2006 and 2007**

10. Held-to-maturity financial assets – noncurrent

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$5,523,829	\$170,858	\$4,266,861	\$129,968
Government bonds	18,478,574	571,561	26,803,353	816,429
Financial debentures	10,625,641	328,662	10,506,943	320,041
Collateralized loans obligation and collateralized bonds obligation	9,391,907	290,501	20,340,359	619,566
Overseas bonds	476,536,510	14,739,762	497,856,655	15,164,687
Subtotal	520,556,461	16,101,344	559,774,171	17,050,691
Less: Securities serving as deposits paid - bonds	(8,126,646)	(251,365)	(8,074,952)	(245,963)
Total	<u>\$512,429,815</u>	<u>\$15,849,979</u>	<u>\$551,699,219</u>	<u>\$16,804,728</u>

11. Financial assets carried at cost – noncurrent

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Stocks	\$20,159,255	\$623,546	\$20,773,833	\$632,770
Less: Accumulated impairment	-	-	(1,107,878)	(33,746)
Total	<u>\$20,159,255</u>	<u>\$623,546</u>	<u>\$19,665,955</u>	<u>\$599,024</u>

12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$85,821,578 (US\$2,654,549) and NT\$81,914,809 (US\$2,495,121) as of June 30, 2006 and 2007, respectively. The details of structured notes are listed below:

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**As of June 30, 2006 and 2007**

Item	June 30, 2006					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$2,881,778	\$89,136	\$(148,281)	\$(4,586)	\$2,733,497	\$84,550
Available-for-sale financial assets	14,277,218	441,609	(26,760)	(828)	14,250,458	440,781
Held-to-maturity financial assets	68,024,843	2,104,078	-	-	68,024,843	2,104,078
Investments in debt securities with						
no active market - noncurrent	812,780	25,140	-	-	812,780	25,140
<b>Total</b>	<b>\$85,996,619</b>	<b>\$2,659,963</b>	<b>\$(175,041)</b>	<b>\$(5,414)</b>	<b>\$85,821,578</b>	<b>\$2,654,549</b>

Item	June 30, 2007					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss - current	\$1,479,856	\$45,076	\$(8,219)	\$(250)	\$1,471,637	\$44,826
Available-for-sale financial assets	14,953,640	455,487	(163,453)	(4,979)	14,790,187	450,508
Held-to-maturity financial assets	64,852,985	1,975,419	-	-	64,852,985	1,975,419
Investments in debt securities with						
no active market - current	800,000	24,368	-	-	800,000	24,368
<b>Total</b>	<b>\$82,086,481</b>	<b>\$2,500,350</b>	<b>\$(171,672)</b>	<b>\$(5,229)</b>	<b>\$81,914,809</b>	<b>\$2,495,121</b>

13. Long-term investments in stocks under the equity method

(1) Long-term investments in stocks under the equity method are as follows:

Investee	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
WK Technology Fund VI Co., Ltd.	\$399,071	\$12,344	\$461,157	\$14,047
Vista Technology Venture Capital Corp.	39,508	1,222	39,583	1,206
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
IBT Venture Capital Corp.	597,809	18,491	425,912	12,973
Cathay Insurance (Bermuda) Co., Ltd.	66,403	2,054	80,615	2,455
Symphox Information Co., Ltd.	259,909	8,039	265,134	8,076
Cathay Securities Investment Trust Co., Ltd.	220,310	6,814	262,001	7,980
Cathay Venture Capital Corp.	440,847	13,636	430,734	13,120
Cathay Securities Investment Co., Ltd.	104,103	3,220	121,800	3,710
Cathay Life Insurance Ltd. (Shanghai)	1,545,393	47,801	1,601,520	48,782
<b>Total</b>	<b>\$4,181,686</b>	<b>\$129,344</b>	<b>\$4,139,018</b>	<b>\$126,074</b>

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(2) Changes in long-term investments in stocks under the equity method are summarized below:

	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$3,883,938	\$120,134	\$4,290,720	\$130,695
Add: Gains on long-term equity investments	190,556	5,894	171,139	5,213
Cumulative conversion adjustments	-	-	45,276	1,379
Unrealized gain or loss on financial instruments - long-term equity investments	236,542	7,317	108,532	3,306
Less: Cash dividends	(122,585)	(3,792)	(276,987)	(8,437)
Disinvestment of long-term investments	-	-	(199,662)	(6,082)
Cumulative conversion adjustments	(6,765)	(209)	-	-
Balance as of June 30	<u>\$4,181,686</u>	<u>\$129,344</u>	<u>\$4,139,018</u>	<u>\$126,074</u>

(3) The recognized equity investment gains for the six months ended June 30, 2006 and 2007 are listed below:

Investee	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$7,896	\$244	\$7,723	\$235
Vista Technology Venture Capital Corp.	(265)	(8)	(307)	(9)
Omnitek Venture Capital Corp.	72,397	2,239	19,218	585
Wa Tech Venture Capital Co., Ltd.	19,374	599	10,925	333
IBT Venture Capital Corp.	49,961	1,545	9,516	290
Cathay Insurance (Bermuda) Co., Ltd.	(174)	(5)	6,627	202
Symphox Information Co., Ltd.	(7,161)	(221)	2,171	66
Cathay Securities Investment Trust Co., Ltd.	29,374	908	65,899	2,007
Cathay Venture Capital Corp.	30,409	941	4,517	138
Cathay Securities Investment Co., Ltd.	10,367	321	24,721	753
Cathay Life Insurance Ltd. (Shanghai)	(21,622)	(669)	20,129	613
Total	<u>\$190,556</u>	<u>\$5,894</u>	<u>\$171,139</u>	<u>\$5,213</u>

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- A. The equity investment gains (losses) were recognized based on their respective financial statements for the six months ended June 30, 2006. The financial statement of WK Technology Fund Vi Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the six months ended June 30, 2006, were audited by other auditors with explanatory paragraph within the modified unqualified audit report except the Cathay Insurance (Bermuda) Co., Ltd., which had an unqualified audit report.
- B. The equity investment gains (losses) were recognized based on their respective financial statements for the six months ended June 30, 2007. The financial statements of WK Technology Fund VI Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the six months ended June 30, 2007, were audited by other auditors with the unqualified audit report except the Cathay Venture Capital Corp., which had a modified unqualified audit report.
- C. Effective from January 1, 2005, the Company adopted SFAS No. 7 “Consolidated Financial Statements” which was revised on December 9, 2004. The adoption of SFAS No. 7 resulted in superseding the requirement of the total assets and operating revenues which was under 10% of parent company may not need to prepare consolidated financial statements and restate its prior period consolidated financial statements. The consolidated financial statements of the Company as of and for the six months ended June 30, 2006 and 2007 excluded Cathay Insurance (Bermuda) Co., Ltd., and Cathay Securities Investment Co., Ltd. because their total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.

14. Investments in real estate

Item	June 30, 2006									
	Cost		Revaluation increments		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
Total	\$118,935,943	\$3,678,811	\$4,215	\$130	\$(13,806,156)	\$(427,039)	\$(196,952)	\$(6,092)	\$104,937,050	\$3,245,810



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Item	June 30, 2007									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$118,948,065	\$3,623,151	\$4,632	\$141	\$(14,609,141)	\$(444,993)	\$(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>\$3,657,259</u>	<u>\$4,632</u>	<u>\$141</u>	<u>\$(14,609,141)</u>	<u>\$(444,993)</u>	<u>\$(195,923)</u>	<u>\$(5,968)</u>	<u>\$105,267,384</u>	<u>\$3,206,439</u>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.
- (4) The Company 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. The relative information was disclosed as following:

The Company 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\$272,684).

After the REIT was issued, the sponsor and related parties of the Company did not participate in the original offering. Instead, the Company 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. The Company has deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the company. As of June 30, 2006, the amounts of deferred gain on disposal of real estate had been recognized.

- (5) The Company 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

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**As of June 30, 2006 and 2007**

NT\$1,195,081 (US\$36,402) for the six months ended June 30, 2007.

**15. Property and equipment**

Item	June 30, 2006									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,791,136	\$148,195	\$1,472	\$46	\$-	\$-	\$(51,331)	\$(1,588)	\$4,741,277	\$146,653
Buildings and construction	10,035,621	310,412	-	-	(3,133,853)	(96,934)	(34,188)	(1,057)	6,867,580	212,421
Computer equipment	1,564,356	48,387	-	-	(1,126,747)	(34,851)	-	-	437,609	13,536
Communication and transportation equipment	35,510	1,098	-	-	(22,954)	(710)	-	-	12,556	388
Other equipment	3,272,224	101,213	-	-	(2,073,769)	(64,144)	-	-	1,198,455	37,069
Subtotal	19,698,847	609,305	1,472	46	(6,357,323)	(196,639)	(85,519)	(2,645)	13,257,477	410,067
Construction in progress and prepayment for equipment	13,751	426	-	-	-	-	-	-	13,751	426
Total	\$19,712,598	\$609,731	\$1,472	\$46	\$(6,357,323)	\$(196,639)	\$(85,519)	\$(2,645)	\$13,271,228	\$410,493

  

Item	June 30, 2007									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,734,936	\$144,226	\$1,054	\$32	\$-	\$-	\$(51,331)	\$(1,564)	\$4,684,659	\$142,694
Buildings and construction	10,092,275	307,410	-	-	(3,325,822)	(101,304)	(34,188)	(1,041)	6,732,265	205,065
Computer equipment	1,664,071	50,688	-	-	(1,253,039)	(38,168)	-	-	411,032	12,520
Communication and transportation equipment	18,619	567	-	-	(14,501)	(442)	-	-	4,118	125
Other equipment	2,945,805	89,729	-	-	(1,969,578)	(59,993)	-	-	976,227	29,736
Subtotal	19,455,706	592,620	1,054	32	(6,562,940)	(199,907)	(85,519)	(2,605)	12,808,301	390,140
Construction in progress and prepayment for equipment	6,968	212	-	-	-	-	-	-	6,968	212
Total	\$19,462,674	\$592,832	\$1,054	\$32	\$(6,562,940)	\$(199,907)	\$(85,519)	\$(2,605)	\$12,815,269	\$390,352

No properties or plants and equipments were pledged as collaterals as of June 30, 2006 and 2007.

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16. Intangible assets

Item	January 1, 2006		Increase		Decrease		June 30, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$223,266	\$6,906	\$173,165	\$5,356	\$-	\$-	\$396,431	\$12,262
Amortized and impairment								
Amortized	(45,058)	(1,393)	(41,861)	(1,295)	-	-	(86,919)	(2,688)
Book value	<u>\$178,208</u>	<u>\$5,513</u>	<u>\$131,304</u>	<u>\$4,061</u>	<u>\$-</u>	<u>\$-</u>	<u>\$309,512</u>	<u>\$9,574</u>

Item	January 1, 2007		Increase		Decrease		June 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$471,850	\$14,373	\$68,563	\$2,088	\$-	\$-	\$540,413	\$16,461
Amortized and impairment								
Amortized	(141,861)	(4,322)	(62,754)	(1,911)	-	-	(204,615)	(6,233)
Book value	<u>\$329,989</u>	<u>\$10,051</u>	<u>\$5,809</u>	<u>\$177</u>	<u>\$-</u>	<u>\$-</u>	<u>\$335,798</u>	<u>\$10,228</u>

The intangible assets of the Company are computer software and are calculated using the straight-line method over the estimated useful lives within 3 years.

17. Other overdue receivables

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$75,689	\$2,341	\$126,431	\$3,851
Less: Allowance for bad and doubtful debts	(40,903)	(1,266)	(99,601)	(3,034)
Total	<u>\$34,786</u>	<u>\$1,075</u>	<u>\$26,830</u>	<u>\$817</u>

18. Financial liabilities at fair value through profit or loss - current

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$55,771	\$1,725	\$19,472	\$593
Add: Adjustment of valuation	17,149,726	530,458	15,742,384	479,512
Total	<u>\$17,205,497</u>	<u>\$532,183</u>	<u>\$15,761,856</u>	<u>\$480,105</u>

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19. Derivative financial liabilities for hedging - current

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	22,695	702	107,267	3,268
Total	<u>\$22,695</u>	<u>\$702</u>	<u>\$107,267</u>	<u>\$3,268</u>

20. Capital stock

As of June 30, 2006 and 2007, the total authorized thousand shares were 5,068,616 with par value of NT\$10 each.

21. Retained earnings

(1) Legal reserve

Pursuant to the ROC Company Act, 10% of the Company's net income shall 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 deficit but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued shares capital, up to 50% of such excess may be capitalized if authorized by the Board of Directors.

(2) Undistributed retained 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 deficit, if any, shall be appropriated as legal reserve. After distributing stock interests and 2% of the total remaining amount as a bonus distribution to employees, the remainder is distributed in accordance with the resolutions of the Board of Directors.

B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceeded 100% of the Company's paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.

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- C. According to the amended Income Tax Act (“Tax Act”) in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- D. 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 losses of financial instruments expect for the legal reserve since 2007.

22. Personnel expense 、 depreciation and amortizations

Item	For the six months ended June 30, 2006 NT\$			For the six months ended June 30, 2006 US\$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Personnel expenses						
Salary and wages	\$11,626,517	\$1,556,722	\$13,183,239	\$359,620	\$48,151	\$407,771
Labor & health insurance expenses	554,106	83,433	637,539	17,139	2,581	19,720
Pension expenses	327,497	49,312	376,809	10,130	1,525	11,655
Other expenses	446,028	84,769	530,797	13,796	2,622	16,418
Depreciation	-	1,158,589	1,158,589	-	35,836	35,836
Amortizations	-	41,861	41,861	-	1,295	1,295

Item	For the six months ended June 30, 2007 NT\$			For the six months ended June 30, 2007 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$13,004,629	\$1,451,392	\$14,456,021	\$396,120	\$44,210	\$440,330
Labor & health insurance expenses	578,360	75,521	653,881	17,617	2,300	19,917
Pension expenses	222,435	29,045	251,480	6,775	885	7,660
Other expenses	499,943	78,304	578,247	15,228	2,385	17,613
Depreciation	-	1,257,234	1,257,234	-	38,295	38,295
Amortizations	-	62,754	62,754	-	1,911	1,911

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23. Estimated income taxes

(1) Income taxes (benefit) expense included the following:

	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$1,927,573	\$59,621	\$16,761,656	\$510,559
Adjustments				
Interest income of tax on a separate basis	(1,951,819)	(60,372)	(1,390,539)	(42,356)
Gains on disposal of securities and futures	(4,756,867)	(147,135)	(15,365,794)	(468,041)
Losses (gains) from valuation of financial assets and liabilities	11,639,568	360,023	(6,252,204)	(190,441)
Gains on disposal of lands	(2,830,475)	(87,549)	(1,068,688)	(32,552)
Unrealized exchange losses (gains)	5,269,481	162,990	(2,993,204)	(91,173)
Cash dividends	(606,032)	(18,745)	(881,188)	(26,841)
Differences of pension expense and actually contributed	29,843	923	(117,284)	(3,572)
Gains on long-term equity investments	(190,556)	(5,894)	(171,139)	(5,213)
Others	(1,424,954)	(44,074)	7,776	236
Taxable income	7,105,762	219,788	(11,470,608)	(349,394)
Dividends	-	-	2,435,750	74,193
Multiply by: tax rates	25%	25%	25%	25%
Subtotal	1,776,441	54,947	(2,258,714)	(68,800)
Add: Extra 10% income tax on undistributed retained earnings	-	-	-	-
Tax effects under income basic tax systems	-	-	389,319	11,859
Add (less): Tax effects under integrated income tax systems	-	-	202,172	6,158
Deferred income taxes (benefit) expense	(4,420,183)	(136,721)	2,015,284	61,385
Add: Separation taxes	370,562	11,462	226,926	6,912
Additional taxes assessed by the tax authority	901	28	5,938	181
Estimate adjustment	3,587	111	12,890	392
Overseas investments taxes	-	-	4,759	145
Allocation of the cumulative effect of changes in accounting principles	338,668	10,475	-	-
Less: Income tax credit	(5,827)	(180)	(5,564)	(169)
Total income taxes (benefit) expense	<u>\$(1,935,851)</u>	<u>\$(59,878)</u>	<u>\$593,010</u>	<u>\$18,063</u>

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(2) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal 2003. But the Company has filed an application about the assessed tax returns of 2002 and 2003 to the Tax Authorities for reexamination.

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

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$4,483,894	\$138,692	\$4,291,584	\$130,721
Total deferred tax liabilities	\$-	\$-	\$1,751,318	\$53,345
Temporary differences:				
Pension expense	\$1,657,161	\$51,258	\$1,565,898	\$47,697
Unrealized exchange losses (gains)	3,662,223	113,276	(3,363,194)	(102,443)
Losses (gains) from valuation on financial assets and liabilities	12,437,555	384,706	(3,642,077)	(110,938)
Impairment loss	157,011	4,857	157,012	4,783
Other	21,627	669	23,043	702
Total	\$17,935,577	\$554,766	\$(5,259,318)	\$(160,199)
Loss carryforwards	\$-	\$-	\$15,420,385	\$469,704
Allocation of cumulative effect of changes in accounting principles	\$338,668	\$10,475	\$-	\$-
Deferred tax assets - current	\$4,030,351	\$124,663	\$3,860,780	\$117,599
Deferred tax liabilities - current	-	-	(1,751,318)	(53,345)
Net offset balance of deferred tax assets - current	\$4,030,351	\$124,663	\$2,109,462	\$64,254
Deferred tax assets - noncurrent	\$453,543	\$14,029	\$430,804	\$13,122
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	\$453,543	\$14,029	\$430,804	\$13,122

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(4) Information related to imputation

	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$88,763	\$2,746	\$72,984	\$2,223

	June 30,	
	2006	2007
Imputation credit account ratio - actual (May 15, 2006)	7.33%	-
Imputation credit account ratio - actual (May 15, 2007)	-	7.96%

(5) Related information on undistributed earnings

Year	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
After 1998	\$-	\$-	\$-	\$-

Undistributed earnings after 1998 did not include the net income from January 1 to June 30, 2006 and 2007.

(6) Tax credits obtained in accordance with “Statute for Upgrading Industries” are as follows:

Regulation	Deductible items	Amount of deductible				Expiry Year
		income tax		Remaining balance		
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$5,564	\$169	\$5,564	\$169	2011



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24. Earnings per share

	For the six months ended June 30, 2006			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Income from continuing operations after income taxes (a)	\$1,927,573	\$59,621	\$3,863,424	\$119,499
Cumulative effect of changes in accounting principles (a)	2,977,187	92,088	3,315,855	102,563
Net income (a)	<u>\$4,904,760</u>	<u>\$151,709</u>	<u>\$7,179,279</u>	<u>\$222,062</u>
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Income from continuing operations after income taxes	\$0.38	\$0.01	\$0.76	\$0.02
Cumulative effect of changes in accounting principles	0.59	0.02	0.66	0.02
Net income	<u>\$0.97</u>	<u>\$0.03</u>	<u>\$1.42</u>	<u>\$0.04</u>
	For the six months ended June 30, 2007			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net income (a)	<u>\$16,761,656</u>	<u>\$510,559</u>	<u>\$16,168,646</u>	<u>\$492,496</u>
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Net income	<u>\$3.31</u>	<u>\$0.10</u>	<u>\$3.19</u>	<u>\$0.10</u>

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25. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Securities Investment Trust Co., Ltd.	An equity method investee
Cathay Venture Capital Corp.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Seaward Card Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Cathay Property Insurance Agent Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Lucky Bank Taiwan Inc.	Affiliate (Have been merged with Cathay United Bank on January 1, 2007)
China England Company Ltd.	Affiliate
Cathay Real Estate Management Co., Ltd.	Affiliate
Yi Ru Corporation	Their chairman is an immediate family member of the Company's chairman in 2006
Cathay Charity Foundation	Their vice-chairman is the Company's chairman
Cathay General Hospital	Their chairman is the Company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Taiwan Asset Management Corporation	Their chairman is Cathay United Bank
Other related parties	The directors supervisors, managers spouses and second relatives are included

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**As of June 30, 2006 and 2007**

(2) Significant transactions with related parties

A. Property transactions

Transactions between the Company 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.

(A) Significant transactions with related parties for the six months ended June 30, 2006 and 2007 are listed below:

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

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Name	Item	For the six months ended June 30, 2007	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Lank Mark	\$2,979	\$91
	Cingshuei Building	1,556	47
	Other	1,551	47
Lin Yuan Property Management Co., Ltd.	International Building	3,772	115
	Taipei Royalty Building	8,923	272
	Jhong Gang Building	3,420	104
	Cathay Building	21,360	651
	Kaohsiung Chung Hua Building	7,432	226
	Hsinchu Education Center	1,443	44
	Cingshuei Building	1,521	46
	Min Sheng Chien Kuo Building	2,341	71
	Cathay General Hospital	3,702	113
	Jhong Jheng Building	9,480	289
	Min Sheng Commercial Building	3,033	92
	Jhong Jheng Second Building	14,522	442
	Gangshan Second Building	1,754	54
	Signayang Building	1,088	33
Other	23,096	704	
	Total	<u>\$112,973</u>	<u>\$3,441</u>

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.

(B) Real estates acquired from related parties for the six months ended June 30, 2006 and 2007 are as follows:

Name	Item	For the six months ended June 30, 2006	
		Contract Price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	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 Company did not acquire any real estates from its related parties for the six months ended June 30, 2007.

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(C) Real-estate rental income (from related parties):

Name	Rental income			
	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$5,124	\$159	\$7,954	\$242
Cathay Real Estate Development Co., Ltd.	7,925	245	8,366	255
Cathay United Bank	124,531	3,852	136,276	4,151
Cathay Century Insurance Co., Ltd.	25,910	801	32,893	1,002
Cathay General Hospital	73,075	2,260	79,401	2,418
San Ching Engineering Co., Ltd.	3,728	115	3,953	120
Symphox Information Co., Ltd.	14,880	460	7,916	241
Cathay Securities Investment Trust Co., Ltd.	5,994	185	6,520	199
Cathay Securities Investment Co., Ltd.	1,687	52	1,764	54
Cathay Securities Co., Ltd.	7,531	233	8,123	247
Cathay Capital Management Inc.	991	31	1,075	33
Seaward Leasing Co., Ltd.	606	19	633	19
Taiwan Asset Management Corporation	6,653	206	7,315	223
Cathay Futures Co., Ltd.	313	10	355	11
Total	<u>\$278,948</u>	<u>\$8,628</u>	<u>\$302,544</u>	<u>\$9,215</u>

Name	Guarantee deposits received			
	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$3,645	\$113	\$3,645	\$111
Cathay United Bank	65,336	2,021	63,668	1,939
Cathay Century Insurance Co., Ltd.	14,306	442	17,144	522
Cathay General Hospital	6,840	212	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
Cathay Securities Investment Co., Ltd.	877	27	877	27
Cathay Securities Co., Ltd.	3,785	117	3,785	115
Cathay Capital Management Inc.	479	15	479	15
Seaward Leasing Co., Ltd.	346	11	346	11
Taiwan Asset Management Corporation	3,477	107	3,477	106
Cathay Financial Holding Co., Ltd.	-	-	4,598	140
Symphox Information Co., Ltd.	2,718	84	84	3
Total	<u>\$106,256</u>	<u>\$3,287</u>	<u>\$111,005</u>	<u>\$3,381</u>

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

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(D) Real-estate rental expense (to related parties):

Name	Rental expense			
	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$15,383	\$476	\$15,277	\$465
Lin Yuan Investment Co., Ltd.	1,053	33	1,256	38
Yi Ru Corporation	1,684	52	2,134	65
Cathay United Bank	462	14	3,377	103
Total	<u>\$18,582</u>	<u>\$575</u>	<u>\$22,044</u>	<u>\$671</u>

Name	Guarantee deposits paid			
	June 30, 2006		June 30, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,926	\$276	\$8,926	\$272
Lin Yuan Investment Co., Ltd.	628	19	628	19
Yi Ru Corporation	1,190	37	1,190	36
Cathay United Bank	255	8	1,744	53
Total	<u>\$10,999</u>	<u>\$340</u>	<u>\$12,488</u>	<u>\$380</u>

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

B. Cash in banks

Name	Item	For the six months ended June 30, 2006		
		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United	Time deposit	\$81,710	1.05%~2.02%	\$1,459,750
Bank	Cash in bank	923	0.10%~2.25%	2,787,186
Lucky Bank Taiwan Inc.	Cash in bank	5	0.10%	11,722
Total		<u>\$82,638</u>		<u>\$4,258,658</u>

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		For the six months ended June 30, 2006		
		Interest income		Ending balance
Name	Item	US\$	Rate	US\$
Cathay United	Time deposit	\$2,527	1.05%~2.02%	\$45,152
Bank	Cash in bank	29	0.10%~2.25%	86,210
Lucky Bank Taiwan Inc.	Cash in bank	-	0.10%	363
Total		<u>\$2,556</u>		<u>\$131,725</u>

		For the six months ended June 30, 2007		
		Interest income		Ending balance
Name	Item	NT\$	Rate	NT\$
Cathay United	Time deposit	\$9,947	1.15%~2.49%	\$420,050
Bank	Cash in bank	1,650	0.02%~2.35%	2,708,327
Total		<u>\$11,597</u>		<u>\$3,128,377</u>

		For the six months ended June 30, 2007		
		Interest income		Ending balance
Name	Item	US\$	Rate	US\$
Cathay United	Time deposit	\$303	1.15%~2.49%	\$12,795
Bank	Cash in bank	50	0.02%~2.35%	82,495
Total		<u>\$353</u>		<u>\$95,290</u>

C. Other financial assets

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

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

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Name	For the six months ended June 30, 2007		
	Interest income		Ending balance
	NT\$	Rate	NT\$
Cathay United Bank	<u>\$5,896</u>	1.80%~4.00%	<u>\$2,450,000</u>

Name	For the six months ended June 30, 2007		
	Interest income		Ending balance
	US\$	Rate	US\$
Cathay United Bank	<u>\$180</u>	1.80%~4.00%	<u>\$74,627</u>

D. Secured loans

Name	For the six months ended June 30, 2006			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$3,950,612	\$57,340	3.03%~3.23%	\$3,950,205
Other related parties	<u>74,633</u>	<u>975</u>	2.10%~3.14%	<u>71,715</u>
Total	<u>\$4,025,245</u>	<u>\$58,315</u>		<u>\$4,021,920</u>

Name	For the six months ended June 30, 2006			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	\$122,196	\$1,774	3.03%~3.23%	\$122,184
Other related parties	<u>2,309</u>	<u>30</u>	2.10%~3.14%	<u>2,218</u>
Total	<u>\$124,505</u>	<u>\$1,804</u>		<u>\$124,402</u>

Name	For the six months ended June 30, 2007			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,449,654	\$72,855	3.31%~3.44%	\$4,445,684
Other related parties	<u>87,730</u>	<u>1,033</u>	2.25%~2.90%	<u>82,369</u>
Total	<u>\$4,537,384</u>	<u>\$73,888</u>		<u>\$4,528,053</u>



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Name	For the six months ended June 30, 2007			
	Maximum	Interest		Ending
	amount	income	Rate	balance
	US\$	US\$		US\$
Cathay General Hospital	\$135,536	\$2,219	3.31%~3.44%	\$135,415
Other related parties	2,672	32	2.25%~2.90%	2,509
<b>Total</b>	<b>\$138,208</b>	<b>\$2,251</b>		<b>\$137,924</b>

E. Financial assets at fair value through profit or loss (Beneficiary certificates)

Name		June 30,			
		2006		2007	
		NT\$	US\$	NT\$	US\$
Cathay Securities					
Investment Trust Co., Ltd.	Market value	\$5,850,365	\$180,958	\$7,630,959	\$232,439
	Cost	\$5,534,805	\$171,197	\$6,863,072	\$209,049

F. Other accounts receivable

Name		June 30,			
		2006		2007	
		NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.		\$1,069	\$33	\$260,490	\$7,935
Cathay Insurance (Bermuda) Co., Ltd.		2,958	92	11,199	341
Cathay Financial Holding Co., Ltd.		18,302	566	737,751	22,472
Cathay Securities Investment Co., Ltd.		-	-	23,008	701

G. Prepayments

Name		June 30,			
		2006		2007	
		NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.		\$2,245	\$70	\$30,281	\$922
Lin Yuan Investment Co., Ltd.		209	6	419	13
Yi Ru Corporation		462	14	356	11

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H. Guarantee deposits paid

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$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 Co., Ltd. were NT\$189 (US\$6) and NT\$78 (US\$2), respectively.

I. Other payable

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$13,718	\$424	\$1,565	\$48
Symphox Information Co., Ltd.	62,482	1,933	55,147	1,680
Lin Yuan Property Management Co., Ltd.	26,169	809	16,413	500
Cathay Real Estate Development Co., Ltd.	-	-	1,200	37

J. Accounts collected in advance

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

K. Guarantee deposits received

Name	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$-	\$-	\$236	\$7

The Guarantee deposits received included guarantee of engineering and electronic coupon contract.

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L. Premiums income

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$206,174	\$6,377	\$222,268	\$6,770
Cathay General Hospital	13,371	414	14,830	452
Cathay Securities Investment Trust Co., Ltd.	447	14	541	17
San Ching Engineering Co., Ltd.	596	18	625	19
Cathay Century Insurance Co., Ltd.	3,736	116	4,016	122
Cathay Securities Co., Ltd.	806	25	881	27
Symphox Information Co., Ltd.	659	20	665	20
Cathay Financial Holding Co., Ltd.	361	11	453	14
Other related parties	14,260	441	324,719	9,891
Total	<u>\$240,410</u>	<u>\$7,436</u>	<u>\$568,998</u>	<u>\$17,332</u>

M. Insurance expense

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$108,721</u>	<u>\$3,363</u>	<u>\$84,459</u>	<u>\$2,573</u>

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 the Company on behalf the employees for fidelity bond insurance were included in insurance expenses for the six months ended June 30, 2006 and 2007.

N. Reinsurance income

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

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O. Reinsurance handing fee income

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

P. Reinsurance claims payment

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

Q. Reinsurance commission expense

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

R. Miscellaneous income

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$184,391	\$5,703	\$282,913	\$8,617
Cathay United Bank	57,792	1,788	62,466	1,903
Cathay securities Investment Trust Co., Ltd.	6,146	190	3,185	97
Cathay General Hospital	176	5	2,416	74
Cathay Securities Co., Ltd.	26	1	1,303	40
Symphox Information Co., Ltd.	1,148	36	668	20
Cathay Real Estate Development Co., Ltd.	-	-	755	23
Cathay Financial Holding Co., Ltd.	-	-	508	15
Taiwan Asset Management Corporation	-	-	586	18
Total	\$249,679	\$7,723	\$354,800	\$10,807

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S. Commissions expenses

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$66,988	\$2,072	\$11,257	\$343

T. Operating expenses

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$117,551	\$3,636	\$114,063	\$3,474
Cathay General Hospital	1,724	53	2,676	82
Lin Yuan Property Management Co., Ltd.	351,605	10,876	302,562	9,216
Cathay Securities Investment Co., Ltd.	26,250	812	26,250	800
San Ching Engineering Co., Ltd.	2,024	63	2,018	61
Cathay Futures Co., Ltd.	-	-	1,596	49
Cathay Securities Co., Ltd.	-	-	46,039	1,402
Seaward Card Cold Ltd.	577	18	1,964	60
Cathay Real Estate Development Co., Ltd.	3,123	97	2,445	75
Cathay Capital Management Inc.	14,196	439	13,720	418
Seaward Leasing Co., Ltd.	3,179	98	3,855	117
Cathay United Bank	-	-	136,121	4,146
Total	\$520,229	\$16,092	\$653,309	\$19,900

U. Sale of securities

For the six months ended June 30, 2006						
Related party	Securities	Shares (thousand)	Amount		Gain on disposal	
			NT\$	US\$	NT\$	US\$
			San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,400	\$(47,554)
Seaward Leasing Co., Ltd.	Waterland Securities Co., Ltd. etc.	-	187,708	5,806	-	-

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

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V. Cost of disposal real estate

Name	For the six months ended June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	\$-	\$-	\$21,115	\$643

W. Other

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

Item	June 30,	
	2006	2007
Forward foreign exchange contracts	USD284,789	USD1,324,364
CS contracts	USD793,168	USD1,473,439
Financial debentures	-	NTD200,000 (USD6,092)

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).

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

26. Pledged assets

As of June 30, 2006 and 2007, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Act, the Company is required to deposit long-term investment in government bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	June 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$8,126,646	\$251,365	\$8,074,952	\$245,963
Time deposits	161,600	4,999	216,060	6,581
Total	\$8,288,246	\$256,364	\$8,291,012	\$252,544

Pledged assets are based on the carrying amounts.

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27. Other important matters and contingent liabilities

None.

28. Serious damages

None.

29. Subsequent events

None.

30. Other important events

(1) Pension related information

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

(2) Financial risk management objectives and policies

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

The Company 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, 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.

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

The Company 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 the Company 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, 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.



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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, short-term notes (includes repurchase agreement) and domestic bond funds. 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.

(3) Financial instruments related information

Item	June 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</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
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 - non-derivative</u>				
Notes payable	15,680	15,680	485	485
Guarantee deposits received	1,562,848	1,562,848	48,340	48,340

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Item	June 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - derivative</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 - derivative</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
Item	June 30, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</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	8,908,982	271,985	271,367
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	529,892,120	16,804,728	16,140,485
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	1,440,851	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

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Item	June 30, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</u>				
Notes payable	\$3,429	\$3,429	\$105	\$105
Guarantee deposits received	1,435,917	1,435,917	43,738	43,738
<u>Assets - derivative</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
<u>Liabilities - derivative</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

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

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

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- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's financial instruments 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.
- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at June 30, 2006 and 2007:

Financial instruments	June 30, 2006			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</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

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Financial instruments	June 30, 2006			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - derivative</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 - derivative</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
Financial instruments	June 30, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</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

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Financial instruments	June 30, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - derivative</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 - derivative</u>				
Financial liabilities at fair value through profit or loss				
- current				
Option	3,537	108	-	-
Forward	-	-	15,655,928	476,878
IRS	-	-	102,391	3,119
Derivative financial liabilities for hedging - current				
IRS	-	-	107,267	3,268

(4) Risk of interest rate

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

① June 30, 2006

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit 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

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit and loss	\$1,068,887	\$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	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit and loss	\$6,818,078	\$210,890	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	43,007,781	1,330,275	-	-	-	-	-	-
Held-to-maturity financial assets	229,307,212	7,092,707	-	-	-	-	-	-
Investments in debt securities with								
no active market	13,655,296	422,372	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit 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	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$260,750	\$8,066	\$24,868	\$769	\$3,847	\$119	\$7,541	\$233
Derivative financial assets for								
hedging	-	-	34,790	1,076	48,952	1,514	133,728	4,136
Financial liabilities at fair value								
through profit or loss	117,317	3,629	15,369	475	2,085	65	38,863	1,202
Derivative financial liabilities for								
hedging	-	-	6,355	197	6,608	204	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit 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

② June 30, 2007

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

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$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	Due in 4~5 years		Over 5 years		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



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

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$7,750,073	\$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	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$7,750,073	\$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	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit or loss	\$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

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Item	Due in 4-5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit 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

(5) Credit risk

The Company's exposure to credit risk is minimal.

(6) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at June 30, 2006 and 2007:

Cash flow hedges – IRS

① 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

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$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
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	If 6ml<0.95%,6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,279	5.1%-6ml If 6ml<0.95%,6ml	Half year	2007/12/19
300,000	9,279	If 0.95%<6ml<2.0%,3.5% If 2.0%<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

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$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

② 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

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$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
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

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$1,150,000	\$35,029	90DCP+30bps	Each quarter	2008/9/17
100,000	3,046	180DCP+30bps	Half year	208/12/18
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.

The Company'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.

(7) Discretionary account management

Item	June 30, 2006			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$5,971,778	\$184,713	\$5,971,778	\$184,713
Repurchase bonds	4,866,991	150,541	4,866,991	150,541
Convertible bonds	27,512	851	27,512	851
Government Bonds	2,891,806	89,447	2,891,806	89,447
Cash in bank	237,234	7,338	237,234	7,338
Total	\$13,995,321	\$432,890	\$13,995,321	\$432,890

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Item	June 30, 2007			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$18,422,349	\$561,144	\$18,422,349	\$561,144
Repurchase bonds	7,934,303	241,678	7,934,303	241,678
Cash in banks	654,593	19,939	654,593	19,939
Total	<u>\$27,011,245</u>	<u>\$822,761</u>	<u>\$27,011,245</u>	<u>\$822,761</u>

As of June 30, 2006 and 2007, the Company had discretionary account management contracts in the amount of NT\$12,650,000 (US\$391,277) and NT\$22,450,000 (US\$683,826), respectively.

(8) Material contract

None.

(9) Presentation of financial statements

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

(10) Other

None.

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 the Company 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. The Company'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, the Company's remittances to this company totaled approximately US\$48,330.

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

**Cathay Life Insurance Co., Ltd.**

**Note to financial statements-continued**

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

**As of June 30, 2006 and 2007**

32. Segment Information

None.