

Cathay Century Insurance Co., Ltd.
Unaudited financial statements
Together with
Review report of independent auditors
As of September 30, 2006 and 2007

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

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

Board of Directors
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the “Company”) as of September 30, 2006 and 2007, and the related statements of income, changes in stockholders’ equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report based on our reviewed.

We conducted our reviews in accordance with generally accepted auditing standards No. 36 “Review of Financial Statements” in the Republic of China. A review of interim financial information consists principally of applying analytical review procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine-month periods ended September 30, 2006 and 2007 in order for them to be in conformity with “Business Entity Accounting Act” and “Regulation on Business Entity Accounting Handling”, “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and generally accepted accounting principles in the Republic of China.

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

ERNST & YOUNG
Taipei, Taiwan
Republic of China
October 12, 2007

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited balance sheets

As of September 30, 2006 and 2007

(Expressed in thousands of dollars)

Assets	Notes	September 30, 2006		September 30, 2007	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$2,149,403	\$64,937	\$1,655,790	\$50,682
Financial assets at fair value through profit or loss - current	2,5	578,108	17,465	924,526	28,299
Available-for-sale financial assets - current	2,6	1,939,903	58,607	3,374,997	103,306
Held-to-maturity financial assets - current	2,7	-	-	31,112	952
Investments in debt securities with no active market - current	2,8	277,468	8,383	126,209	3,863
Notes receivable	2	204,604	6,181	206,873	6,332
Premiums receivable	2,9	1,182,749	35,733	1,453,327	44,485
Claims recoverable from reinsurers		276,432	8,351	119,808	3,667
Due from reinsurers and ceding companies		228,706	6,910	63,274	1,937
Reinsurance receivable		28,878	872	35,420	1,084
Other accounts receivable	2	68,489	2,069	55,008	1,684
Prepayments		3,034	92	4,035	124
Deferred income tax assets - current	2,21	46,798	1,414	32,752	1,003
Subtotal		6,984,572	211,014	8,083,131	247,418
Loans					
Secured loans	2,10	1,984,134	59,944	2,318,109	70,955
Subtotal		1,984,134	59,944	2,318,109	70,955
Funds and investments					
Held-to-maturity financial assets - noncurrent	11	3,611,519	109,109	4,222,682	129,253
Financial assets carried at cost - noncurrent	12	60,000	1,813	60,000	1,837
Investments in debt securities with no active market - noncurrent	13	229,942	6,947	102,136	3,126
Long-term investments in stocks under the equity method	14	450,460	13,609	445,273	13,629
Subtotal		4,351,921	131,478	4,830,091	147,845
Property and equipment assets					
Communication and transportation equipments	15	15,403	465	11,355	347
Other equipments		186,119	5,623	204,863	6,271
Subtotal		201,522	6,088	216,218	6,618
Less: Accumulated depreciation		(160,615)	(4,853)	(176,671)	(5,408)
Prepayments for equipments		2,838	86	612	19
Subtotal		43,745	1,321	40,159	1,229
Intangible assets					
Computer software cost	2	8,342	252	6,317	193
Deferred pension cost	16	3,464	105	-	-
Subtotal		11,806	357	6,317	193
Other assets					
Guarantee deposits paid		404,995	12,235	419,121	12,829
Funds held by ceding companies		8	-	-	-
Overdue receivables	2	370,478	11,193	206,649	6,325
Other assets-others		14,355	434	25,239	773
Subtotal		789,836	23,862	651,009	19,927
Total assets		\$14,166,014	\$427,976	\$15,928,816	\$487,567

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.
Unaudited balance sheets - (Continued)
As of September 30, 2006 and 2007
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	September 30, 2006		September 30, 2007	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2	\$89,295	\$2,698	\$-	\$-
Derivative financial liabilities for hedging - current		-	-	126	4
Commissions payable		3,734	113	9,085	278
Claims outstanding		82,513	2,493	34,494	1,056
Due to reinsurers and ceding companies		129,572	3,914	346,262	10,599
Reinsurance payable		870,304	26,293	626,745	19,184
Other payables		699,631	21,137	594,904	18,209
Subtotal		<u>1,875,049</u>	<u>56,648</u>	<u>1,611,616</u>	<u>49,330</u>
Long-term liabilities					
Accrued pension liabilities	2	8,855	268	3,405	104
Subtotal		<u>8,855</u>	<u>268</u>	<u>3,405</u>	<u>104</u>
Operating and liability reserve					
Unearned premiums reserve	2,17	4,784,007	144,532	5,063,161	154,979
Special reserve		3,014,594	91,075	3,823,588	117,037
Claims reserve		1,078,626	32,587	1,386,441	42,438
Subtotal		<u>8,877,227</u>	<u>268,194</u>	<u>10,273,190</u>	<u>314,454</u>
Other liabilities					
Funds held for reinsurers		185	6	-	-
Other liabilities-others		83,092	2,510	131,540	4,026
Subtotal		<u>83,277</u>	<u>2,516</u>	<u>131,540</u>	<u>4,026</u>
Total liabilities		<u>10,844,408</u>	<u>327,626</u>	<u>12,019,751</u>	<u>367,914</u>
Stockholders' equity					
Capital stock					
Common stock	18	2,317,006	70,000	2,317,006	70,921
Capital surplus		1,930	58	1,929	59
Retained earnings					
Legal reserve	19	343,857	10,388	416,834	12,759
Unappropriated retained earnings		608,822	18,393	994,264	30,434
Equity adjustment					
Unrealized gains or losses on financial instruments		49,991	1,511	179,032	5,480
Total stockholders' equity		<u>3,321,606</u>	<u>100,350</u>	<u>3,909,065</u>	<u>119,653</u>
Total liabilities and stockholders' equity		<u>\$14,166,014</u>	<u>\$427,976</u>	<u>\$15,928,816</u>	<u>\$487,567</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of income

For the nine months ended September 30, 2006 and 2007

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

Items	Notes	January 1-September 30,2006		January 1-September 30,2007	
		NT\$	US\$	NT\$	US\$
Operating revenues	2				
Premiums income		\$7,120,191	\$215,112	\$7,992,961	\$244,658
Reinsurance commission earned		172,240	5,204	207,501	6,351
Claims recovered from reinsurers		924,837	27,941	779,940	23,873
Recovered unearned premiums reserve		4,449,253	134,419	4,955,218	151,675
Recovered special claim reserve		188,449	5,693	72,720	2,226
Recovered claims reserve		44,292	1,338	192,970	5,907
Handling fee earned		49	1	54	2
Interest revenues		236,065	7,132	275,695	8,439
Gains on valuation of financial assets		7,353	222	73,675	2,255
Gains on investments recognized under the equity method		33,442	1,010	26,725	818
Gains on foreign exchange		38,041	1,149	6,205	190
Gains on disposal of investments		64,391	1,945	243,669	7,458
Subtotal		<u>13,278,603</u>	<u>401,166</u>	<u>14,827,333</u>	<u>453,852</u>
Operating costs	2				
Reinsurance premiums ceded		(2,135,412)	(64,514)	(2,450,300)	(75,002)
Commissions expenses		(132,281)	(3,996)	(134,218)	(4,108)
Insurance claims payment		(3,159,224)	(95,445)	(3,187,026)	(97,552)
Provision for unearned premiums reserve		(4,784,007)	(144,532)	(5,063,161)	(154,979)
Provision for special claim reserve		(455,250)	(13,754)	(710,028)	(21,733)
Contribution to the stabilization funds		(13,573)	(410)	(15,360)	(470)
Provision for claims reserve		(192,970)	(5,830)	(241,023)	(7,378)
Handling fee paid		(177,808)	(5,372)	(189,049)	(5,787)
Losses on valuation of financial liabilities		(89,295)	(2,698)	-	-
Losses on foreign exchange		(5,544)	(167)	(5,982)	(183)
Other operating costs		(3,051)	(92)	(4,749)	(145)
Subtotal		<u>(11,148,415)</u>	<u>(336,810)</u>	<u>(12,000,896)</u>	<u>(367,337)</u>
Operating gross profit		<u>2,130,188</u>	<u>64,356</u>	<u>2,826,437</u>	<u>86,515</u>
Operating expenses	2				
Commercial expenses		(1,235,106)	(37,315)	(1,353,389)	(41,426)
General and administrative expenses		(190,831)	(5,765)	(226,741)	(6,940)
Operating income		<u>704,251</u>	<u>21,276</u>	<u>1,246,307</u>	<u>38,149</u>
Non-operating revenues					
Gains on disposal of property and equipment		-	-	642	20
Other non-operating revenues		1,592	48	1,717	52
Subtotal		<u>1,592</u>	<u>48</u>	<u>2,359</u>	<u>72</u>
Non-operating expenses					
Losses on disposal of property and equipment		(48)	(1)	(2)	-
Miscellaneous expenses		(57)	(2)	(55)	(2)
Subtotal		<u>(105)</u>	<u>(3)</u>	<u>(57)</u>	<u>(2)</u>
Income from continuing operations before income taxes		705,738	21,321	1,248,609	38,219
Income taxes	2,21	(157,057)	(4,745)	(254,345)	(7,785)
Income from continuing operations after income taxes		548,681	16,576	994,264	30,434
Cumulative effect of changes in accounting principles	3	60,141	1,817	-	-
Net income		<u>\$608,822</u>	<u>\$18,393</u>	<u>\$994,264</u>	<u>\$30,434</u>
Earning per share (In dollars)	22				
Income before income taxes		<u>\$3.31</u>	<u>\$0.10</u>	<u>\$5.39</u>	<u>\$0.16</u>
Net income		<u>\$2.63</u>	<u>\$0.08</u>	<u>\$4.29</u>	<u>\$0.13</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of changes in stockholders' equity

For the nine months ended September 30, 2006 and 2007

(Expressed in thousands of dollars)

Summary	Capital stock		Retained earnings				Equity adjustments				Total			
	Common stock		Capital surplus		Legal reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative translation adjustments		NTS	US\$
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on January 1, 2006	\$2,317,006	\$70,000	\$2,021	\$61	\$284,803	\$8,604	\$590,545	\$17,841	\$-	\$-	\$(158)	\$(5)	\$3,194,217	\$96,501
Unrealized gains or losses on financial instruments - first time adoption										(24,734)	(747)		(24,734)	(747)
Appropriations and distributions for 2005														
Legal reserve					59,054	1,784	(59,054)	(1,784)						
Cash dividends							(527,812)	(15,946)					(527,812)	(15,946)
Bonus paid to employees							(3,679)	(111)					(3,679)	(111)
Capital surplus recognized under the equity method			(91)	(3)									(91)	(3)
Changes in unrealized gains or losses on financial instruments										74,725	2,258		74,725	2,258
Cumulative translation adjustments												158	5	158
Net Income for the nine months period ended September 30, 2006							608,822	18,393					608,822	18,393
Balance on September 30, 2006	\$2,317,006	\$70,000	\$1,930	\$58	\$343,857	\$10,388	\$608,822	\$18,393	\$49,991	\$1,511	\$-	\$-	\$3,321,606	\$100,350
Balance on January 1, 2007	\$2,317,006	\$70,921	\$1,929	\$59	\$343,857	\$10,525	\$729,766	\$22,337	\$179,028	\$5,480	\$-	\$-	\$3,571,586	\$109,322
Appropriations and distributions for 2006														
Legal reserve					72,977	2,234	(72,977)	(2,234)						
Cash dividends							(650,605)	(19,914)					(650,605)	(19,914)
Bonus paid to employees							(6,184)	(189)					(6,184)	(189)
Changes in unrealized gains or losses on financial instruments										4			4	
Net Income for the nine months period ended September 30, 2007							994,264	30,434					994,264	30,434
Balance on September 30, 2007	\$2,317,006	\$70,921	\$1,929	\$59	\$416,834	\$12,759	\$994,264	\$30,434	\$179,032	\$5,480	\$-	\$-	\$3,909,065	\$119,653

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows

For the nine months ended September 30, 2006 and 2007

(Expressed in thousands of dollars)

Items	Notes	January 1-September 30,2006		January 1-September 30,2007	
		NTS	US\$	NTS	US\$
Cash flows from operating activities					
Net income		\$608,822	\$18,393	\$994,264	\$30,434
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		5,608	169	4,530	139
Depreciation		17,561	530	13,486	413
Provision for reserve for operations		5,432,227	164,116	6,014,212	184,090
Recovered unearned premiums reserve		(4,449,253)	(134,419)	(4,955,218)	(151,675)
Recovered special claim reserve		(188,449)	(5,693)	(72,720)	(2,226)
Recovered claims reserve		(44,292)	(1,338)	(192,970)	(5,907)
Gains on disposal of property and equipment		-	-	(642)	(20)
Losses on disposal of property and equipment		48	1	2	-
Gains on valuation of financial assets		(7,353)	(222)	(73,675)	(2,255)
Gains on valuation of financial liabilities		-	-	(61,846)	(1,893)
Losses on valuation of financial liabilities		89,295	2,698	-	-
Gains on investments recognized under the equity method in excess of cash dividend received		(33,442)	(1,010)	(2,725)	(83)
Cumulative effects of exchange rate changes		(32,497)	(982)	(223)	(7)
Effects of changes in accounting principles		(60,141)	(1,817)	-	-
(Increase) decrease in financial assets at fair value through profit or loss - current		34,869	1,054	(339,168)	(10,382)
(Increase) decrease in notes receivable		(7,918)	(239)	11,266	345
(Increase) decrease in premiums receivable		(5,635)	(170)	44,320	1,356
(Increase) decrease in claims recoverable from reinsurers		(60,657)	(1,833)	50,564	1,548
(Increase) decrease in due from reinsurers and ceding companies		(242,646)	(7,331)	98,969	3,029
(Increase) decrease in reinsurance receivable		249,736	7,545	(202,062)	(6,185)
(Increase) decrease in other accounts receivable		(33,540)	(1,013)	170,207	5,210
Increase in prepayments		(196)	(6)	(1,227)	(38)
(Increase) decrease in deferred income tax assets-current		(8,810)	(266)	20,816	637
Increase in overdue receivables		(229,819)	(6,943)	(69,434)	(2,125)
Increase in other assets-others		(232)	(7)	(8,273)	(253)
Decrease in financial liabilities at fair value through profit or loss - current		(2,256)	(68)	-	-
Increase (decrease) in commissions payable		(3,538)	(107)	6,164	189
Increase in claims outstanding		81,885	2,474	14,945	457
Decrease in other payables		263,241	7,953	16,570	507
Increase in accrued pension liabilities		1,986	60	-	-
Increase in other liabilities-others		7,336	222	71,741	2,196
Increase in claims reserve		2,943	89	186,484	5,708
Net cash provided by (used in) operating activities		1,384,883	41,840	1,738,357	53,209

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows-(Continued)

For the nine months ended September 30, 2006 and 2007

(Expressed in thousands of dollars)

Items	Notes	January 1-September 30,2006		January 1-September 30,2007	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
Increase in available-for-sale financial assets - current		(228,529)	(6,904)	(820,236)	(25,107)
Decrease in investments in debt securities with no active market - current		53,316	1,611	76,662	2,346
Increase in secured loans		(662,922)	(20,028)	(222,841)	(6,821)
Increase in held-to-maturity financial assets - noncurrent		(457,564)	(13,824)	(504,447)	(15,441)
Decrease in investments in debt securities with no active market - noncurrent		1,195	36	1,195	37
Increase in Financial assets carried at cost - noncurrent		(24,000)	(725)	-	-
Disposal of property and equipment		-	-	1,072	33
Acquisition of property and equipment		(11,078)	(335)	(17,720)	(542)
Acquisition of intangible assets		(599)	(18)	(1,608)	(49)
(Increase) decrease in guarantee deposits paid		(21,137)	(639)	90,406	2,767
Decrease in funds held by ceding companies		-	-	8	-
Net cash provided by (used in) investing activities		<u>(1,351,318)</u>	<u>(40,826)</u>	<u>(1,397,509)</u>	<u>(42,777)</u>
Cash flows from financing activities					
Decrease in funds held for reinsurers		-	-	(186)	(6)
Bonus paid to employees		(8,259)	(250)	(6,184)	(189)
Cash dividends		(527,812)	(15,946)	(650,605)	(19,914)
Net cash provided by (used in) financing activities		<u>(536,071)</u>	<u>(16,196)</u>	<u>(656,975)</u>	<u>(20,109)</u>
Effects of exchange rate changes		32,497	982	223	7
Increase (decrease) in cash and cash equivalents		(470,009)	(14,200)	(315,904)	(9,670)
Cash and cash equivalents at the beginning of periods		<u>2,619,412</u>	<u>79,137</u>	<u>1,971,694</u>	<u>60,352</u>
Cash and cash equivalents at the end of periods		<u>\$2,149,403</u>	<u>\$64,937</u>	<u>\$1,655,790</u>	<u>\$50,682</u>
Supplemental disclosure of cash flows information					
Income tax paid		<u>\$137,165</u>	<u>\$4,144</u>	<u>\$162,957</u>	<u>\$4,988</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2006 and 2007 were NT\$33.10 and NT\$32.67 to US\$1.00)

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

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

1. Organization and business scope

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

As of September 30, 2006 and 2007, the total numbers of employees were 916 and 998, respectively.

2. Summary of significant accounting policies

We prepared the financial statement, in accordance with generally accepted accounting principles, “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 Property and Casualty Insurance”. A summary of significant accounting policies follows:

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

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

(2) Cash and cash equivalents

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

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

(3) Financial assets and financial liabilities

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

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

A. Financial assets at fair value through profit or loss

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

B. Held-to-maturity financial assets

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

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C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

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

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.

(4) Allowance for bad debts

Allowance for bad debts on notes receivable, premiums receivable secured loans, overdue accounts and other accounts receivable are determined based on the aging accounts and the past experience of the Company.

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

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

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

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

(6) Property and equipment

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

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

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

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

(7) Intangible assets

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

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

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

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

(8) Accounting for Asset Impairment

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

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

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

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

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

(9) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

(10) Operating and liability reserves

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

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(11) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(12) Premiums income and expenses

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

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

(13) Contribution to the stabilization funds

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

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(14) Pension plan

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

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

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

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

(15) Foreign currency transactions

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

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(16)Income Taxes

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

In accordance with Article 49 of Financial Holding Company Act, the Company and Parent company selected the consolidated income tax returns for tax filing and pay a 10% surcharge on their undistributed retained earnings under the Consolidated Income Tax return. If there is any tax effects due to adopting Consolidated 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 Parent company.

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

The Company adopted ROC SFAS No. 12, “Accounting for Income Tax Credits” for income tax credits. The income tax credits resulting from the expenditures on the purchases of equipments, research and development, personnel trainings, and investments in equity are accounted for under the current period recognition method.

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

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

(17)Capital expenditure expenses

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

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(18) Derivative financial instruments

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

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

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

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

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

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.

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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.

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".

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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.

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.

(19) Translation to U.S. dollars

The financial statements are stated in NT dollars. The translated U.S. dollars amounts from NT dollars as of September 30, 2006 and 2007 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$33.10 and NT\$32.67 provided by Federal Reserve Bank of New York of September 30, 2006 and 2007 are used for the translation.

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3. Changes in accounting and their effects

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

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

The above changes in accounting principles increased the Company’s assets, by NT\$33,715 (US\$1,043) and decreased the Company’s liabilities and stockholders’ equity-unrealized gains or losses on financial instruments by NT\$1,692 (US\$52) and NT\$24,734 (US\$765) as of January 1, 2006, respectively. The company’s net income and earnings per share increased by NT\$60,141 (US\$1,860) and NT\$0.26 (US\$0.01), respectively, for the year ended December 31, 2006.

4. Cash and cash equivalents

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$11,026	\$333	\$11,734	\$359
Cash in banks	242,917	7,339	376,925	11,537
Time deposits	1,456,264	43,996	1,176,428	36,010
Cash equivalents	439,196	13,269	90,703	2,776
Total	<u>\$2,149,403</u>	<u>\$64,937</u>	<u>\$1,655,790</u>	<u>\$50,682</u>

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

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Common stock	\$371,050	\$11,210	\$450,445	\$13,788
Beneficiary certificates	193,132	5,835	253,302	7,753
Corporate bonds	-	-	110,760	3,390
Derivative financial instruments	6,573	198	7,436	228
Subtotal	570,755	17,243	821,943	25,159
Add: Valuation adjustment	7,353	222	102,583	3,140
Total	<u>\$578,108</u>	<u>\$17,465</u>	<u>\$924,526</u>	<u>\$28,299</u>

6. Available-for-sale financial assets-current

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Common stock	\$495,356	\$14,965	\$1,128,611	\$34,546
Beneficiary certificates	526,418	15,904	798,739	24,449
Corporate bonds	401,180	12,120	400,132	12,248
Financial debentures	501,387	15,148	901,119	27,582
Subtotal	1,924,341	58,137	3,228,601	98,825
Add: Valuation adjustment	15,562	470	146,396	4,481
Total	<u>\$1,939,903</u>	<u>\$58,607</u>	<u>\$3,374,997</u>	<u>\$103,306</u>

7. Held-to-maturity financial assets-current

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	<u>\$-</u>	<u>\$-</u>	<u>\$31,112</u>	<u>\$952</u>

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

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Financial debentures	<u>\$277,468</u>	<u>\$8,383</u>	<u>\$126,209</u>	<u>\$3,863</u>

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9. Premiums receivable

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$1,194,696	\$36,094	\$1,468,007	\$44,934
Less: Allowance for bad debts	(11,947)	(361)	(14,680)	(449)
Net	<u>\$1,182,749</u>	<u>\$35,733</u>	<u>\$1,453,327</u>	<u>\$44,485</u>

10. Loans

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Secured loans	\$2,061,542	\$62,282	\$2,413,536	\$73,876
Less: Allowance for bad debts	(77,408)	(2,338)	(95,427)	(2,921)
Net	<u>\$1,984,134</u>	<u>\$59,944</u>	<u>\$2,318,109</u>	<u>\$70,955</u>

Secured loans are secured by real estate.

11. Held-to-maturity financial assets - noncurrent

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$3,611,519	\$109,109	\$4,253,794	\$130,205
Less: Overseas investments in bonds payable within one year	-	-	(31,112)	(952)
Total	<u>\$3,611,519</u>	<u>\$109,109</u>	<u>\$4,222,682</u>	<u>\$129,253</u>

12. Financial assets carried at cost - noncurrent

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
KGEX. Com Co., Ltd.	\$36,000	\$1,088	\$36,000	\$1,102
Tong Lung Metal Industry Co., Ltd. - preferred stock	24,000	725	24,000	735
Total	<u>\$60,000</u>	<u>\$1,813</u>	<u>\$60,000</u>	<u>\$1,837</u>

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

	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Financial debentures	\$507,410	\$15,330	\$228,345	\$6,989
Less: Financial debentures by payable within one year	(277,468)	(8,383)	(126,209)	(3,863)
Total	<u>\$229,942</u>	<u>\$6,947</u>	<u>\$102,136</u>	<u>\$3,126</u>

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

Investee	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$442,162	\$13,358	\$437,357	\$13,387
Vista Technology Venture Capital Corp.	8,298	251	7,916	242
Total	<u>\$450,460</u>	<u>\$13,609</u>	<u>\$445,273</u>	<u>\$13,629</u>

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

	For the nine months ended September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$382,522	\$11,557	\$449,041	\$13,745
Add (less):				
Gain on investment recognized under the equity method	33,442	1,010	26,725	818
Cumulative translation adjustments method recognized	158	5	-	-
Capital surplus recognized under the equity method	(91)	(3)	-	-
Unrealized gains or losses on financial instrument	34,429	1,040	(6,493)	(199)
Cash dividends	-	-	(24,000)	(735)
Balance on September 30	<u>\$450,460</u>	<u>\$13,609</u>	<u>\$445,273</u>	<u>\$13,629</u>

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

Investee	For the nine months ended September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$33,010	\$997	\$26,789	\$820
Vista Technology Venture Capital Corp.	432	13	(64)	(2)
Total	\$33,442	\$1,010	\$26,725	\$818

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

D. The investment gains of Cathay Venture Capital Corp. for the nine months periods ended September 30, 2006 and 2007 were recognized under the equity method based on the reviewed financial statements.

15. Property and equipment

Item	September 30, 2006					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$15,403	\$465	\$10,451	\$361	\$4,952	\$149
Other equipments	186,119	5,623	105,164	4,537	35,955	1,086
Subtotal	201,522	6,088	160,615	4,853	40,907	1,235
Prepayments for equipments	2,838	86	-	-	2,838	86
Total	\$204,360	\$6,174	\$160,615	\$4,853	\$43,745	\$1,321

Item	September 30, 2007					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$11,355	\$347	\$8,480	\$260	\$2,875	\$87
Other equipments	204,863	6,271	168,191	5,148	36,672	1,123
Subtotal	216,218	6,618	176,671	5,408	39,547	1,210
Prepayments for equipments	612	19	-	-	612	19
Total	\$216,830	\$6,637	\$176,671	\$5,408	\$40,159	\$1,229

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No property and equipment of the Company were pledged as collaterals as of September 30, 2006 and 2007.

16. Intangible assets — Computer software cost

Item	January 1, 2006		Increase		Decrease		September 30, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$42,240	\$1,276	\$599	\$18	\$-	\$-	\$42,839	\$1,294
Amortization and impairment								
Amortization	(28,889)	(873)	(5,608)	(169)	-	-	(34,497)	(1,042)
Book value	<u>\$13,351</u>	<u>\$403</u>					<u>\$8,342</u>	<u>\$252</u>

Item	January 1, 2007		Increase		Decrease		September 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software	\$43,241	\$1,324	\$3,762	\$115	\$-	\$-	\$47,003	\$1,439
Amortization and impairment								
Amortization	(36,156)	(1,107)	(4,530)	(139)	-	-	(40,686)	(1,246)
Book value	<u>\$7,085</u>	<u>\$217</u>					<u>\$6,317</u>	<u>\$193</u>

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

17. Operating and liability reserve

	January 1, 2006		Provision		Recovered		September 30, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,449,253	\$134,419	\$4,784,007	\$144,532	\$4,449,253	\$134,419	\$4,784,007	\$144,532
Special reserve	2,747,793	83,014	455,250	13,754	188,449	5,693	3,014,594	91,075
Claims reserve	927,006	28,007	1,062,748	32,107	911,128	27,527	1,078,626	32,587
Total	<u>\$8,124,052</u>	<u>\$245,440</u>	<u>\$6,302,005</u>	<u>\$109,393</u>	<u>\$5,548,830</u>	<u>\$167,639</u>	<u>\$8,877,227</u>	<u>\$268,194</u>

	January 1, 2007		Provision		Recovered		September 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,955,218	\$151,675	\$5,063,161	\$154,979	\$4,955,218	\$151,675	\$5,063,161	\$154,979
Special reserve	3,186,280	97,529	710,028	21,733	72,720	2,226	3,823,588	117,036
Claims reserve	1,151,903	35,259	1,310,683	40,119	1,076,145	32,940	1,386,441	42,438
Total	<u>\$9,293,401</u>	<u>\$284,463</u>	<u>\$7,083,872</u>	<u>\$216,831</u>	<u>\$6,104,083</u>	<u>\$186,841</u>	<u>\$10,273,190</u>	<u>\$314,453</u>

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The claims reserves above represent outstanding claims of NT\$1,069,660 (US\$32,741) and IBNR(Incurred But Not Reported) of NT\$241,024 (US\$7,378) as of September 30, 2007. Balances of outstanding claims and IBNR as of September 30, 2006 were NT\$869,778 (US\$26,277) and NT\$192,970 (US\$5,830), respectively.

Reserves for operations included the following reserves:

(1) Unearned premium reserve

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

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

(2) Special claim reserve

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

A. Catastrophe reserve :

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

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- c. Recovery: The catastrophe reserve over 15 years should be recovered and recorded as income.
- B. Contingency reserve: reserve provided for unusual fluctuations of claims or loss ratios.
- a. Addition: Thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve.
 - b. Reduction: The amount of actual claims paid for each insurance product categories in excess of the respective catastrophe reserve and expected loss should be deducted from the catastrophe reserve. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.
 - c. Recovery: Once the accumulated contingency reserve of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income. When the accumulated accidental insurance contingency reserve exceeds 30% of the retained earned premium for the year, the excess amount should be recorded as income. However, authorities can assign or limit the use of the amount based on the development need of the insurance industry.
- C. The special reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.
- D. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.
- E. The residential earthquake insurance product is in compliance of “Regulations for Method of Coinsurance and Contingency on Residential Earthquake”.

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(3) Claims reserve:

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

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

18. Capital stock and capital increment

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

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19. Retained Earnings

(1) Legal reserve

Pursuant to the Company Act, 10% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued capital stock. This legal reserve can only be used to offset deficit but not for cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if it approves by the Board of Directors.

(2) Unappropriated retained earnings

A. According to the Company Act and the Company's articles of incorporations, 10% of the Company's annual earnings, after paying taxes and offsetting deficits, if any, shall be appropriated as legal reserve. In addition to distributing dividend to stockholder and 2% as bonus to employees, the shareholders meeting approved the remainder distribution plan, which propose by the board of directors.

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

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

(4) Pursuant to the explanatory letter of SFB on January 27, 2006, listed company is should appropriated a special reserve equal to the amount item in stockholder's which of deduction unrealized loss on financial instruments since 2007.

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20. Personnel, depreciation, depletion and amortization expenses

Item	For the nine months ended September 30, 2006 (NT\$)			For the nine months ended September 30, 2007 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	Personnel Expenses					
Salary and wages	\$-	\$621,206	\$621,206	\$-	\$670,836	\$670,836
Labor & health insurance expenses	-	34,863	34,863	-	34,879	34,879
Pension expenses	-	31,525	31,525	-	30,405	30,405
Other expenses	-	14,749	14,749	-	21,877	21,877
Depreciation	-	17,561	17,561	-	13,486	13,486
Depletion	-	-	-	-	-	-
Amortization	-	5,608	5,608	-	4,530	4,530

Item	For the nine months ended September 30, 2006 (US\$)			For the nine months ended September 30, 2007 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	Personnel Expenses					
Salary and wages	\$-	\$18,768	\$18,768	\$-	\$20,534	\$20,534
Labor & health insurance expenses	-	1,053	1,053	-	1,068	1,068
Pension expenses	-	952	952	-	931	931
Other expenses	-	446	446	-	670	670
Depreciation	-	530	530	-	413	413
Depletion	-	-	-	-	-	-
Amortization	-	169	169	-	139	139

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21. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the nine months ended September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$705,738	\$21,321	\$1,248,609	\$38,219
Adjustments:				
Interest income of taxed a separately	(5,840)	(176)	(24,087)	(737)
Gains (losses) on valuation of financial assets (liabilities)	81,942	2,476	(134,110)	(4,105)
Allowance for bad debts recovery	(15,174)	(458)	(3,785)	(116)
Gains derived from the securities transactions	(96,124)	(2,904)	(263,467)	(8,064)
Gains on investment recognized under the equity method	(33,442)	(1,010)	(26,725)	(818)
Unrealized gains on foreign exchanges	(35,304)	(1,067)	-	-
Unrealized losses on foreign exchanges	-	-	3,842	117
Realized losses on foreign exchanges	(359)	(11)	(19,477)	(596)
Unrealized pension expenses recovery	(3,405)	(103)	-	-
Others	713	21	32	1
Taxable Income	598,745	18,089	780,832	23,901
Multiply: Rate of income tax	25%	25%	25%	25%
Subtotal	149,686	4,522	195,208	5,975
Extra 10% income tax on Undistributed earnings	-	-	-	-
Tax effects under integrated income tax systems	17,958	543	38,253	1,171
Income tax credit	(1,674)	(51)	-	-
Subtotal	165,970	5,014	233,461	7,146
Taxed separately	1,168	35	2,134	65
Adjustment of prior year's income tax	(274)	(8)	(2,066)	(63)
Deferred income tax expenses (benefits)	(8,810)	(266)	20,816	637
Allocation of cumulative effect of changes in accounting principles	(997)	(30)	-	-
Total income tax expenses	\$157,057	\$4,745	\$254,345	\$7,785

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

	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$55,624	\$1,681	\$35,470	\$1,086
Total deferred income tax liabilities	\$8,826	\$267	\$2,718	\$83
B. Temporary differences:				
Bad debts exceeding legal limitation	\$133,013	\$4,018	\$127,170	\$3,891
Unrealized losses on foreign exchanges	-	-	3,842	118
Unrealized gains on foreign exchange	(35,303)	(1,067)	-	-
Unrealized gains on valuation of financial assets	-	-	-	-
Unrealized losses on valuation of financial assets	187	6	(10,871)	(333)
Unrealized losses on valuation of financial liabilities	89,295	2,698	-	-
Others	-	-	3,405	104
Total	\$187,192	\$5,655	\$123,546	\$3,782

	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
C. Investment tax credit	\$-	\$-	\$1,866	\$57

	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
D. Deferred income tax assets-current	\$55,624	\$1,681	\$35,470	\$1,086
Deferred income tax liabilities-current	(8,826)	(267)	(2,718)	(83)
Net between current deferred income tax assets and liabilities	\$46,798	\$1,414	\$32,752	\$1,003

	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
E. Deferred income tax assets-noncurrent	\$-	\$-	\$-	\$-

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

<u>Law of income tax credits</u>	<u>The credits items</u>	<u>The amount of income tax credits</u>	<u>The remaining balance</u>	<u>Expiry year</u>
Statute for Upgrading Industries	Personnel training	<u>\$1,866 (US\$57)</u>	<u>\$1,866 (US\$57)</u>	2011

- (4) The Company's income tax returns have been examined by the tax authority through year 2003, however, the Company has requested the reinvestigation on the tax return of year 2003. The results of the reinvestigation of the tax authority were received and disputes on the bond premiums tax issue were filed by the Company. The Company appealed in come tax return of year 1999, 2001 and 2003 is pending at the supreme court.

- (5) Information related to imputation system:

	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Balance of the imputation credit account	<u>\$3,770</u>	<u>\$114</u>	<u>\$10,579</u>	<u>\$324</u>
	September 30, 2006 (Actual)		September 30, 2007 (Actual)	
Tax creditable ratio	<u>1.73%</u>		<u>1.62%</u>	

- (6) Information relating of unappropriated retained earnings:

Year	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	-	-	-	-
Total	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

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

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22. Earnings per share

	For the nine months ended		For the nine months ended	
	September 30, 2006		September 30, 2007	
	NT\$	US\$	NT\$	US\$
Net income from continuing operations (A)	\$548,681	\$16,576	\$994,264	\$30,434
Cumulative effect of changes in accounting principles(B)	60,141	1,817	-	-
Net income (C)	\$608,822	\$18,393	\$994,264	\$30,434
Outstanding number of shares at end of period	231,701	231,701	231,701	231,701
Weighted average outstanding number of shares(D)	231,701	231,701	231,701	231,701
Earnings per share of net income from continuing operations (A)/(D) (dollars)	\$2.37	\$0.07	\$4.29	\$0.13
Earnings per share of cumulative effect of changes in accounting principles(B)/(D) (dollars)	0.26	0.01	-	-
Earnings per share of net income (C)/(D) (dollars)	\$2.63	\$0.08	\$4.29	\$0.13

23. Related party transactions

(1) Related parties

Name	Relationship
	Parent Company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
Cathay Securities Corp.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Venture Capital Corp.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee
San Ching Engineering Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Lucky Bank	Affiliate (Have been merged with Cathay United Bank on January 1, 2007)
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Futures Corp.	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate

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

(2) Transactions with related parties

A. Premiums income

Name	For the nine months ended September 30,			
	2006		2007	
	Direct written premiums NT\$	US\$	Direct written premiums NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$99,673	\$3,011	\$89,904	\$2,752
Cathay United Bank	53,726	1,623	96,227	2,946
Cathay Securities Corp.	-	-	428	13
Lucky Bank	4,837	146	-	-
Cathay General Hospital	5,141	155	5,362	164
Seaward Leasing Ltd.	9,284	281	10,432	319
Cathay Real Estate Development Co., Ltd.	993	30	921	28
Wan Pao Development Co., Ltd.	938	28	-	-
Symphox Information Co., Ltd.	585	18	-	-
Total	<u>\$175,177</u>	<u>\$5,292</u>	<u>\$203,274</u>	<u>\$6,222</u>

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B. Premiums receivable

Name	September 30,			
	2006		2007	
	Premiums receivable		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$5,953	\$180	\$2,891	\$89
Cathay United Bank	986	30	19,688	603
Cathay General Hospital	3,263	99	3,412	104
Seaward Leasing Ltd.	4,214	127	3,371	103
Total	<u>\$14,416</u>	<u>\$436</u>	<u>\$29,362</u>	<u>\$899</u>

C. Insurance claims payment

Name	For the nine months ended September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$6,781	\$205	\$6,041	\$185
Cathay United Bank	26,726	807	1,081	33
Seaward Leasing Ltd.	387	12	-	-
Symphox Information Co., Ltd.	-	-	984	30
Total	<u>\$33,894</u>	<u>\$1,024</u>	<u>\$8,106</u>	<u>\$248</u>

D. Cash in banks

Name	Type	For the nine months ended September 30, 2006		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$194,325	0.10%	\$96
	Time deposits	\$280,855	1.79%~2.09%	\$5,072
Lucky Bank	Cash in banks	\$2,106	0.10%	\$2
	Time deposits	\$10,000	1.97%	\$50
Name	Type	For the nine months ended September 30, 2006		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$5,871	0.10%	\$3
	Time deposits	\$8,485	1.79%~2.09%	\$153
Lucky Bank	Cash in banks	\$64	0.10%	\$0.06
	Time deposits	\$302	1.97%	\$2

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Name	Type	For the nine months ended September 30, 2007		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$248,129	0.10%	\$192
	Time deposits	\$462,450	2.16%~2.41%	\$7,098

Name	Type	For the nine months ended September 30, 2007		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$7,595	0.10%	\$6
	Time deposits	\$14,155	2.16%~2.41%	\$217

E. Loans

Name	For the nine months ended September 30, 2006			
	Maximum amount	Ending balance	Interest rate	Interest income
		NT\$		NT\$
Wu Ming-Yang	\$1,536	\$-	3.03%	\$5
Que Ming-Huang	\$7,596	\$7,377	2.20%	\$124
Chang Zhao-Yang	\$3,569	\$3,502	2.39%~3.14%	\$78
Jian Jie	\$1,548	\$1,485	3.14%	\$35
Yang Zhi-Quan	\$5,000	\$5,000	1.93%	\$16

Name	For the nine months ended September 30, 2006			
	Maximum amount	Ending balance	Interest rate	Interest income
		US\$		US\$
Wu Ming-Yang	\$46	\$-	3.03%	\$-
Que Ming-Huang	\$229	\$223	2.02%	\$4
Chang Zhao-Yang	\$108	\$106	2.39%~3.14%	\$2
Jian Jie	\$47	\$45	3.14%	\$1
Yang Zhi-Quan	\$151	\$151	1.93%	\$-

Name	For the nine months ended September 30, 2007			
	Maximum amount	Ending balance	Interest rate	Interest income
		NT\$		NT\$
Que Ming-Huang	\$5,800	\$5,311	2.64%	\$103
Chang Zhao-Yang	\$3,475	\$3,392	2.64%	\$64
Fan Shi-Kai	\$10,600	\$10,382	2.64%	\$101
Peng Yi-Miao	\$5,000	\$4,952	2.64%	\$32
Jian Jie	\$1,461	\$1,386	2.64%	\$27

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Name	For the nine months ended September 30, 2007			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$178	\$163	2.64%	\$3
Chang Zhao-Yang	\$106	\$104	2.64%	\$2
Fan Shi-Kai	\$324	\$318	2.64%	\$3
Peng Yi-Miao	\$153	\$152	2.64%	\$1
Jian Jie	\$45	\$42	2.64%	\$1

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

Name	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$118,803	\$3,589	\$158,403	\$4,848
Cathay Futures Corp.	5,079	153	4,954	152
Total	\$123,882	\$3,742	\$163,357	\$5,000

G. Available-for-sale financial assets-current

Name	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$-	\$-	\$74,771	\$2,289

H. Prepaid rents

Name	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,477	\$75	\$-	\$-

I. Guarantee deposits paid

Name	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$14,036	\$424	\$17,359	\$531

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J. Commissions expenses

Name	For the nine months ended September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Bank Property Agency of Association	\$17,014	\$514	\$630	\$19

K. Handling fee

Name	For the nine months ended September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$3,329	\$101	\$2,755	\$84

L. Accrued marketing expense

Name	For the nine months ended September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$331,064	\$10,002	\$96,857	\$2,965
Cathay United Bank	1,532	46	-	-
	<u>\$332,596</u>	<u>\$10,048</u>	<u>\$96,857</u>	<u>\$2,965</u>

M. Other payables – tax payable

Name	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$130,642	\$3,947	\$224,937	\$6,885

N. Other payable

Name	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$-	\$-	\$1,793	\$55

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O. Operating expenses

Name	Summary	For the nine months ended September 30,			
		2006		2007	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Rental expenses	\$41,061	\$1,240	\$52,173	\$1,597
	Marketing expenses	468,933	14,167	540,778	16,553
	Party premium expenses	4,486	136	6,082	186
	Training expenses	1,120	34	1,346	41
	Administrative expenses	-	-	3,852	118
Seaward Leasing Ltd.	Rental expenses	1,274	38	1,950	60
Cathay United Bank	Marketing expenses	11,153	337	32,246	987
Total		<u>\$528,027</u>	<u>\$15,952</u>	<u>\$638,427</u>	<u>\$19,542</u>

P. Other expenses

Name	For the nine months ended September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$3,383	\$102	\$10,992	\$336
Seaward Card Co., Ltd.	-	-	1,034	32
Cathay Lin Yuan Security Co., Ltd.	-	-	568	17
Total	<u>\$3,383</u>	<u>\$102</u>	<u>\$12,594</u>	<u>\$385</u>

Q. Other

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

Item	For the nine months ended September 30,	
	2006	2007
Forward foreign exchange contracts	US\$1,300	US\$21,054
CS contracts	US\$41,050	US\$34,550
IRS	-	NT\$200,000 (US\$6,122)

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24. Pledged assets

Item	September 30,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Government bonds	\$351,286	\$10,613	\$350,391	\$10,725

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

25. Other important matters and contingent liabilities

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

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

Period	Amount (NT\$)	Amount (US\$)
October 01, 2007 ~ September 30, 2008	\$81,569	\$2,497
October 01, 2008 ~ September 30, 2009	82,538	2,527
October 01, 2009 ~ September 30, 2010	84,967	2,601
October 01, 2010 ~ September 30, 2011	87,469	2,677
October 01, 2011 ~ September 30, 2012	90,047	2,756
Total	\$426,590	\$13,058

26. Serious damages

None

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27. Subsequent events

The company has received approval from the China Insurance Regulatory Commission in October, 2007 to form a joint-venture general insurance subsidiary with Cathay Life Insurance Co., Ltd in China. Please refer to note 29 “Information for investment in Mainland China”.

28. Other important events

(1) Pension related information

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

(2) Risk management policies and hedge strategies

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

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

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

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Market Risk

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

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

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

Credit risk

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

Operational Risk

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

Liquidity risk

The company's exposure to liquidity risk is minimal.

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(3) Financial instruments related information:

Assets	September 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$2,149,403	\$2,149,403	\$64,937	\$64,937
Financial assets at fair value through profit or loss				
current	571,832	571,832	17,276	17,276
Available-for-sale financial assets - current	1,939,903	1,939,903	58,607	58,607
Investments in debt securities with no active				
market-current	277,468	277,468	8,383	8,383
Receivables	1,455,842	1,455,842	43,983	43,983
Claims recoverable from reinsurers	276,432	276,432	8,351	8,351
Due from reinsurers and ceding Companies	228,706	228,706	6,910	6,910
Secured loans	1,984,134	1,984,134	59,944	59,944
Held-to-maturity financial assets - noncurrent	3,611,519	3,611,519	109,109	109,109
Financial assets carried at cost - noncurrent	60,000	60,000	1,813	1,813
Investments in debt securities with no active market -				
noncurrent	229,942	229,942	6,947	6,947
Long-term investments in stocks under the equity				
method	450,460	450,460	13,609	13,609
Guarantee deposits paid	404,995	404,995	12,235	12,235
Derivative financial instruments:				
Financial assets at fair value through				
profit or loss - current				
Futures Contract	5,761	5,761	174	174
Options Contract	515	515	15	15
Liabilities				
Non-derivative financial instrument :				
Claims outstanding	\$82,513	\$82,513	\$2,493	\$2,493
Due to reinsurers and ceding companies	129,572	129,572	3,914	3,914
Operating and liability reserve	8,877,277	8,877,277	268,194	268,194
Derivative financial instruments:				
Financial liabilities at fair value through profit or				
loss - current				
Foreign exchange SWAP	89,295	89,295	2,698	2,698

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Assets	September 30, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$1,655,790	\$1,655,790	\$50,682	\$50,682
Financial assets at fair value through profit or loss -				
current	908,179	908,179	27,798	27,798
Available-for-sale financial assets - current	3,374,997	3,374,997	103,306	103,306
Held-to-maturity financial assets-current	31,112	31,112	952	952
Investments in debt securities with no active				
market-current	126,209	126,209	3,863	3,863
Receivables	1,715,208	1,715,208	52,501	52,501
Claims recoverable from reinsurers	119,808	119,808	3,667	3,667
Due from reinsurers and ceding companies	63,274	63,274	1,937	1,937
Secured loans	2,318,109	2,318,109	70,955	70,955
Held-to-maturity financial assets- noncurrent	4,222,682	4,222,682	129,253	129,253
Financial assets carried at cost-noncurrent	60,000	60,000	1,837	1,837
Investments in debt securities with no active				
market – noncurrent	102,136	102,136	3,126	3,126
Long-term investments in stocks under the equity				
method	445,273	445,273	13,629	13,629
Guarantee deposits paid	419,121	419,121	12,829	12,829
Derivative financial instruments:				
Financial assets at fair value through				
profit or loss - current				
Futures Contract	6,012	6,012	184	184
Options Contract	573	573	18	18
Foreign exchange SWAP	9,762	9,762	299	299
Liabilities				
Non-derivative financial instrument:				
Claims outstanding	\$34,494	\$34,494	\$1,056	\$1,056
Due to reinsurers and ceding companies	346,262	346,262	10,599	10,599
Operating and liability reserve	10,273,190	10,273,190	314,454	314,454
Derivative financial instruments:				
Derivative financial liabilities for hedging-current				
IRS	126	126	4	4

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

- ① The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- ③ Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for the Company's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.
- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at September 30, 2006 and 2007:

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Financial Instruments	September 30,			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	2006	2007	2006	2007
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit or				
loss-current	\$571,832	\$908,179	\$-	\$-
Available-for-sale financial assets-current	1,939,903	3,374,997	-	-
Held-to-maturity financial assets-current	-	-	-	31,112
Investment in debt securities with no active				
market-current	-	-	277,468	126,209
Held-to-maturity financial assets-noncurrent	-	-	3,611,519	4,222,682
Financial assets carried at cost-noncurrent	-	-	60,000	60,000
Investment in debt securities with no active				
market-noncurrent	-	-	229,942	102,136
Long-term investments in stocks under the				
equity method	-	-	450,460	445,273
<u>Assets- derivative</u>				
Financial assets at fair value through profit				
and loss-current				
Futures	5,761	6,012	-	-
Option	515	573	-	-
Foreign exchange SWAP	-	9,762	-	-
<u>Liability-derivative</u>				
Financial liability at fair value through profit				
and loss-current				
Forward contracts	89,295	-	-	-
Derivative financial liabilities for				
hedging-current				
IRS	-	126	-	-

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Financial Instruments	September 30,			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	2006	2007	2006	2007
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit or loss-current	\$17,276	\$27,799	\$-	\$-
Available-for-sale financial assets-current	58,607	103,306	-	-
Held-to-maturity financial assets-current	-	-	-	952
Investment in debt securities with no active market-current	-	-	8,383	3,863
Held-to-maturity financial assets-noncurrent	-	-	109,109	129,253
Financial assets carried at cost-noncurrent	-	-	1,813	1,837
Investment in debt securities with no active market-noncurrent	-	-	6,947	3,126
Long-term investments in stocks under the equity method	-	-	13,609	13,629
<u>Assets-derivative</u>				
Financial assets at fair value through profit or loss-current				
Futures	174	184	-	-
Option	15	18	-	-
Foreign exchange SWAP	-	299	-	-
<u>Liability- derivative</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	2,698	-	-	-
Derivative financial liabilities for hedging-current				
IRS	-	4	-	-

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(4) Risk of interest rate

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

Fix interest rate:

① September 30, 2006

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$-	\$-	\$57,638	\$1,741	\$862,005	\$26,042	\$197,637	\$5,971
Investments in debt securities								
with no active market	277,468	8,383	126,208	3,813	103,734	3,134	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$645,237	\$19,494	\$1,849,002	\$55,861	\$3,611,519	\$109,109
Investments in debt securities						
with no active market	-	-	-	-	507,410	15,330

② September 30, 2007

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$31,112	\$952	\$1,044,330	\$31,966	\$-	\$-	\$163,244	\$4,997
Investments in debt securities								
with no active market	126,209	3,863	102,136	3,126	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$792,926	\$24,271	\$2,222,182	\$68,019	\$4,253,794	\$130,205
Investments in debt securities						
with no active market	-	-	-	-	228,345	6,989

(5) Credit risk

The Company's exposure to credit risk is minimal.

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(6) Fair value hedges

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		September 30, 2006		September 30, 2007	
		NT\$	US\$	NT\$	US\$
Overseas investments in bonds	Foreign exchange SWAP	\$(89,295)	\$(2,698)	\$9,762	\$299

(7) Hedged of derivative financial instruments related information

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

Cash flow hedges-IRS

① September 30, 2007

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,122	90 DCP + 0.90%	Yearly	No maturity date

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 loss on financial instruments were recognized in equity by NT\$126 (US\$4) as of September 30, 2007.

(8) Discretionary account management

Item	September 30, 2006			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$211,328	\$6,384	\$211,328	\$6,384
Short-term notes	40,083	1,211	40,083	1,211
Cash in banks	30,743	929	30,743	929
Net other assets less liabilities	3,234	98	3,234	98
Total	\$285,388	\$8,622	\$285,388	\$8,622

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Item	September 30, 2007			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$389,933	\$11,936	\$389,933	\$11,936
Short-term notes	90,702	2,776	90,702	2,776
Cash in banks	75,932	2,324	75,932	2,324
Net other assets less				
liabilities	2,118	65	2,118	65
Total	\$558,685	\$17,101	\$558,685	\$17,101

As of September 30, 2006 and 2007, the Company had discretionary account management contracts in the amount of NT\$250,000 (US\$7,553) and NT\$400,000 (US\$12,244), respectively.

(9) Material Contract

None.

(10) Presentation of Financial Statements:

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

29. Information for investment in Mainland China

On June 30, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$28,690 as the registered capital to establish a China-based general insurance subsidiary. The Company has received approval from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The capital fund has not been wired out as of September 30, 2007.

30. Segment information

None.