

Cathay Life Insurance Co., Ltd.
Financial Statements
As of December 31, 2006 and 2007
With Independent Auditors' Report

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

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

Cathay Life Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of December 31, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2007, and the results of its operations and their cash flows for the years then ended in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the ROC.

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

In addition, we have also audited the consolidated financial statements of the Company as of and for the years ended December 31, 2006 and 2007, on which we have expressed a modified unqualified report and an unqualified opinions, respectively.

Ernst & Young
Taipei, Taiwan
The Republic of China
January 28, 2008

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Balance sheets
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)

Assets	Notes	December 31, 2006		December 31, 2007	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$270,353,723	\$8,295,604	\$196,913,663	\$6,071,960
Financial assets at fair value through profit or loss - current	2,5	98,186,739	3,012,787	95,624,421	2,948,641
Available-for-sale financial assets - current	2,6	159,616,918	4,897,727	181,373,065	5,592,756
Held-to-maturity financial assets - current	2	13,313,233	408,507	8,307,886	256,179
Derivative financial assets for hedging - current	2,7	251,901	7,729	252,645	7,790
Investments in debt securities with no active market - current	2	5,001,829	153,477	5,850,138	180,393
Notes receivable	2	12,542,006	384,842	8,506,107	262,291
Claims Recoverable from Reinsurers		-	-	14,784	456
Reinsurance accounts receivable		19,229	590	10,706	330
Other accounts receivable	2	27,148,041	833,018	24,385,327	751,937
Other financial assets - current		7,000,000	214,790	4,000,000	123,343
Prepayments		18,282	561	33,430	1,031
Deferred income tax assets - current	2,23	2,286,028	70,145	3,671,103	113,201
Other current assets		365,151	11,204	307,497	9,482
Subtotal		596,103,080	18,290,981	529,250,772	16,319,790
Loans					
Policy loans	2,8	175,771,909	5,393,431	189,286,849	5,836,782
Secured loans		307,141,660	9,424,414	347,842,124	10,725,937
Subtotal		482,913,569	14,817,845	537,128,973	16,562,719
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9	170,885,851	5,243,506	229,265,818	7,069,560
Held-to-maturity financial assets - noncurrent	2,10	524,210,596	16,085,014	572,148,779	17,642,577
Financial assets carried at cost - noncurrent	2,11	19,621,636	602,075	19,053,344	587,522
Investments in debt securities with no active market - noncurrent	2	42,782,186	1,312,740	59,126,664	1,823,209
Long-term investments in stocks under the equity method	2,13	4,290,720	131,658	6,254,217	192,853
Investments in real estate	2,14	102,346,061	3,140,413	106,384,870	3,280,446
Other financial assets - noncurrent		10,350,000	317,582	19,400,000	598,211
Subtotal		874,487,050	26,832,988	1,011,633,692	31,194,378
Property and equipment					
Land	2,15	4,722,055	144,893	4,796,289	147,897
Buildings and construction		9,746,781	299,073	10,266,494	316,574
Computer equipment		1,630,143	50,020	1,813,343	55,916
Communication and transportation equipment		28,894	887	15,415	475
Other equipment		2,940,308	90,221	2,956,222	91,157
Revaluation increments		1,054	32	1,216	37
Less: Accumulated depreciation		(6,196,440)	(190,133)	(6,854,984)	(211,378)
Less: Accumulated impairment		(85,519)	(2,624)	(85,519)	(2,637)
Construction in progress and prepayment for equipment		20,839	639	150,994	4,656
Subtotal		12,808,115	393,008	13,059,470	402,697
Intangible assets					
Computer software cost	2,16	329,989	10,125	470,923	14,521
Other assets					
Guarantee deposits paid	2	8,181,101	251,031	8,264,794	254,850
Deferred income tax assets - noncurrent	2,23	460,048	14,116	403,873	12,454
Other overdue receivables	2,17	42,160	1,293	40,807	1,258
Separate account products assets	2	161,276,981	4,948,665	253,787,276	7,825,695
Other assets - other		4,162,094	127,711	849,704	26,201
Subtotal		174,122,384	5,342,816	263,346,454	8,120,458
Total assets		\$2,140,764,187	\$65,687,763	\$2,354,890,284	\$72,614,563

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 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 Life Insurance Co., Ltd.
Balance sheets - (continued)
As of December 31, 2006 and 2007
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	December 31, 2006		December 31, 2007	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,18	\$11,575,477	\$355,185	\$13,058,619	\$402,671
Derivative financial liabilities for hedging - current	2,19	23,867	732	101,430	3,128
Notes payable		2,474	76	2,311	71
Commissions payable		989,658	30,367	949,666	29,283
Life insurance proceeds payable		903	28	5,861	181
Reinsurance accounts payable		196,488	6,029	188,838	5,823
Other payable		15,087,848	462,959	8,219,354	253,449
Accounts collected in advance		124,583	3,823	113,080	3,487
Subtotal		<u>28,001,298</u>	<u>859,199</u>	<u>22,639,159</u>	<u>698,093</u>
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	110	3,581	110
Accrued pension liability	2,30	1,683,182	51,647	1,350,933	41,657
Subtotal		<u>1,686,763</u>	<u>51,757</u>	<u>1,354,514</u>	<u>41,767</u>
Reserve for operations and liabilities					
Unearned premium reserve	2	10,952,441	336,067	11,353,273	350,086
Reserve for life insurance liabilities		1,785,740,520	54,794,125	1,917,825,136	59,137,377
Special reserve		17,722,533	543,803	18,155,311	559,831
Claims reserve		1,303,802	40,006	1,477,712	45,566
Subtotal		<u>1,815,719,296</u>	<u>55,714,001</u>	<u>1,948,811,432</u>	<u>60,092,860</u>
Other liabilities					
Guarantee deposits received		1,464,317	44,931	1,488,192	45,889
Separate account products liabilities	2	161,276,981	4,948,665	253,787,276	7,825,695
Other liabilities - other		12,794,624	392,594	3,458,913	106,658
Subtotal		<u>175,535,922</u>	<u>5,386,190</u>	<u>258,734,381</u>	<u>7,978,242</u>
Total liabilities		<u>2,020,943,279</u>	<u>62,011,147</u>	<u>2,231,539,486</u>	<u>68,810,962</u>
Stockholders' equity					
Capital stock					
Common stock	2,20	50,686,158	1,555,267	50,686,158	1,562,940
Capital surplus	2	9,648	296	9,648	298
Retained earnings					
Legal reserve	2,21	19,684,163	603,994	21,188,906	653,374
Special reserve		14,133,703	433,682	16,693,810	514,764
Unappropriated retained earnings		15,047,432	461,719	23,468,521	723,667
Equity adjustment					
Unrealized gains on financial instruments	2,21	20,222,726	620,520	11,169,132	344,407
Unrealized revaluation increments	2	2,105	65	2,105	65
Cumulative conversion adjustments	2	34,973	1,073	132,518	4,086
Total stockholders' equity		<u>119,820,908</u>	<u>3,676,616</u>	<u>123,350,798</u>	<u>3,803,601</u>
Total liabilities and stockholders' equity		<u>\$2,140,764,187</u>	<u>\$65,687,763</u>	<u>\$2,354,890,284</u>	<u>\$72,614,563</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 to US\$1.00)

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

Cathay Life Insurance Co., Ltd.

Statements of income

For the years ended December 31, 2006 and 2007

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

Item	Notes	2006		2007	
		NTS	US\$	NTS	US\$
Operating revenues	2,25				
Premiums income		\$287,636,373	\$8,825,909	\$302,992,914	\$9,342,982
Reinsurance commission earned		204,285	6,268	164,353	5,068
Claims recovered from reinsurers		217,095	6,661	347,731	10,723
Recovered premiums reserve		131,963,418	4,049,200	176,894,219	5,454,648
Recovered special reserve		693,802	21,289	713,870	22,013
Recovered claims reserve		433,636	13,306	1,303,803	40,204
Handling fees earned		1,139,177	34,955	1,744,552	53,794
Interest income		62,632,920	1,921,845	69,496,790	2,142,978
Gains from valuation on financial assets		12,525,621	384,339	-	-
Gains on long-term equity investments		247,455	7,593	260,423	8,030
Gains on disposal of investments		7,656,680	234,939	28,586,264	881,476
Gains on investments - real estate		12,299,911	377,414	6,403,089	197,443
Separate account products revenues		88,565,835	2,717,577	228,560,307	7,047,805
Subtotal		606,216,208	18,601,295	817,468,315	25,207,164
Operating costs	2,25				
Reinsurance premiums ceded		(647,927)	(19,881)	(653,495)	(20,151)
Brokerage expenses		(27,230,032)	(835,533)	(30,018,781)	(925,648)
Commissions expenses		(232,969)	(7,149)	(102,454)	(3,159)
Insurance claims payment		(157,599,253)	(4,835,816)	(202,775,958)	(6,252,728)
Provision for premiums reserve		(296,146,192)	(9,087,026)	(309,379,667)	(9,539,922)
Provision for special reserve		(972,049)	(29,827)	(1,146,648)	(35,358)
Contribution to the stabilization funds		(287,402)	(8,819)	(302,748)	(9,335)
Provision for claims reserve		(1,303,802)	(40,006)	(1,477,713)	(45,566)
Handling fees paid		(1,380,714)	(42,366)	(1,541,436)	(47,531)
Interest expenses		(103,265)	(3,169)	(43,384)	(1,338)
Losses from valuation on financial assets		-	-	(3,301,920)	(101,817)
Losses from valuation on financial liabilities		(11,552,803)	(354,489)	(1,503,143)	(46,350)
Losses on foreign exchange		(1,173,756)	(36,016)	(1,726,493)	(53,238)
Separate account products expenses		(88,565,835)	(2,717,577)	(228,560,307)	(7,047,805)
Other operating cost		(139,326)	(4,275)	(516,385)	(15,923)
Subtotal		(587,335,325)	(18,021,949)	(783,050,532)	(24,145,869)
Operating gross profit		18,880,883	579,346	34,417,783	1,061,295
Operating expenses	2,25				
Marketing expenses		(2,862,968)	(87,848)	(3,168,238)	(97,695)
Administrative and general expenses		(7,523,267)	(230,846)	(8,055,183)	(248,387)
Subtotal		(10,386,235)	(318,694)	(11,223,421)	(346,082)
Operating income		8,494,648	260,652	23,194,362	715,213
Non-operating revenues & gains	2,25				
Gains on disposal of property and equipment		3,192	98	2,299	71
Other non-operating revenues & gains		1,666,427	51,133	1,451,612	44,761
Subtotal		1,669,619	51,231	1,453,911	44,832
Non-operating expenses & losses	2,25				
Losses on disposal of property and equipment		(766)	(23)	(339)	(10)
Impairment loss		(222,651)	(6,832)	(242,621)	(7,481)
Miscellaneous expenses		(23,874)	(733)	(55,961)	(1,726)
Subtotal		(247,291)	(7,588)	(298,921)	(9,217)
Income from continuing operations before income taxes		9,916,976	304,295	24,349,352	750,828
Income taxes benefit (expense)	2,23	1,814,601	55,680	(880,831)	(27,161)
Income from continuing operations after income taxes		11,731,577	359,975	23,468,521	723,667
Cumulative effect of changes in accounting principles (add tax benefit NT\$338,668 (US\$10,391))	3	3,315,855	101,744	-	-
Net income		\$15,047,432	\$461,719	\$23,468,521	\$723,667
Earnings per share (In dollars)	24				
Income from continuing operations after income taxes		\$2.31	\$0.07	\$4.63	\$0.14
Cumulative effect of changes in accounting principles		0.66	0.02	-	-
Net income		\$2.97	\$0.09	\$4.63	\$0.14

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 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 Life Insurance Co., Ltd.
Statements of changes in stockholders' equity
For the year ended December 31, 2006 and 2007
(Expressed in thousands of dollars)

Summary	Retained earnings								Equity adjustment								Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized (losses) gains on financial instruments		Unrealized revaluation increments		Cumulative conversion adjustments			
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Balance on January 1, 2006	\$50,686,158	\$1,555,267	\$10,105	\$310	\$17,891,897	\$549,000	\$11,082,320	\$340,053	\$17,922,656	\$549,943	\$-	\$-	\$3,048	\$94	\$(4,119)	\$(126)	\$97,592,065	\$2,994,541
Unrealized gains on financial instruments - for first time adoptior	-	-	-	-	-	-	-	-	-	-	9,914,421	304,217	-	-	-	-	9,914,421	304,217
Appropriations and Distributions for 2005																		
Legal reserve	-	-	-	-	1,792,266	54,994	-	-	(1,792,266)	(54,994)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,051,383	93,629	(3,051,383)	(93,629)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(13,057,689)	(400,665)	-	-	-	-	-	-	(13,057,689)	(400,665)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(249)	-	-	-	-	-	-	(8,100)	(249)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,218)	(406)	-	-	-	-	-	-	(13,218)	(406)
Land revaluation increments	-	-	-	-	-	-	-	-	-	-	-	-	(943)	(29)	-	-	(943)	(29)
Capital surplus-long-term equity investments	-	-	(457)	(14)	-	-	-	-	-	-	-	-	-	-	-	-	(457)	(14)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	10,308,305	316,303	-	-	-	-	10,308,305	316,303
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,092	1,199	39,092	1,199
Net income for the year ended December 31, 2006	-	-	-	-	-	-	-	-	15,047,432	461,719	-	-	-	-	-	-	15,047,432	461,719
Balance on December 31, 2006	<u>\$50,686,158</u>	<u>\$1,555,267</u>	<u>\$9,648</u>	<u>\$296</u>	<u>\$19,684,163</u>	<u>\$603,994</u>	<u>\$14,133,703</u>	<u>\$433,682</u>	<u>\$15,047,432</u>	<u>\$461,719</u>	<u>\$20,222,726</u>	<u>\$620,520</u>	<u>\$2,105</u>	<u>\$65</u>	<u>\$34,973</u>	<u>\$1,073</u>	<u>\$119,820,908</u>	<u>\$3,676,616</u>
Balance on January 1, 2007	\$50,686,158	\$1,562,940	\$9,648	\$298	\$19,684,163	\$606,974	\$14,133,703	\$435,822	\$15,047,432	\$463,997	\$20,222,726	\$623,581	\$2,105	\$65	\$34,973	\$1,078	\$119,820,908	\$3,694,755
Appropriations and distributions for 2006																		
Legal reserve	-	-	-	-	1,504,743	46,400	-	-	(1,504,743)	(46,400)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,560,107	78,942	(2,560,107)	(78,942)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,962,644)	(338,040)	-	-	-	-	-	-	(10,962,644)	(338,040)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(250)	-	-	-	-	-	-	(8,100)	(250)
Bonus paid to employees	-	-	-	-	-	-	-	-	(11,838)	(365)	-	-	-	-	-	-	(11,838)	(365)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	(9,053,594)	(279,174)	-	-	-	-	(9,053,594)	(279,174)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	97,545	3,008	97,545	3,008
Net income for the year ended December 31, 2007	-	-	-	-	-	-	-	-	23,468,521	723,667	-	-	-	-	-	-	23,468,521	723,667
Balance on December 31, 2007	<u>\$50,686,158</u>	<u>\$1,562,940</u>	<u>\$9,648</u>	<u>\$298</u>	<u>\$21,188,906</u>	<u>\$653,374</u>	<u>\$16,693,810</u>	<u>\$514,764</u>	<u>\$23,468,521</u>	<u>\$723,667</u>	<u>\$11,169,132</u>	<u>\$344,407</u>	<u>\$2,105</u>	<u>\$65</u>	<u>\$132,518</u>	<u>\$4,086</u>	<u>\$123,350,798</u>	<u>\$3,803,601</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NTS\$32.59 and NTS\$32.43 to US\$1.00)

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

Cathay Life Insurance Co., Ltd.
Statements of cash flows
For the year ended December 31, 2006 and 2007
(Expressed in thousands of dollars)

	2006		2007	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income for the periods	\$15,047,432	\$461,719	\$23,468,521	\$723,667
Adjustments:				
(Gains) losses from valuation of financial assets	(12,525,621)	(384,339)	3,301,920	101,817
Losses from valuation on financial liabilities	11,552,803	354,489	1,503,143	46,350
Property and equipment turn into contribution expenses	6,887	211	-	-
(Recovered) provision bad debt	(80,940)	(2,484)	347,956	10,729
Depreciation	2,416,307	74,143	2,422,939	74,713
Amortization	96,803	2,970	138,076	4,258
Impairment loss	222,651	6,832	242,621	7,481
Provision or recovered for each reserve	165,331,187	5,073,065	133,092,137	4,103,982
Gains on disposal of long-term investments held for disposal	(3,707)	(114)	(11)	-
Gains on disposal of property and equipment	(2,426)	(74)	(1,961)	(61)
Gains on disposal of investments in real estate	(5,172,771)	(158,723)	(1,240,106)	(38,240)
(Gains) losses on long-term equity investments in excess of cash dividends received	(124,870)	(3,832)	16,563	511
Effects of exchange rate changes	(74,439)	(2,284)	70,618	2,177
Cumulative effect of changes in accounting principles	(3,315,855)	(101,744)	-	-
Decrease (increase) in financial assets at fair value through profit or loss - current	37,183,626	1,140,952	(739,602)	(22,806)
Increase in available-for-sale financial assets - current	(24,949,867)	(765,568)	(30,930,500)	(953,762)
(Increase) decrease in held-to-maturity financial assets - current	(1,396,946)	(42,864)	5,005,347	154,343
Decrease (increase) in derivative financial assets for hedging - current	175,785	5,394	(209,799)	(6,469)
Increase in investments in debt securities with no active market - current	(4,024,018)	(123,474)	(848,309)	(26,158)
Decrease in notes receivable	1,472,626	45,187	4,035,899	124,450
Claims Recoverable from Reinsurers	-	-	(14,784)	(456)
(Increase) decrease in reinsurance accounts receivable	(19,229)	(590)	8,522	263
(Increase) decrease in other accounts receivable	(10,381,514)	(318,549)	2,752,912	84,888
(Increase) decrease in other financial assets - current	(7,000,000)	(214,790)	3,000,000	92,507
Decrease (increase) in prepayments	27,319	838	(14,860)	(458)
Increase in deferred income tax assets - current	(2,286,028)	(70,145)	(1,385,075)	(42,710)
Decrease in other current assets	3,366,697	103,305	57,654	1,778
Decrease in deferred income tax assets - noncurrent	71	2	56,175	1,732
(Increase) decrease in other assets - other	(2,710,901)	(83,182)	3,312,391	102,140
Decrease in financial liabilities at fair value through profit or loss - current	(4,113,888)	(126,232)	(48,424)	(1,493)
Increase in derivative financial liabilities for hedging - current	23,867	732	105,986	3,268
Increase (decrease) in notes payable	824	25	(163)	(5)
Decrease in commissions payable	(397,882)	(12,209)	(39,992)	(1,233)
(Decrease) increase in life insurance proceeds payable	(3,107)	(95)	4,958	153
Increase (decrease) in reinsurance accounts payable	4,699	144	(7,649)	(236)
Increase (decrease) in other payable	9,647,239	296,018	(6,868,457)	(211,793)
Decrease in accounts collected in advance	(358,402)	(10,997)	(11,503)	(355)
Decrease in deferred income tax liabilities - current	(396,408)	(12,163)	-	-
Increase (decrease) in accrued pension liability	55,864	1,714	(332,249)	(10,245)
Increase (decrease) in other liabilities - other	1,471,752	45,160	(9,335,712)	(287,873)
Net cash provided by operating activities	168,765,620	5,178,448	130,915,182	4,036,854
Cash flows from investing activities				
Disposal of long-term investments held for disposal	47,411	1,455	-	-
Increase in policy loans	(9,277,719)	(284,680)	(13,514,940)	(416,742)
Increase in secured loans	(30,371,404)	(931,924)	(41,010,329)	(1,264,580)
Increase in available-for-sale financial assets - noncurrent	(56,615,949)	(1,737,219)	(58,192,296)	(1,794,397)
Increase in held-to-maturity financial assets - noncurrent	(76,976,201)	(2,361,958)	(47,938,183)	(1,478,205)
Decrease in financial assets carried at cost - noncurrent	606,560	18,612	433,299	13,361
Decrease (increase) in investments in debt securities with no active market-noncurrent	1,846,563	56,661	(16,452,106)	(507,311)
Proceeds from disposal of long-term equity investments	-	-	199,662	6,157
Acquisition of long-term equity investments	-	-	(1,940,080)	(59,824)
Disinvestment of long-term equity investments	-	-	58	2
Disposal of investments in real estate	8,808,468	270,281	1,994,110	61,490
Acquisition of investments in real estate	(5,335,523)	(163,716)	(6,924,924)	(213,535)
Increase in other financial assets-noncurrent	(4,350,000)	(133,477)	(9,050,000)	(279,063)
Disposal of property and equipment	12,146	373	5,716	176
Acquisition of property and equipment	(352,940)	(10,830)	(546,264)	(16,844)
Acquisition of intangible assets	(248,584)	(7,628)	(279,010)	(8,603)
Decrease (increase) in guarantee deposits paid	10,903	335	(83,693)	(2,581)
Increase in other overdue receivables	(44,129)	(1,354)	(26,937)	(831)
Net cash used in investing activities	(172,240,398)	(5,285,069)	(193,325,917)	(5,961,330)

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 to US\$1.00)

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

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Cathay life insurance Co., Ltd.
Statements of cash flows - (continued)
For the year ended December 31, 2006 and 2007
(Expressed in thousands of dollars)

	2006		2007	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
(Decrease) increase in guarantee deposits received	(179,366)	(5,503)	23,875	736
Cash dividends	(13,057,689)	(400,665)	(10,962,644)	(338,040)
Bonus paid to employees	(13,218)	(406)	(11,838)	(365)
Remuneration paid to directors and supervisors	(8,100)	(249)	(8,100)	(250)
Net cash used in financing activities	<u>(13,258,373)</u>	<u>(406,823)</u>	<u>(10,958,707)</u>	<u>(337,919)</u>
Effects of exchange rate changes	74,439	2,284	(70,618)	(2,177)
Decrease in cash and cash equivalents	(16,658,712)	(511,160)	(73,440,060)	(2,264,572)
Cash and cash equivalents at the beginning of the periods	287,012,435	8,806,764	270,353,723	8,336,532
Cash and cash equivalents at the end of the periods	<u>\$270,353,723</u>	<u>8,295,604</u>	<u>\$196,913,663</u>	<u>\$6,071,960</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$73,656	\$2,260	\$12,561	\$387
Interest paid (excluding capitalized interest)	\$73,656	\$2,260	\$12,561	\$387
Income tax paid	<u>\$1,264,791</u>	<u>\$38,809</u>	<u>\$1,366,981</u>	<u>\$42,152</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT\$32.59 and NT\$32.43 to US\$1.00)

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

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Cathay Life Insurance Co., Ltd.

Notes to financial statements

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

As of December 31, 2006 and 2007

1. Organizations and business scope

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

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of December 31, 2006 and 2007, the total numbers of employees were 27,377 and 29,354, respectively.

2. Summary of significant accounting policies

We prepared the financial statements in accordance with the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the ROC. A summary of significant accounting policies follows:

(1) Current and non-current assets and liabilities

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

(2) Cash and cash equivalents

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

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Note to financial statements-continued

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(3) Recognition of financial assets and liabilities

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

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

A. Financial assets at fair value through profit or loss

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

B. Held-to-maturity financial assets

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

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Note to financial statements-continued

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

As of December 31, 2006 and 2007

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

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Note to financial statements-continued

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

As of December 31, 2006 and 2007

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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Note to financial statements-continued

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

(6) Derivative financial instruments

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

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

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

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

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

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

Fair value hedges

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

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Note to financial statements-continued

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

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

(7) Allowance for bad and doubtful debts

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

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

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

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

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

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

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

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

Improvements and major renovation of investments in real estate are capitalized, while repairs and maintenance are expensed immediately.

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

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

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

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(10) Property and equipment

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

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

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

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

(11) Intangible assets

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

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

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

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

(12) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From July 1, 2002 to December 31, 2007, an aggregate of NT\$1,549,324 (US\$47,774) was appropriated to this fund.

(13) Accounting for assets impairment

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

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

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

- A. first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and

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

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

(14) Real estate securitization

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

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

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

(15) Guaranteed depository insurance payment

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

(16) Reserve for operations

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

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

The Company had a surplus of NT\$16,693,810 (US\$514,764) from the “Special Reserve for the Loss Movement” as of December 31, 2007.

(17) Insurance premium income and expenses

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

(18) Pension plan

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

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

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

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(19) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries' financial statements

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

(20) Income taxes

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

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

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

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

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

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

(21) Capital expenditure expenses

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

(22) Separate account products

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

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

(23) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2006 and 2007 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.59 and NT\$32.43 provided by Federal Reserve Bank of New York of December 31, 2006 and 2007 are used for the conversion.

3. Changes in accounting and its effects

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

The above change in accounting principles increased the Company’s assets, liability and stockholders’ equity - unrealized (losses) gains of financial instruments by NT\$15,291,670 (US\$469,213), NT\$2,061,394 (US\$63,252) and NT\$9,914,421 (US\$304,217) as of January 1, 2006, respectively. It also increased the Company’s net income and earnings per share by NT\$3,315,855 (US\$101,744) and NT\$0.66 (US\$0.02), respectively, for the year ended December 31, 2006.

The Company adopted the ROC Statement of Financial Accounting Standards No.5, “Accounting for long-term investments in stocks under the equity method” (“SFAS No.5 (r5)”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company’s share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is not amortized. Such change in accounting principles decreased the Company’s long-term equity investments by NT\$1,401(US\$43) as of December 31, 2006, and decreased the Company’s net income by NT\$1,401(US\$43) for the year ended December 31, 2006. The Company considers the effect insignificant.

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4. Cash and cash equivalents

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$274,155	\$8,412	\$300,351	\$9,262
Cash in banks	14,173,578	434,906	18,424,972	568,146
Time deposits	209,992,625	6,443,468	160,267,246	4,941,944
Cash equivalents	45,913,365	1,408,818	17,921,094	552,608
Total	<u>\$270,353,723</u>	<u>\$8,295,604</u>	<u>\$196,913,663</u>	<u>\$6,071,960</u>

As of December 31, 2006 and 2007, the amounts of time deposits with maturities beyond one year were NT\$730,000 (US\$22,400) and NT\$52,000 (US\$1,603), respectively.

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

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$11,636,234	\$357,049	\$12,710,009	\$391,922
Overseas stocks	1,996,182	61,251	1,147,962	35,398
Beneficiary certificates	39,372,867	1,208,127	51,952,305	1,601,983
Exchange traded funds	2,414,255	74,080	261,234	8,055
Overseas bonds	13,270,460	407,194	11,353,521	350,093
Corporate bonds	3,493,086	107,183	3,685,835	113,655
Government bonds	9,906,160	303,963	1,021,138	31,488
Financial debentures	1,516,180	46,523	-	-
Derivative financial instruments	2,018,623	61,940	2,231,645	68,814
Structured time deposits	-	-	2,000,000	61,671
Subtotal	85,624,047	2,627,310	86,363,649	2,663,079
Add: Adjustment of valuation	12,562,692	385,477	9,260,772	285,562
Total	<u>\$98,186,739</u>	<u>\$3,012,787</u>	<u>\$95,624,421</u>	<u>\$2,948,641</u>

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6. Available-for-sale financial assets - current

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$108,872,106	\$3,340,660	\$119,920,267	\$3,697,819
Overseas stocks	10,671,028	327,432	19,636,823	605,514
Beneficiary certificates	7,925,390	243,185	13,568,876	418,405
Collateralized loans obligation and collateralized bonds obligation	27,852	855	-	-
Exchange traded funds	1,027,934	31,541	3,717,938	114,645
Real estate investment trust	8,587,150	263,490	8,725,399	269,053
Financial debentures	1,800,000	55,232	3,300,000	101,758
Corporate bonds	2,564,375	78,686	1,700,000	52,421
Overseas bonds	607,961	18,655	1,384,445	42,690
Subtotal	142,083,796	4,359,736	171,953,748	5,302,305
Add: Adjustment of valuation	17,533,122	537,991	9,419,317	290,451
Total	<u>\$159,616,918</u>	<u>\$4,897,727</u>	<u>\$181,373,065</u>	<u>\$5,592,756</u>

7. Derivative financial assets for hedging - current

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	251,901	7,729	252,645	7,790
Total	<u>\$251,901</u>	<u>\$7,729</u>	<u>\$252,645</u>	<u>\$7,790</u>

8. Loans

(1) Policy loans

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

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

(2) Secured loans

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Secured loans	\$307,088,698	\$9,422,789	\$347,848,596	\$10,726,136
Less: Allowance for bad debts	(311,791)	(9,567)	(446,354)	(13,763)
Subtotal	306,776,907	9,413,222	347,402,242	10,712,373
Overdue receivables	1,215,843	37,307	1,466,274	45,213
Add: Allowance for bad debts	(851,090)	(26,115)	(1,026,392)	(31,649)
Subtotal	364,753	11,192	439,882	13,564
Total	<u>\$307,141,660</u>	<u>\$9,424,414</u>	<u>\$347,842,124</u>	<u>\$10,725,937</u>

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

9. Available-for-sale financial assets – noncurrent

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$15,757,586	\$483,510	\$14,732,808	\$454,296
Government bonds	17,243,804	529,113	62,976,512	1,941,921
Financial debentures	59,100,417	1,813,453	110,148,896	3,396,512
Collateralized loans obligation and collateralized bonds obligation	5,740,933	176,156	7,339,215	226,310
Overseas bonds	71,007,837	2,178,823	33,010,591	1,017,903
Subtotal	168,850,577	5,181,055	228,208,022	7,036,942
Add: Adjustment of valuation	2,035,274	62,451	1,057,796	32,618
Total	<u>\$170,885,851</u>	<u>\$5,243,506</u>	<u>\$229,265,818</u>	<u>\$7,069,560</u>

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10. Held-to-maturity financial assets – noncurrent

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$5,076,761	\$155,777	\$3,918,511	\$120,830
Government bonds	18,318,725	562,097	26,639,943	821,460
Financial debentures	11,836,892	363,206	10,780,110	332,411
Collateralized loans obligation and collateralized bonds obligation	17,456,930	535,653	22,128,715	682,353
Overseas bonds	479,664,055	14,718,136	516,724,049	15,933,520
Subtotal	532,353,363	16,334,869	580,191,328	17,890,574
Less: Securities serving as deposits paid - bonds	(8,142,767)	(249,855)	(8,042,549)	(247,997)
Total	<u>\$524,210,596</u>	<u>\$16,085,014</u>	<u>\$572,148,779</u>	<u>\$17,642,577</u>

11. Financial assets carried at cost – noncurrent

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Stocks	\$20,729,514	\$636,070	\$20,296,215	\$625,847
Less: Accumulated impairment	(1,107,878)	(33,995)	(1,242,871)	(38,325)
Total	<u>\$19,621,636</u>	<u>\$602,075</u>	<u>\$19,053,344</u>	<u>\$587,522</u>

12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$84,141,752 (US\$2,581,827) and NT\$81,963,207 (US\$2,527,388) as of December 31, 2006 and 2007, respectively. The details of structured notes are listed below:

Item	December 31, 2006					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss - current	\$2,278,527	\$69,915	\$(33,065)	\$(1,015)	\$2,245,462	\$68,900
Available-for-sale financial assets	14,948,231	458,675	(142,749)	(4,380)	14,805,482	454,295
Held-to-maturity financial assets	66,290,808	2,034,084	-	-	66,290,808	2,034,084
Investments in debt securities with no active market - noncurrent	800,000	24,548	-	-	800,000	24,548
Total	<u>\$84,317,566</u>	<u>\$2,587,222</u>	<u>\$(175,814)</u>	<u>\$(5,395)</u>	<u>\$84,141,752</u>	<u>\$2,581,827</u>

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Item	December 31, 2007					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value	\$1,467,251	\$45,244	\$565	\$17	\$1,467,816	\$45,261
through profit or loss - current						
Available-for-sale financial assets	12,028,632	370,911	(152,355)	(4,698)	11,876,277	366,213
Held-to-maturity financial assets	67,193,602	2,071,958	-	-	67,193,602	2,071,958
Investments in debt securities with no active market - current	1,425,512	43,956	-	-	1,425,512	43,956
Total	\$82,114,997	\$2,532,069	\$(151,790)	\$(4,681)	\$81,963,207	\$2,527,388

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

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

Investee	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
WK Technology Fund VI Co., Ltd.	\$433,755	\$13,309	\$424,375	\$13,086
Vista Technology Venture Capital Corp.	39,869	1,223	39,554	1,220
Omnitek Venture Capital Corp.	334,511	10,264	227,846	7,026
Wa Tech Venture Capital Co., Ltd.	204,470	6,274	176,115	5,430
IBT Venture Capital Corp.	602,317	18,482	420,234	12,958
Cathay Insurance (Bermuda) Co., Ltd.	73,730	2,262	88,345	2,724
Symphox Information Co., Ltd.	262,963	8,069	271,559	8,374
Cathay Securities Investment Trust Co., Ltd.	256,498	7,871	373,293	11,511
Cathay Venture Capital Corp.	441,066	13,534	424,281	13,083
Cathay Securities Investment Co., Ltd.	120,060	3,684	167,337	5,160
Cathay Life Insurance Ltd. (Shanghai)	1,521,481	46,686	1,694,698	52,257
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	1,946,580	60,024
Total	\$4,290,720	\$131,658	\$6,254,217	\$192,853

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

	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$3,883,938	\$119,176	\$4,290,720	\$132,307
Add: Gains on long-term equity investments	247,455	7,593	260,423	8,030
Cumulative conversion adjustments	39,092	1,199	97,545	3,008
Unrealized gain or loss on financial instruments - long-term equity investments	243,277	7,465	142,143	4,383
Increment of investments	-	-	1,940,080	59,824
Less: Cash dividends	(122,585)	(3,761)	(276,986)	(8,541)
Disinvestment of long-term investments	-	-	(199,662)	(6,157)
Capital surplus-long-term equity investments	(457)	(14)	-	-
Disposal of investments	-	-	(46)	(1)
Balance as of December 31	<u>\$4,290,720</u>	<u>\$131,658</u>	<u>\$6,254,217</u>	<u>\$192,853</u>

(3) The recognized equity investment gains for the years ended December 31, 2006 and 2007 are listed below:

Investee	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$38,650	\$1,186	\$35,370	\$1,091
Vista Technology Venture Capital Corp.	527	16	(360)	(11)
Omnitek Venture Capital Corp.	91,526	2,808	44,112	1,360
Wa Tech Venture Capital Co., Ltd.	22,536	691	29,454	908
IBT Venture Capital Corp.	29,806	915	23,072	711
Cathay Insurance (Bermuda) Co., Ltd.	6,734	207	15,145	467
Symphox Information Co., Ltd.	(4,107)	(126)	8,596	265
Cathay Securities Investment Trust Co., Ltd.	65,562	2,012	177,191	5,464
Cathay Venture Capital Corp.	27,093	831	28,642	883
Cathay Securities Investment Co., Ltd.	26,324	808	70,258	2,167
Cathay Life Insurance Ltd. (Shanghai)	(57,196)	(1,755)	(171,057)	(5,275)
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	-	-
Total	<u>\$247,455</u>	<u>\$7,593</u>	<u>\$260,423</u>	<u>\$8,030</u>

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- A. The equity investment gains (losses) were recognized based on their respective financial statements for the year ended December 31, 2006. The financial statement of WK Technology Fund Vi Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the year ended December 31, 2006, were audited by other auditors with explanatory paragraph within the modified unqualified audit report except the Cathay Insurance (Bermuda) Co., Ltd., which had an unqualified audit report.
- B. The equity investment gains (losses) were recognized based on their respective financial statements for the year ended December 31, 2007. The financial statements of WK Technology Fund VI Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the year ended December 31, 2007, were audited by other auditors with the unqualified audit report except the Cathay Venture Capital Corp., which had a modified unqualified audit report.
- C. The consolidated financial statements of the Company as of and for the years ended December 31, 2006 and 2007 excluded Cathay Insurance (Bermuda) Co., Ltd., and Cathay Securities Investment Co., Ltd. because their total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.

14. Investments in real estate

Item	December 31, 2006									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$115,783,294	\$3,552,725	\$4,632	\$142	\$(13,933,607)	\$(427,543)	\$(196,952)	\$(6,043)	\$101,657,367	\$3,119,281
Construction	682,662	20,947	-	-	-	-	-	-	682,662	20,947
Prepayments for buildings and land	6,032	185	-	-	-	-	-	-	6,032	185
Total	\$116,471,988	\$3,573,857	\$4,632	\$142	\$(13,933,607)	\$(427,543)	\$(196,952)	\$(6,043)	\$102,346,061	\$3,140,413

Item	December 31, 2007									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$120,306,005	\$3,709,713	\$4,470	\$138	\$(15,411,620)	\$(475,227)	\$(195,923)	\$(6,042)	\$104,702,932	\$3,228,582
Construction	1,681,938	51,864	-	-	-	-	-	-	1,681,938	51,864
Total	\$121,987,943	\$3,761,577	\$4,470	\$138	\$(15,411,620)	\$(475,227)	\$(195,923)	\$(6,042)	\$106,384,870	\$3,280,446

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- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.
- (4) The Company has securitized its real estate properties such as the Min Sheng Commercial Building, An He Commercial Building and World Building in 2006. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The gain on disposal of real estates under "total amount accrual method" was NT\$4,168,073 (US\$127,894) in 2006.
- (5) The Company has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Chung Hua Building in 2005. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The relative information was disclosed as following:

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

After the REIT was issued, the sponsor and related parties of the Company did not participate in the original offering. Instead, the Company bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund's outstanding securities. Thus, it should be treated as a part of unsold real estate. The Company has deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the company. As of December 31, 2006, the amounts of deferred gain on disposal of real estate was NT\$1,773,919 (US\$54,431) had been recognized.

- (6) The Company had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building in 2007. The accounting treatment of the transactions was in compliance with (93) Article 141 and (95) Article 023 of Accounting Research and Development Foundation, "Accounting Treatment of Real Estate Securitization" and "Interpretation of the Accounting Treatment of Real Estate Securitization", respectively. The gain on disposal of real estates on this transaction was NT\$1,193,535 (US\$36,803) for the year ended December 31, 2007.

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15. Property and equipment

Item	December 31, 2006									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,722,055	\$144,893	\$1,054	\$32	\$-	\$-	\$(51,331)	\$(1,575)	\$4,671,778	\$143,350
Buildings and construction	9,746,781	299,073	-	-	(3,093,630)	(94,926)	(34,188)	(1,049)	6,618,963	203,098
Computer equipment	1,630,143	50,020	-	-	(1,202,147)	(36,887)	-	-	427,996	13,133
Communication and transportation equipment	28,894	887	-	-	(20,459)	(628)	-	-	8,435	259
Other equipment	2,940,308	90,221	-	-	(1,880,204)	(57,692)	-	-	1,060,104	32,529
Subtotal	19,068,181	585,094	1,054	32	(6,196,440)	(190,133)	(85,519)	(2,624)	12,787,276	392,369
Construction in progress and prepayment for equipment	20,839	639	-	-	-	-	-	-	20,839	639
Total	\$19,089,020	\$585,733	\$1,054	\$32	\$(6,196,440)	\$(190,133)	\$(85,519)	\$(2,624)	\$12,808,115	\$393,008

Item	December 31, 2007									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,796,289	147,897	\$1,216	\$37	\$-	\$-	\$(51,331)	\$(1,583)	\$4,746,174	\$146,351
Buildings and construction	10,266,494	316,574	-	-	(3,455,484)	(106,552)	(34,188)	(1,054)	6,776,822	208,968
Computer equipment	1,813,343	55,916	-	-	(1,331,660)	(41,063)	-	-	481,683	14,853
Communication and transportation equipment	15,415	475	-	-	(12,561)	(387)	-	-	2,854	88
Other equipment	2,956,222	91,157	-	-	(2,055,279)	(63,376)	-	-	900,943	27,781
Subtotal	19,847,763	612,019	1,216	37	(6,854,984)	(211,378)	(85,519)	(2,637)	12,908,476	398,041
Construction in progress and prepayment for equipment	150,994	4,656	-	-	-	-	-	-	150,994	4,656
Total	\$19,998,757	\$616,675	\$1,216	\$37	\$(6,854,984)	\$(211,378)	\$(85,519)	\$(2,637)	\$13,059,470	\$402,697

No properties or plants and equipments were pledged as collaterals as of December 31, 2006 and 2007.

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16. Intangible assets

Item	January 1, 2006		Increase		Decrease		December 31, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$223,265	\$6,850	\$248,585	\$7,628	\$-	\$-	\$471,850	\$14,478
Amortized and impairment:								
Amortized	(45,058)	(1,383)	(96,803)	(2,970)	-	-	(141,861)	(4,353)
Book value	<u>\$178,207</u>	<u>\$5,467</u>	<u>\$151,782</u>	<u>\$4,658</u>	<u>\$-</u>	<u>\$-</u>	<u>\$329,989</u>	<u>\$10,125</u>

Item	January 1, 2007		Increase		Decrease		December 31, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$471,850	\$14,550	\$279,010	\$8,603	\$-	\$-	\$750,860	\$23,153
Amortized and impairment:								
Amortized	(141,861)	(4,374)	(138,076)	(4,258)	-	-	(279,937)	(8,632)
Book value	<u>\$329,989</u>	<u>\$10,176</u>	<u>\$140,934</u>	<u>\$4,345</u>	<u>\$-</u>	<u>\$-</u>	<u>\$470,923</u>	<u>\$14,521</u>

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

17. Other overdue receivables

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$113,896	\$3,494	\$140,833	\$4,343
Less: Allowance for bad and doubtful debts	(71,736)	(2,201)	(100,026)	(3,085)
Total	<u>\$42,160</u>	<u>\$1,293</u>	<u>\$40,807</u>	<u>\$1,258</u>

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

Item	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$48,423	\$1,486	\$-	\$-
Add: Adjustment of valuation	11,527,054	353,699	13,058,619	402,671
Total	<u>\$11,575,477</u>	<u>\$355,185</u>	<u>\$13,058,619</u>	<u>\$402,671</u>

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19. Derivative financial liabilities for hedging - current

Item	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	23,867	732	101,430	3,128
Total	<u>\$23,867</u>	<u>732</u>	<u>\$101,430</u>	<u>\$3,128</u>

20. Common stock

As of December 31, 2006 and 2007, the total authorized thousand shares were 5,068,616 with par value of NT\$10 each.

21. Retained earnings

(1) Legal reserve

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

(2) Undistributed retained earnings

A. According to the Company Act and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve. After distributing stock interests and 2% of the total remaining amount as a bonus distribution to employees, the remainder is distributed in accordance with the resolutions of the Board of Directors.

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

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- C. According to the amended Income Tax Act (“Tax Act”) in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- D. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the legal reserve since 2007.
- E. According to the regulations issued by SFC, the Company should assume that dividends for year 2006 would be appropriated to the employee, directors and supervisors, and pro forma earnings per share for the current year.

	For the year ended December 31,2006	
	NT\$	US\$
A. Distribution		
Bonus paid to employees - Cash	\$11,838	\$363
Remuneration paid to directors and supervisors	8,100	249
B. After income tax earnings per share (expressed in dollars)	\$2.97	\$0.09
Pro forma earnings per share (expressed in dollars)	2.96	0.09

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

The surplus appropriation act of 2007 has not yet passed by the board of directors of the Company as the date of this audit report is issued.

22. Personnel expense 、 depreciation and amortizations

Item	For the year ended December 31, 2006 NT\$			For the year ended December 31, 2006 US\$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Personnel expenses						
Salary and wages	\$24,309,120	\$2,375,335	\$26,684,455	\$745,907	\$72,886	\$818,793
Labor & health insurance expenses	1,123,428	167,651	1,291,079	34,472	5,144	39,616
Pension expenses	697,955	104,157	802,112	21,416	3,196	24,612
Other expenses	980,426	217,100	1,197,526	30,084	6,661	36,745
Depreciation	-	2,416,307	2,416,307	-	74,143	74,143
Amortizations	-	96,803	96,803	-	2,970	2,970

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As of December 31, 2006 and 2007

Item	For the year ended December 31, 2007 NT\$			For the year ended December 31, 2007 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$27,184,636	\$2,307,630	\$29,492,266	\$838,256	\$71,157	\$909,413
Labor & health insurance expenses	1,177,213	165,129	1,342,342	36,300	5,092	41,392
Pension expenses	468,081	65,658	533,739	14,433	2,025	16,458
Other expenses	1,051,474	236,081	1,287,555	32,423	7,280	39,703
Depreciation	-	2,422,939	2,422,939	-	74,713	74,713
Amortizations	-	138,076	138,076	-	4,258	4,258

23. Estimated income taxes

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

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$2,838,574	\$87,099	\$4,074,976	\$125,655
Total deferred tax liabilities	\$92,498	\$2,838	\$-	\$-
Temporary differences:				
Pension expense	\$1,683,182	\$51,647	\$1,350,933	\$41,657
Unrealized exchange losses (gains)	(369,991)	(11,353)	1,427,120	44,006
Losses (gains) from valuation on financial assets and liabilities	1,308,965	40,165	4,915,513	151,573
Impairment loss	157,012	4,818	263,963	8,139
Other	22,648	695	32,684	1,008
Total	\$2,801,816	\$85,972	\$7,990,213	\$246,383
Tax effect under integrated income tax system	\$2,045,622	\$62,768	\$2,062,893	\$63,611
Income tax credit of changes in accounting principles	\$-	\$-	\$14,530	\$448
Deferred tax assets - current	\$2,378,526	\$72,983	\$3,671,103	\$113,201
Deferred tax liabilities - current	(92,498)	(2,838)	-	-
Net offset balance of deferred tax assets - current	\$2,286,028	\$70,145	\$3,671,103	\$113,201
Deferred tax assets - noncurrent	\$460,048	\$14,116	\$403,873	\$12,454
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	\$460,048	\$14,116	\$403,873	\$12,454

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(2) Income tax (benefit) expense included the following:

	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Tax expense for pre-tax income	\$-	\$-	\$-	\$-
Add (less): Tax effects under integrated income tax systems	(2,156,241)	(66,163)	(522,232)	(16,103)
Deferred income tax (benefit) expense from unrealized foreign exchange loss(gain)	(309,317)	(9,491)	(449,277)	(13,854)
Deferred income tax (benefit) expense from unrealized impairment loss	-	-	(26,738)	(824)
Deferred income tax (benefit) expense from unrealized financial instruments valuation loss(gain)	(327,242)	(10,041)	(901,637)	(27,803)
Deferred income tax (benefit) expense from unrealized pension expense	(13,966)	(429)	83,062	2,561
Others	13,782	423	(2,509)	(77)
Add: Separation tax	647,990	19,883	353,863	10,912
Additional tax assessed by the tax authority	901	28	5,938	183
Prior year adjustment	3,588	110	12,890	397
Overseas investments tax	-	-	37,130	1,145
Allocation of the cumulative effect of changes in accounting principles	338,668	10,392	-	-
Less: Income tax credit	(12,764)	(392)	-	-
Add: 10% surtax on undistributed retained earnings	-	-	-	-
Tax effects under income basic tax systems	-	-	2,290,341	70,624
Total income tax (benefit) expense	<u>\$(1,814,601)</u>	<u>\$(55,680)</u>	<u>\$880,831</u>	<u>\$27,161</u>

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

(4) Information related to imputation

	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$1,072,791	\$32,918	\$1,160,741	\$35,792

	December 31,	
	2006	2007
Imputation credit account ratio - actual (May 15, 2006)	7.33%	-
Imputation credit account ratio - actual (May 15, 2007)	-	7.96%

(5) Related information on undistributed earnings

Year	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
After 1998	\$15,047,432	\$461,719	\$23,468,521	\$723,667

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

Regulation	Deductible items	Amount of deductible				Expiry Year
		income tax		Remaining balance		
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$14,530	\$448	\$14,530	\$448	2011

24. Earnings per share

	For the year ended December 31, 2006			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Income from continuing operations after income taxes (a)	\$9,916,976	\$304,295	\$11,731,577	\$359,975
Cumulative effect of changes in accounting principles (a)	2,977,187	91,353	3,315,855	101,744
Net income (a)	\$12,894,163	\$395,648	\$15,047,432	\$461,719

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	For the year ended December 31, 2006			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Income from continuing operations after income taxes	\$1.96	\$0.06	\$2.31	\$0.07
Cumulative effect of changes in accounting principles	0.59	0.02	0.66	0.02
Net income	<u>\$2.55</u>	<u>\$0.08</u>	<u>\$2.97</u>	<u>\$0.09</u>

	For the year ended December 31, 2007			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net income (a)	<u>\$24,349,352</u>	<u>\$750,828</u>	<u>\$23,468,521</u>	<u>\$723,667</u>
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Net income	<u>\$4.80</u>	<u>\$0.15</u>	<u>\$4.63</u>	<u>\$0.14</u>

25. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company

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Name	Relationship
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Trust Co., Ltd.	An equity method investee
Cathay Venture Capital Corp.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee
IBT Venture Capital Corp.	An equity method investee
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Seaward Card Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Cathay Property Insurance Agent Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Lucky Bank Taiwan Inc.	Affiliate (Have been merged with Cathay United Bank on January 1, 2007)
China England Company Ltd.	Affiliate
Cathay Real Estate Management Co., Ltd.	Affiliate
Taiwan Finance Corp.	Affiliate
Taipei Smart Card Corp.	Affiliate
Industrial and Commercial Bank of Vietnam	Affiliate
Shanghai China Eastern Media Co., Ltd.	Affiliate
CEA Futures Brokerage Co., Ltd.	Affiliate
CEA Finance Holding Co., Ltd.	Affiliate

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Name	Relationship
CEA Finance Co., Ltd.	Affiliate
China Eastern Airlines Co., Ltd.	Affiliate
Shanghai East Fly Service Co., Ltd.	Affiliate
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	Affiliate
China Eastern Aviation IMP/EXP Corp.	Affiliate
China Eastern Real Estate Investment Co., Ltd.	Affiliate
China Eastern Airlines Jiangsu Ltd.	Affiliate
Cathay Century Realty Co., Ltd.	Affiliate
Cathay Biology Technology Co., Ltd.	Affiliate
Cathay Real Estate Holding Corporation	Affiliate
Cathay Cultural Foundation	Affiliate
Sunny Asset Management Co., Ltd.	Affiliate
Cathay Global Money Market Fund etc.	Investment trust funds operated by an equity method investee
Cathay Charity Foundation	Their vice-chairman is the Company's chairman
Cathay General Hospital	Their chairman is the Company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Yi Ru Corporation	Their chairman is an immediate family member of the Company's chairman in 2006
Taiwan Asset Management Corporation	Their chairman is Cathay United Bank
Other related parties	The directors supervisors, managers spouses and second relatives are included

(2) Significant transactions with related parties

A. Property transactions

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

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As of December 31, 2006 and 2007

(A) Significant transactions with related parties for the years ended December 31, 2006 and 2007 are listed below:

Name	Item	For the year ended December 31, 2006	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay General Hospital etc	\$9,802	\$301
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	1,500	46
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building etc	161,983	4,970
Sympnox Information Co., Ltd.	World Building	1,890	58
	Total	<u>\$175,175</u>	<u>\$5,375</u>

Name	Item	For the year ended December 31, 2007	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay Lank Mark etc	\$37,486	\$1,156
Lin Yuan Property Management Co., Ltd.	International Building etc	288,975	8,911
	Total	<u>\$326,461</u>	<u>\$10,067</u>

(B) The total amount of contracted projects for real estate as of December 31, 2006 and 2007 between the Company and San Ching Engineering Co., Ltd. was NT\$22,435 (US\$688) and NT\$183,396 (US\$5,655), respectively.

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(C) Real estates acquired from related parties for the years ended December 31, 2006 and 2007 are as follows:

Name	Item	For the year ended December 31, 2006	
		Contract Price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	Simen Rd, Tainan City.	<u>\$5,290,000</u>	<u>\$162,320</u>
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	<u>\$2,470,000</u>	<u>\$75,790</u>

The Company did not acquire any real estates from its related parties for the year ended December 31, 2007.

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

Name	Rental income			
	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$9,666	\$297	\$17,332	\$534
Cathay Real Estate Development Co., Ltd.	15,756	483	16,927	522
Cathay United Bank	249,486	7,655	274,584	8,467
Cathay Century Insurance Co., Ltd.	55,586	1,706	72,040	2,221
Cathay General Hospital	145,666	4,470	159,997	4,934
San Ching Engineering Co., Ltd.	7,455	229	7,907	244
Symphox Information Co., Ltd.	27,300	838	16,246	501
Cathay Securities Investment Trust Co., Ltd.	12,062	370	13,331	411
Cathay Securities Investment Consulting Co., Ltd.	3,343	102	3,679	114
Cathay Securities Co., Ltd.	15,243	468	17,880	551
Cathay Capital Management Inc.	1,988	61	2,180	67
Seaward Leasing Co., Ltd.	1,212	37	1,266	39
Taiwan Asset Management Corporation	13,963	428	12,289	379
Cathay Futures Co., Ltd.	640	20	736	23
Lin Yuan Investment Co., Ltd.	63	2	351	11
Total	<u>\$559,429</u>	<u>\$17,166</u>	<u>\$616,745</u>	<u>\$19,018</u>

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Name	Guarantee deposits received			
	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$3,645	\$112	\$3,945	\$122
Cathay United Bank	63,017	1,934	63,822	1,968
Cathay Century Insurance Co., Ltd.	17,647	541	18,994	586
Cathay General Hospital	7,324	225	9,114	281
San Ching Engineering Co., Ltd.	1,709	52	1,782	55
Cathay Securities Investment Trust Co., Ltd.	2,738	84	2,738	84
Cathay Securities Investment Consulting Co., Ltd.	877	27	1,055	32
Cathay Securities Co., Ltd.	3,785	116	4,710	145
Cathay Capital Management Inc.	479	15	638	20
Seaward Leasing Co., Ltd.	346	10	346	11
Taiwan Asset Management Corporation	3,477	107	3,477	107
Cathay Financial Holding Co., Ltd.	-	-	4,864	150
Symphox Information Co., Ltd.	84	3	421	13
Total	<u>\$105,128</u>	<u>\$3,226</u>	<u>\$115,906</u>	<u>\$3,574</u>

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

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

Name	Rental expense			
	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$29,248	\$897	\$30,681	\$946
Lin Yuan Investment Co., Ltd.	2,512	77	2,094	65
Yi Ru Corporation	4,292	132	3,912	121
Lucky Bank Taiwan Inc.	4,740	145	-	-
Cathay United Bank	968	30	7,470	230
Indorina Bank Limited	-	-	425	13
Total	<u>\$41,760</u>	<u>\$1,281</u>	<u>\$44,582</u>	<u>\$1,375</u>

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Cathay Life Insurance Co., Ltd.

Note to financial statements-continued

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

As of December 31, 2006 and 2007

Name	Guarantee deposits paid			
	December 31, 2006		December 31, 2007	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,926	\$274	\$8,926	\$275
Lin Yuan Investment Co., Ltd.	628	19	628	19
Yi Ru Corporation	1,190	36	1,190	37
Cathay United Bank	-	-	2,162	67
Lucky Bank Taiwan Inc.	1,292	40	-	-
Indovina Bank Limited	-	-	110	3
Total	<u>\$12,036</u>	<u>\$369</u>	<u>\$13,016</u>	<u>\$401</u>

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

B. Cash in banks

		For the year ended December 31, 2006		
Name	Item	Interest income NT\$	Rate	Ending balance NT\$
Cathay United	Time deposit	\$82,141	1.05%-2.06%	\$26,250
Bank	Cash in bank	1,794	0.10%	2,603,715
Lucky Bank Taiwan Inc.	Cash in bank	20	0.10%	6,188
Total		<u>\$83,955</u>		<u>\$2,636,153</u>

		For the year ended December 31, 2006		
Name	Item	Interest income US\$	Rate	Ending balance US\$
Cathay United	Time deposit	\$2,520	1.05%-2.06%	\$805
Bank	Cash in bank	55	0.10%	79,893
Lucky Bank Taiwan Inc.	Cash in bank	1	0.10%	190
Total		<u>\$2,576</u>		<u>\$80,888</u>

		For the year ended December 31, 2007		
Name	Item	Interest income NT\$	Rate	Ending balance NT\$
Cathay United	Time deposit	\$55,965	1.15%-2.49%	\$4,722,950
Bank	Cash in bank	3,475	0.02%-2.35%	3,576,961
Total		<u>\$59,440</u>		<u>\$8,299,911</u>

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Note to financial statements-continued

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As of December 31, 2006 and 2007

Name	Item	For the year ended December 31, 2007		
		Interest income		Ending balance
		US\$	Rate	US\$
Cathay United	Time deposit	\$1,726	1.15%-2.49%	\$145,635
Bank	Cash in bank	107	0.02%-2.35%	110,298
Total		<u>\$1,833</u>		<u>\$255,933</u>

C. Other financial assets

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

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

Name	For the year ended December 31, 2007		
	Interest income		Ending balance
	NT\$	Rate	NT\$
Cathay United Bank	\$90,679	1.80%-3.32%	\$4,300,000

Name	For the year ended December 31, 2007		
	Interest income		Ending balance
	US\$	Rate	US\$
Cathay United Bank	\$2,796	1.80%-3.32%	\$132,593

D. Secured loans

Name	For the year ended December 31, 2006			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,070,069	\$122,444	3.14%-3.37%	\$4,069,793
Other related parties	81,792	2,036	2.97%-4.63%	74,664
Total	<u>\$4,151,861</u>	<u>\$124,480</u>		<u>\$4,144,457</u>

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Note to financial statements-continued

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

As of December 31, 2006 and 2007

Name	For the year ended December 31, 2006			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	\$124,887	\$3,757	3.14%-3.37%	\$124,879
Other related parties	2,510	63	2.97%-4.63%	2,291
Total	\$127,397	\$3,820		\$127,170

Name	For the year ended December 31, 2007			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,449,654	\$150,934	3.44%-3.73%	\$4,396,278
Other related parties	303,248	6,268	2.10%-5.87%	246,646
Total	\$4,752,902	\$157,202		\$4,642,924

Name	For the year ended December 31, 2007			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	\$137,208	\$4,654	3.44%-3.73%	\$135,562
Other related parties	9,351	193	2.10%-5.87%	7,605
Total	\$146,559	\$4,847		\$143,167

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

Name		December 31,			
		2006		2007	
		NT\$	US\$	NT\$	US\$
Cathay Securities					
Investment Trust Co., Ltd.	Market value	\$6,281,292	\$192,737	\$7,455,267	\$229,888
	Cost	\$5,783,072	\$177,449	\$6,737,114	\$207,743

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F. Other accounts receivable

Name	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$109,550	\$3,361	\$77,960	\$2,404
Cathay Insurance (Bermuda) Co., Ltd.	8,303	255	12,658	390
Cathay Financial Holding Co., Ltd.	757,004	23,228	541,486	16,697

G. Prepayments

Name	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$13,708	\$421	\$31,376	\$968
Lin Yuan Investment Co., Ltd.	419	13	419	13

H. Other assets-other

Name	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)	\$298,343	\$9,154	\$298,343	\$9,200

I. Guarantee deposits paid

Name	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$377,481	\$11,583	\$560,751	\$17,291

As of December 31, 2006 and 2007, the imputed interest income of guarantee deposits paid deposited in Cathay Futures Co., Ltd. were NT\$442 (US\$14) and NT\$261 (US\$8), respectively.

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Note to financial statements-continued

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As of December 31, 2006 and 2007

J. Other payable

Name	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,237	\$69	\$42,825	\$1,321
Symphox Information Co., Ltd.	13,142	403	13,916	429
Lin Yuan Property Management Co., Ltd.	5,926	182	4,912	151
San Ching Engineering Co., Ltd.	2,572	79	7,237	223
Cathay Real Estate Development Co., Ltd.	1,200	37	600	19
Seaward Leasing Co., Ltd.	-	-	1,258	39
Cathay Financial Holding Co., Ltd.	-	-	960,038	29,603

K. Accounts collected in advance

Name	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Taiwan Asset Management Corporation	\$2,484	\$76	\$2,542	\$78
Cathay Century Insurance Co., Ltd.	2,298	71	-	-
Cathay United Bank	396	12	-	-

L. Premiums income

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$412,680	\$12,663	\$459,751	\$14,177
Cathay General Hospital	27,384	840	29,906	922
Cathay Securities Investment Trust Co., Ltd.	954	29	1,115	34
San Ching Engineering Co., Ltd.	1,198	37	1,269	39
Cathay Century Insurance Co., Ltd.	7,585	233	8,199	253
Cathay Securities Co., Ltd.	1,696	52	1,943	60
Symphox Information Co., Ltd.	1,347	41	1,337	41
Cathay Finance Holding Co., Ltd.	774	24	834	26
Cathay Real Estate Development Co., Ltd.	1,367	42	1,719	53
Cathay Futures Co., Ltd.	723	22	122	4
Cathay Securities Investment Consulting Co., Ltd.	338	10	347	11
Cathay Lin Yuan Security Co., Ltd.	230	7	338	10
Lin Yuan Property Management Co., Ltd.	-	-	2,384	74
Other related parties	48,713	1,495	308,968	9527
Total	<u>\$504,989</u>	<u>\$15,495</u>	<u>\$818,232</u>	<u>\$25,231</u>

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M. Insurance expense

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$105,526	\$3,238	\$130,679	\$4,030

The insurance expenses were insurance expenses for fixed assets, cash, public accident and etc. Amounts of NT\$11,383 (US\$349) and NT\$10,185 (US\$314) paid by the Company on behalf the employees for fidelity bond insurance were included in insurance expenses for the years ended December 31, 2006 and 2007.

N. Indemnity income

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$6,882	\$211	\$11,989	\$370

As of December 31, 2006 and 2007 the indemnity income which was authorized the Company to insure the fidelity insurance clause by employees were NT\$6,530 (US\$200) and NT\$10,664 (US\$329)

O. Reinsurance income

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$136,465	\$4,187	\$137,010	\$4,225

Cathay Insurance (Bermuda) Co., Ltd. engaged in the reinsurance business starting on April 1, 2000. It provides reinsurance for RGA Reinsurance Company and Central Reinsurance Corporation's accidental insurance and retrocedes 90% of the premiums to the Company.

P. Reinsurance handing fee income

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$571	\$18	\$3	\$-

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Q. Reinsurance service expenses

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$7,307	\$224	\$7,156	\$221

R. Reinsurance claims payment

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$87,991	\$2,700	\$28,824	\$889

S. Reinsurance commission expense

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$13,895	\$426	\$12,580	\$388

T. Miscellaneous income

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$665,730	\$20,427	\$759,006	\$23,404
Cathay United Bank	111,894	3,433	106,119	3,272
Cathay securities Investment Trust Co., Ltd.	14,753	453	4,541	140
Cathay General Hospital	-	-	4,735	146
Cathay Securities Co., Ltd.	-	-	1,960	60
Symphox Information Co., Ltd.	1,918	59	1,297	40
Cathay Securities Investment Consulting Co., Ltd.	309	9	325	10
Cathay Real Estate Development Co., Ltd.	-	-	1,517	47
Cathay Financial Holding Co., Ltd.	-	-	1,355	42
Taiwan Asset Management Corporation	-	-	1,092	34
San Ching Engineering Co., Ltd.	-	-	596	18
Total	\$794,604	\$24,381	\$882,543	\$27,213

Miscellaneous income includes the Company's integrated marketing income and so on.

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U. Commissions expenses

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$121,083	\$3,715	\$23,721	\$731

V. Operating expenses

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Charity Foundation	\$2,250	\$69	\$-	\$-
Symphox Information Co., Ltd.	206,583	6,339	238,290	7,348
Cathay General Hospital	10,437	320	208,451	6,428
Lin Yuan Property Management Co., Ltd.	644,903	19,788	605,814	18,681
Cathay Securities Investment Consulting Co., Ltd.	52,500	1,611	52,500	1,619
San Ching Engineering Co., Ltd.	5,326	163	6,110	188
Cathay Futures Co., Ltd.	-	-	3,778	117
Seaward Card Co., Ltd.	1,813	56	4,503	139
Cathay Real Estate Development Co., Ltd.	6,500	200	7,305	225
Cathay Capital Management Inc.	24,196	742	23,721	731
Seaward Leasing Co., Ltd.	7,574	232	10,097	311
Cathay United Bank	44,340	1,361	661,862	20,409
Cathay Lin Yuan Security Co., Ltd.	-	-	476	15
Lucky Bank	6,276	193	-	-
Total	\$1,012,698	\$31,074	\$1,822,907	\$56,211

W. Sale of securities

For the year ended December 31, 2006							
Related party	Securities	Shares		Amount		Gain on disposal	
		(thousand)	Amount	NT\$	US\$	NT\$	US\$
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,400	\$47,554	\$1,459	\$3,707	\$114	

There were no related party transactions of securities for the year ended December 31, 2007.

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X. Cost of disposal real estate

Name	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	\$37,800	\$1,160	\$21,115	\$651
Cathay United Bank	37,800	1,160	-	-
Total	<u>\$75,600</u>	<u>\$2,320</u>	<u>\$21,115</u>	<u>\$651</u>

Y. Other

(A) As of December 31, 2006 and 2007, the nominal amount of the financial instruments transactions with Cathay United Bank are listed below:

Item	December 31,	
	2006	2007
Forward foreign exchange contracts	USD565,572	USD160,362
CS contracts	USD1,362,000	USD1,315,000
Financial debentures	-	NTD200,000 (USD6,167)

The above financial debentures were the debentures acquired by Cathay United Bank from the secondary market. The amount acquired during the year ended December 31, 2007 was NT\$193,510 (US\$5,967).

(B) During the year ended December 31, 2007, the Company had entered a credit assignment agreement with Cathay United Bank in an amount of NT\$1,030,000 (US\$31,761).

26. Pledged assets

As of December 31, 2006 and 2007, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Act, the Company is required to deposit long-term investment in government bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

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Item	December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$8,142,767	\$249,855	\$8,042,549	\$247,997
Time deposits	245,740	7,540	195,160	6,018
Total	<u>\$8,388,507</u>	<u>\$257,395</u>	<u>\$8,237,709</u>	<u>\$254,015</u>

Pledged assets are based on the carrying amounts.

27. Other important matters and contingent liabilities

None.

28. Serious damages

None.

29. Subsequent events

None.

30. Other important events

(1) Pension related information

- A. The Company has recognized a net pension cost of NT\$(79,014) (US\$(2,436)) for the years ended December 31, 2007. And the Company has contributed NT\$247,963 (US\$7,609) and NT253, 234 (UDS\$7,809) to the pension fund for the years ended December 31, 2006 and 2007, respectively.

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B. Pension funded status:

	For the years ended December 31,			
	2006		2007	
	NT\$	US\$	NT\$	US\$
① Vested benefit obligation	\$(6,266,555)	\$(192,285)	\$(6,717,446)	\$(207,137)
② Non-vested benefit obligation	(2,859,987)	(87,756)	(3,015,262)	(92,978)
③ Accumulated benefit obligation	(9,126,542)	(280,041)	(9,732,708)	(300,115)
④ Additional benefits based on future salaries	(1,945,777)	(59,705)	(1,965,760)	(60,615)
⑤ Projected benefit obligation	(11,072,319)	(339,746)	(11,698,468)	(360,730)
⑥ Fair value of plan assets	14,600,331	448,000	10,869,594	335,171
⑦ Funded status = ⑤ + ⑥	3,528,012	108,254	(828,874)	(25,559)
⑧ Unrecognized transitional net benefit obligation (net assets)	(1,514,795)	(46,480)	(1,136,097)	(35,032)
⑨ Unrecognized prior service cost	258,667	7,937	206,934	6,381
⑩ Unrecognized pension gain and loss	(3,955,066)	(121,358)	407,104	12,553
⑪ Additional accrued pension liability	-	-	-	-
⑫ Accrued pension liability /prepaid pension cost = ⑦+⑧+⑨+⑩+⑪	<u>\$(1,683,182)</u>	<u>\$(51,647)</u>	<u>\$(1,350,933)</u>	<u>\$(41,657)</u>

C. Actuarial assumptions

	For the years ended December 31,	
	2006	2007
① Discount rate	3.00%	3.00%
② Rate of increase in future salaries	3.00%	3.00%
③ Expected return on pension plan assets	3.00%	3.00%

(2) Financial risk management objectives and policies

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

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

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

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Market Risk

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

Credit Risk

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

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

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

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

Operational Risk

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

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Liquidity Risk

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

(3) Financial instruments related information

Item	December 31, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$270,353,723	\$270,353,723	\$8,295,604	\$8,295,604
Notes receivable	12,542,006	12,542,006	384,842	384,842
Financial assets at fair value through profit or loss - current	87,855,778	87,855,778	2,695,789	2,695,789
Available-for-sale financial assets - current	159,616,918	159,616,918	4,897,727	4,897,727
Held-to-maturity financial assets - current	13,313,233	13,827,143	408,507	424,276
Investments in debt securities with no active market - current	5,001,829	5,001,829	153,477	153,477
Available-for-sale financial assets - noncurrent	170,885,851	170,885,851	5,243,506	5,243,506
Held-to-maturity financial assets - noncurrent	524,210,596	515,447,224	16,085,014	15,816,116
Financial assets carried at cost - noncurrent	19,621,636	19,621,636	602,075	602,075
Investments in debt securities with no active market - noncurrent	42,782,186	42,778,440	1,312,740	1,312,625
Long-term investments in stocks under the equity method	4,290,720	4,290,720	131,658	131,658
Guarantee deposits paid	8,181,101	8,181,101	251,031	251,031
<u>Liabilities - non-derivative</u>				
Notes payable	2,474	2,474	76	76
Guarantee deposits received	1,464,317	1,464,317	44,931	44,931

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Item	December 31, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss -				
current				
Futures	\$1,879,552	\$1,879,552	\$57,673	\$57,673
Option	7,691	7,691	236	236
Forward	8,022,181	8,022,181	246,155	246,155
IRS	421,537	421,537	12,934	12,934
Derivative financial assets for hedging - current				
IRS	251,901	251,901	7,729	7,729
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss				
- current				
Option	9,996	9,996	307	307
Forward	11,361,889	11,361,889	348,631	348,631
IRS	203,592	203,592	6,247	6,247
Derivative financial liabilities for hedging - current				
IRS	23,867	23,867	732	732
Item	December 31, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$196,913,663	\$196,913,663	\$6,071,960	\$6,071,960
Notes receivable	8,506,107	8,506,107	262,291	262,291
Financial assets at fair value through profit or loss -				
current				
Available-for-sale financial assets - current	181,373,065	181,373,065	5,592,756	5,592,756
Held-to-maturity financial assets - current	8,307,886	8,303,803	256,179	256,053
Investments in debt securities with no active market - current	5,850,138	5,853,746	180,393	180,504
Available-for-sale financial assets - noncurrent				
Held-to-maturity financial assets - noncurrent	229,265,818	229,265,818	7,069,560	7,069,560
Financial assets carried at cost - noncurrent	572,148,779	561,032,468	17,642,577	17,299,799
Investments in debt securities with no active market - noncurrent	19,053,344	19,053,344	587,522	587,522
Investments in debt securities with no active market - noncurrent	59,126,664	54,880,852	1,823,209	1,692,287
Long-term investments in stocks under the equity method	6,254,217	6,254,217	192,853	192,853
Guarantee deposits paid	8,264,794	8,264,794	254,850	254,850

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Note to financial statements-continued

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Item	December 31, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</u>				
Notes payable	\$2,311	\$2,311	\$71	\$71
Guarantee deposits received	1,488,192	1,488,192	45,889	45,889
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss -				
current				
Futures	2,067,241	2,067,241	63,745	63,745
Forward	6,478,602	6,478,602	199,772	199,772
IRS	97,193	97,193	2,997	2,997
Derivative financial assets for hedging - current				
IRS	252,645	252,645	7,790	7,790
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss				
- current				
Forward	13,009,518	13,009,518	401,157	401,157
IRS	49,101	49,101	1,514	1,514
Derivative financial liabilities for hedging - current				
IRS	101,430	101,430	3,128	3,128

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

- ① The fair value of the Company's cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.

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- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's financial instruments was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.
- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at December 31, 2006 and 2007:

Financial instruments	December 31, 2006			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Financial assets at fair value through profit and loss - current	\$82,130,365	\$2,520,109	\$5,725,413	\$175,680
Available-for-sale financial assets - current	159,613,026	4,897,608	3,892	119
Held-to-maturity financial assets - current	12,824,516	393,511	1,002,627	30,765
Investment in debt securities with no active market - current	5,001,829	153,477	-	-
Available-for-sale financial assets - noncurrent	157,047,268	4,818,879	13,838,583	424,627
Held-to-maturity financial assets - noncurrent	94,605,321	2,902,894	420,841,903	12,913,222
Financial assets carried at cost - noncurrent	19,621,636	602,075	-	-
Investment in debt securities with no active market - noncurrent	12,293,185	377,207	30,485,255	935,418
Long-term investments in stocks under the equity method	-	-	4,290,720	131,658

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As of December 31, 2006 and 2007

Financial instruments	December 31, 2006			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - derivative</u>				
Financial assets at fair value through profit and loss -				
current				
Futures	\$1,879,552	\$57,673	\$-	\$-
Option	7,691	236	-	-
Forward	-	-	8,022,181	246,155
IRS	-	-	421,537	12,934
Derivative financial assets for hedging - current				
IRS	-	-	251,901	7,729
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit and				
loss - current				
Option	9,996	307	-	-
Forward	-	-	11,361,889	348,631
IRS	-	-	203,592	6,247
Derivative financial liabilities for hedging - current				
IRS	-	-	23,867	732
Financial instruments	December 31, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
Financial assets at fair value through profit or loss -				
current				
Available-for-sale financial assets - current	181,373,019	5,592,754	46	2
Held-to-maturity financial assets - current	6,219,703	191,788	2,084,100	64,265
Investments in debt securities with no active market -	2,848,883	87,847	3,004,863	92,657
current				
Available-for-sale financial assets - noncurrent	226,180,672	6,974,427	3,085,146	95,133
Held-to-maturity financial assets - noncurrent	93,706,241	2,889,493	467,326,227	14,410,306
Financial assets carried at cost - noncurrent	-	-	19,053,344	587,522
Investment in debt securities with no active market -	(2,848,883)	(87,847)	57,729,735	1,780,134
noncurrent				
Long-term investments in stocks under the equity	-	-	6,254,217	192,853
method				

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As of December 31, 2006 and 2007

Financial instruments	December 31, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss -				
current				
Futures	\$2,067,241	\$63,745	\$-	\$-
Forward	-	-	6,478,602	199,772
IRS	-	-	97,193	2,997
Derivative financial assets for hedging - current				
IRS	-	-	252,645	7,790
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss				
- current				
Forward	-	-	13,009,518	401,157
IRS	-	-	49,101	1,514
Derivative financial liabilities for hedging - current				
IRS	-	-	101,430	3,128

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at December 31, 2006 and 2007:

① December 31, 2006

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value	\$313,548	\$9,621	\$1,767,224	\$54,226	\$134,668	\$4,132	\$222,340	\$6,822
through profit and loss								
Available-for-sale financial assets	1,669,024	51,213	1,258,468	38,615	476,726	14,628	3,525,334	108,172
Held-to-maturity financial assets	11,610,611	356,263	3,315,525	101,734	10,327,699	316,898	5,070,199	155,575
Investments in debt securities with	50,323	1,544	1,031,669	31,656	663,402	20,356	480,100	14,732
no active market								

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As of December 31, 2006 and 2007

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$4,348,930	\$133,444	\$14,696,709	\$450,958	\$21,483,419	\$659,203
Available-for-sale financial assets	3,138,983	96,318	95,303,204	2,924,308	105,371,739	3,233,254
Held-to-maturity financial assets	15,958,842	489,685	408,267,689	12,527,392	454,550,565	13,947,547
Investments in debt securities with no active market	1,984,567	60,895	29,928,574	918,336	34,138,635	1,047,519

Non-derivative financial instruments of float interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$7,183,884	\$220,432	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	70,559,958	2,165,080	-	-	-	-	-	-
Held-to-maturity financial assets	82,973,264	2,545,973	-	-	-	-	-	-
Investments in debt securities with no active market	13,645,380	418,698	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$-	\$-	\$-	\$-	\$7,183,884	\$220,432
Available-for-sale financial assets	-	-	-	-	70,559,958	2,165,080
Held-to-maturity financial assets	-	-	-	-	82,973,264	2,545,973
Investments in debt securities with no active market	-	-	-	-	13,645,380	418,698

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$17,498	\$537	\$18,748	\$575	\$16,259	\$499	\$4,462	\$137
Derivative financial assets for hedging	13,565	416	29,040	891	13,118	403	119,741	3,674
Financial liabilities at fair value through profit or loss	55,861	1,714	606	18	1,032	32	13,028	400
Derivative financial liabilities for hedging	4,030	123	710	22	19,127	587	-	-

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Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$15,857	\$486	\$349,718	\$10,731	\$422,542	\$12,965
Derivative financial assets for hedging	61,507	1,887	14,930	458	251,901	7,729
Financial liabilities at fair value through profit or loss	-	-	142,194	4,363	212,721	6,527
Derivative financial liabilities for hedging	-	-	-	-	23,867	732

② December 31, 2007

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$1,491,509	\$45,992	\$48,607	\$1,499	\$136,838	\$4,219	\$2,339,819	\$72,150
Available-for-sale financial assets	1,221,375	37,662	839,026	25,872	3,388,714	104,493	7,704,260	237,566
Held-to-maturity financial assets	6,327,347	195,108	12,685,460	391,164	5,091,188	156,990	16,188,132	499,172
Investments in debt securities with no active market	905,388	27,918	167,125	5,153	1,149,522	35,446	2,432,787	75,017

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$1,330,590	\$41,030	\$6,141,408	\$189,374	\$11,488,771	\$354,264
Available-for-sale financial assets	11,126,920	343,106	93,751,564	2,890,890	118,031,859	3,639,589
Held-to-maturity financial assets	7,891,044	243,325	446,625,898	13,771,998	494,809,069	15,257,757
Investments in debt securities with no active market	455,602	14,049	48,821,596	1,505,446	53,932,020	1,663,029

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Non-derivative financial instruments of float interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Financial assets at fair value through profit or loss	\$7,081,537	\$218,364	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	117,567,011	3,625,255	-	-	-	-	-	-
Held-to-maturity financial assets	85,647,596	2,640,999	-	-	-	-	-	-
Investments in debt securities with no active market	11,044,782	340,573	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NTS	US\$	NTS	US\$	NTS	US\$
Financial assets at fair value through profit or loss	\$-	\$-	\$-	\$-	\$7,081,537	\$218,364
Available-for-sale financial assets	-	-	-	-	117,567,011	3,625,255
Held-to-maturity financial assets	-	-	-	-	85,647,596	2,640,999
Investments in debt securities with no active market	-	-	-	-	11,044,782	340,573

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$
Financial assets at fair value through profit or loss	\$20	\$1	\$41,637	\$1,284	\$13,235	\$408	\$4,630	\$143
Derivative financial assets for hedging	2,661	82	953	29	46,839	1,444	12,851	396
Financial liabilities at fair value through profit or loss	5,280	163	17,758	547	26,063	804	-	-
Derivative financial liabilities for hedging	24,630	760	8,838	273	40,259	1,241	4,154	128

Item	Due in 4~5 years		Over 5 years		Total	
	NTS	US\$	NTS	US\$	NTS	US\$
Financial assets at fair value through profit or loss	\$10,698	\$330	\$26,992	\$832	\$97,212	\$2,998
Derivative financial assets for hedging	-	-	189,341	5,839	252,645	7,790
Financial liabilities at fair value through profit or loss	-	-	-	-	49,101	1,514
Derivative financial liabilities for hedging	-	-	23,549	726	101,430	3,128

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(5) Credit risk

The Company's exposure to credit risk is minimal.

(6) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at December 31, 2006 and 2007:

Cash flow hedges – IRS

① December 31, 2006

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$372,500	\$11,430	ARMS	Each quarter	2009/3/24
350,000	10,739	4.0005%-6ml	Half year	2008/9/26
500,000	15,342	The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP	Each quarter	2007/10/10
500,000	15,342	7.05%-90BACP	Each quarter	2007/10/10
300,000	9,205	5.5%-6ml	Half year	2007/12/26
500,000	15,342	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,137	4.003%-6ml	Half year	2008/6/13
500,000	15,342	4.0%-12ml	Yearly	2008/6/5
300,000	9,205	4.3%-12ml	Yearly	2010/6/20
200,000	6,137	If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
200,000	6,137	7.603%-6ml	Half year	2007/7/31
300,000	9,205	2005/6/17~2005/7/31 : 7.25%-6ml 2005/7/31~2006/7/31 : 7.5%-6ml 2006/7/31~2007/7/31 : 7.75%-6ml	Half year	2007/7/31
300,000	9,205	If 6ml<6.9%,3.8% If 6ml>6.9%,0%	Half year	2007/7/31

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
200,000	6,137	3.0%, if 6ml 2005/9/19~2006/9/19:1.0%-2.5% 2006/9/19~2007/9/19:1.0%-3.0% 2007/9/19~2008/9/19:1.0%-3.5% 2008/9/19~2009/9/19:1.0%-4.0% 2009/9/19~2010/9/19:1.0%-4.5% 2010/9/19~2011/3/19:1.0%-5.0%	Half year	2011/3/19
300,000	9,205	5.1%-6ml	Half year	2007/12/19
200,000	6,137	If 6ml<0.95%, Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,205	If 6ml<0.95%,Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,137	4.000%-6ml	Half year	2010/4/7
300,000	9,205	4.0002%-6ml	Half year	2010/4/7
400,000	12,274	4.0006%-6ml	Half year	2010/4/7
400,000	12,274	4.0007%-6ml	Half year	2010/4/7
250,000	7,671	90DCP	Each quarter	2008/8/10
900,000	27,616	90DCP	Each quarter	2010/8/18
600,000	18,411	90DCP	Each quarter	2010/8/19
100,000	3,068	4.0006%-6ml	Half year	2010/4/7
100,000	3,068	4.0007%-6ml	Half year	2010/4/7
450,000	13,808	90DCP	Each quarter	2008/8/22
330,000	10,126	90DCP	Each quarter	2008/8/24
300,000	9,205	5.35%-6ml	Half year	2008/1/8
200,000	6,137	4.0003%-6ml	Half year	2010/4/7
300,000	9,205	5.37%-6ml	Half year	2011/3/15
200,000	6,137	5.85%-6ml	Half year	2009/1/13
50,000	1,534	4.15%-6ml	Half year	2009/1/16
200,000	6,137	6.3%-6ml	Half year	2010/11/27
300,000	9,205	180DCP + 40bps	Half year	2008/3/24
300,000	9,205	180DCP	Half year	2008/6/12
1,500,000	46,026	90DCP+75bps	Each quarter	2008/7/19
1,150,000	35,287	90DCP+30bps	Each quarter	2008/9/17

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
782,304	24,004	1.25% + 3ml	Each quarter	2009/9/23
782,304	24,004	6ml	Half year	2013/9/20

② December 31, 2007

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$310,000	\$9,559	ARMS	Each quarter	2009/3/24
350,000	10,792	If 6ml<0.9%, 6ml If 0.9%<6ml<2.0%,3.05% If 2.0%<6ml,Max(4.0005%-6ml)	Yearly	2008/9/26
200,000	6,167	4.003%-6ml	Half year	2008/6/13
500,000	15,418	4%-12ml	Yearly	2008/6/5
300,000	9,251	4.3%-12ml	Yearly	2010/6/20
500,000	15,418	If 6ml<1.1%,6ml If 1.1%≤6ml≤2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
200,000	6,167	3.0%, if 6ml 2005/9/19~2006/9/19:1.0%-2.5% 2006/9/19~2007/9/19:1.0%-3.0% 2007/9/19~2008/9/19:1.0%-3.5% 2008/9/19~2009/9/19:1.0%-4.0% 2009/9/19~2010/9/19:1.0%-4.5% 2010/9/19~2011/3/19:1.0%-5.0%	Half year	2011/3/19
200,000	6,167	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,251	If 6ml<0.95%, 6ml If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,167	4.000%-6ml	Half year	2010/4/7
300,000	9,251	4.0002%-6ml	Half year	2010/4/7
500,000	15,418	4.0006%-6ml	Half year	2010/4/7
500,000	15,418	4.0007%-6ml	Half year	2010/4/7
250,000	7,709	90DCP	Each quarter	2008/8/10

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
900,000	27,752	90DCP	Each quarter	2010/8/18
600,000	18,501	90DCP	Each quarter	2010/8/19
450,000	13,876	90DCP	Each quarter	2008/8/22
330,000	10,176	90DCP	Each quarter	2008/8/24
300,000	9,251	5.35%-6ml	Half year	2008/1/8
200,000	6,167	4.0003%-6ml	Half year	2010/4/7
300,000	9,251	5.37%-6ml	Yearly	2011/3/15
200,000	6,167	5.85%-6ml	Half year	2009/1/13
50,000	1,542	If 6ml ≤ 1%, 6ml+0.2% If 1% < 6ml < 2%, 3.15% If 6ml ≥ 2%, 4.15%-6ml	Half year	2009/1/16
200,000	6,167	6.3%-6ml	Yearly	2010/11/27
300,000	9,251	180DCP + 40bps	Half year	2008/3/24
300,000	9,251	180DCP	Half year	2008/6/12
2,000,000	61,671	90DCP+75bps	Each quarter	2008/7/19
1,150,000	35,461	90DCP+30bps	Each quarter	2008/9/17
100,000	3,084	180DCP+30bps	Half year	208/12/18
200,000	6,167	180DCP+18bps	Half year	2008/7/11
900,000	27,752	90DCP+100bps	Each quarter	2009/5/20
2,700,000	83,256	90DCP+25bps	Each quarter	2013/8/24
1,500,000	46,253	90DCP+23bps	Yearly	2013/12/16
1,000,000	30,836	90DCP+26.5bps	Each quarter	2013/12/14
1,300,000	40,086	90DCP+45bps	Each quarter	2013/12/27
500,000	15,418	90DCP+23bps	Yearly	2013/12/14
1,000,000	30,836	90DCP+26.5bps	Yearly	2013/12/16
3,000,000	92,507	90DCP+26.5bps	Yearly	2013/11/3
1,500,000	46,253	90DCP	Yearly	2014/9/29
3,200,000	98,674	90DCP	Yearly	2014/9/27
2,000,000	61,671	90DCP	Yearly	2013/11/3
-	24,000	6ml	Half year	2013/9/20
-	14,000	6ml	Half year	2014/3/20
-	24,000	6ml	Half year	2014/3/24

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

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As of December 31, 2006 and 2007

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$427,686 (US\$13,123) and NT\$218,631 (US\$6,742) as of December 31, 2006 and 2007.

(7) Discretionary account management

Item	December 31, 2006			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$6,649,828	\$204,045	\$6,649,828	\$204,045
Repurchase bonds	3,971,896	121,875	3,971,896	121,875
Government Bonds	1,278,125	39,218	1,278,125	39,218
Cash in bank	188,533	5,785	188,533	5,785
Total	<u>\$12,088,382</u>	<u>\$370,923</u>	<u>\$12,088,382</u>	<u>\$370,923</u>

Item	December 31, 2007			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$12,199,314	\$376,174	\$12,199,314	\$376,174
Repurchase bonds	7,759,126	239,258	7,759,126	239,258
Cash in banks	556,323	17,154	556,323	17,154
Total	<u>\$20,514,763</u>	<u>\$632,586</u>	<u>\$20,514,763</u>	<u>\$632,586</u>

As of December 31, 2006 and 2007, the Company had discretionary account management contracts in the amount of NT\$9,950,000 (US\$305,308) and NT\$17,450,000 (US\$538,082), respectively.

(8) Material contract

None.

(9) Presentation of financial statements

Certain accounts in the financial statements for the year ended December 31, 2006 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2007.

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

As of December 31, 2006 and 2007

(10) Other

None.

31. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of December 31, 2007, the Company's remittances to this company totaled approximately US\$48,330.

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$2,639 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 December 31, 2007.

32. Segment Information

None.