

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

**Consolidated Financial Statements**

**As of June 30, 2007 and 2008**

**With Independent Auditors' Report**

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

## Index

	<u>Page</u>
Independent Auditors' Report	3
Consolidated Balance Sheets	4
Consolidated Statements of Income	5
Consolidated Statements of Changes in Stockholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8-178

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

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

We have audited the accompanying consolidated balance sheets of Cathay Financial Holding Co., Ltd. (the "Company") and its subsidiaries ("Subsidiaries") as of June 30, 2007 and 2008 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China 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 statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and Subsidiaries as of June 30, 2007 and 2008 and the results of its operations and its cash flows for the six-month periods ended in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles in the Republic of China.

Ernst & Young  
Taipei, Taiwan  
The Republic of China  
August 19, 2008

**Notice to Readers**

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated balance sheets**  
**As of June 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

Assets	Notes	June 30, 2007		June 30, 2008	
		NT \$	US \$	NT \$	US \$
Cash and cash equivalents	2,4	\$434,877,005	\$13,246,330	\$391,646,689	\$12,900,089
Due from the Central Bank and call loans to banks		38,842,235	1,183,132	54,333,073	1,789,627
Financial assets at fair value through profit or loss	2,5	161,740,946	4,926,620	126,909,245	4,180,146
Securities purchased under agreements to resell		16,141,793	491,678	22,463,839	739,916
Receivables -net		88,791,567	2,704,586	76,786,978	2,529,215
Loans -net	2,6	1,246,332,395	37,963,216	1,353,032,752	44,566,296
Available-for-sale financial assets -net	2,7	463,763,195	14,126,201	480,353,147	15,821,909
Held-to-maturity financial assets -net	2,8	569,515,330	17,347,406	603,475,582	19,877,325
Investments - equity method	2,9	2,899,125	88,307	2,586,240	85,186
Other financial assets -net	2,10	47,149,810	1,436,181	54,883,187	1,807,747
Investments in debt securities with no active market		121,254,370	3,693,401	81,116,117	2,671,809
Separate account products assets		211,438,582	6,440,408	279,286,139	9,199,148
Investments in real estate	2,11	105,267,384	3,206,439	106,652,766	3,512,937
Property and equipment -net		38,932,042	1,185,868	40,347,241	1,328,960
Goodwill and intangible assets -net	2,13	822,933	25,067	7,773,056	256,029
Other assets -net		48,621,358	1,481,004	60,853,489	2,004,397
<b>Total assets</b>		<b>\$3,596,390,070</b>	<b>\$109,545,844</b>	<b>\$3,742,499,540</b>	<b>\$123,270,736</b>
<b>Liabilities &amp; stockholders' equity</b>					
<b>Liabilities</b>					
Due to the Central Bank and call loans from banks		\$65,673,374	\$2,000,407	\$79,386,417	\$2,614,836
Bankers acceptances and funds borrowed		821,000	25,008	1,517,700	49,990
Financial liabilities at fair value through profit or loss	2,14	64,529,248	1,965,557	57,475,992	1,893,149
Securities sold under agreements to repurchase	5,7	19,225,421	585,605	28,113,798	926,014
Payables		66,164,362	2,015,363	64,825,178	2,135,217
Deposits	15	1,006,209,767	30,649,094	1,019,631,201	33,584,690
Bonds payable	16	17,686,802	538,739	15,272,693	503,053
Reserve for operations and liabilities	2,17	1,897,624,011	57,801,523	2,012,474,123	66,287,027
Other financial liabilities	2,18	1,694,566	51,616	845,783	27,859
Separate account products liabilities		211,438,582	6,440,408	279,286,139	9,199,148
Other liabilities		14,243,112	433,845	7,220,618	237,833
<b>Total liabilities</b>		<b>3,365,310,245</b>	<b>102,507,165</b>	<b>3,566,049,642</b>	<b>117,458,816</b>
<b>Stockholders' Equity attributable to equity holders of the parent</b>					
<b>Capital Stock</b>					
Common stock	19	92,770,192	2,825,775	92,770,192	3,055,672
Stock dividend to be distributed		-	-	4,605,180	151,686
Capital surplus	20	81,971,167	2,496,837	81,971,213	2,699,974
<b>Retained earnings</b>					
Legal reserve		9,245,862	281,628	12,320,672	405,819
Unappropriated retained earnings		25,512,938	777,123	2,643,729	87,079
<b>Other stockholders' equity</b>					
Land revaluation increment		2,106	64	2,106	69
Cumulative translation adjustments		166,614	5,075	(337,270)	(11,109)
Unrealized gains or losses on financial instruments		22,625,535	689,173	(16,123,234)	(531,068)
Treasury stock	2,22	(4,140,047)	(126,106)	(4,140,047)	(136,365)
Net loss not recognized as net pension cost		(573)	(17)	(3,107)	(102)
<b>Total equity attributable to stockholders of the parent</b>		<b>228,153,794</b>	<b>6,949,552</b>	<b>173,709,434</b>	<b>5,721,655</b>
<b>Minority interest</b>		<b>2,926,031</b>	<b>89,127</b>	<b>2,740,464</b>	<b>90,265</b>
<b>Total stockholders' equity</b>		<b>231,079,825</b>	<b>7,038,679</b>	<b>176,449,898</b>	<b>5,811,920</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$3,596,390,070</b>	<b>\$109,545,844</b>	<b>\$3,742,499,540</b>	<b>\$123,270,736</b>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2007 and 2008 were NTS32.83 and NTS30.36 to US\$1.00, respectively)

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of income**  
**For the six months ended June 30, 2007 and 2008**  
**(Expressed in thousands of dollars, except earning per share)**

	Notes	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
		NT \$	US \$	NT \$	US \$
<b>Interest income</b>	2	\$54,438,785	\$1,658,202	\$58,406,808	\$1,923,808
<b>Less: Interest expenses</b>	2	(10,180,419)	(310,095)	(10,426,611)	(343,433)
<b>Net interest income</b>		44,258,366	1,348,107	47,980,197	1,580,375
<b>Net income other than interest</b>					
Net commission and handling fee		2,410,855	73,435	6,245,164	205,704
Net premiums from insurance business		52,082,244	1,586,422	30,249,565	996,362
(Losses) gains on financial assets and liabilities at fair value through profit or loss		(1,438,858)	(43,828)	4,783,239	157,551
Realized gains on available-for-sale financial assets		16,573,130	504,817	19,314,417	636,180
Realized losses on held-to-maturity financial assets		(260,942)	(7,948)	(1,070,908)	(35,274)
Gains on investments under equity method		148,492	4,523	206,528	6,803
Gains on investments in real estate		3,250,603	99,013	2,671,287	87,987
Gains (losses) on foreign exchange		3,496,307	106,497	(43,241,734)	(1,424,300)
Impairment reversal (losses)		39,096	1,191	(39,772)	(1,310)
Provision for premiums reserve		(70,177,552)	(2,137,604)	(45,686,673)	(1,504,831)
Net other non-interest income		564,530	17,196	(1,267,841)	(41,760)
<b>Total Income</b>		50,946,271	1,551,821	20,143,469	663,487
<b>Bad debt expenses</b>		(1,697,018)	(51,691)	(965,404)	(31,799)
<b>Operating expenses</b>					
Personnel expenses		(19,900,217)	(606,160)	(19,527,979)	(643,214)
Depreciation and amortizations expenses		(2,089,710)	(63,652)	(1,844,344)	(60,749)
Other general and administration expenses		(4,393,516)	(133,826)	(4,720,501)	(155,484)
<b>Income (losses) from continuing operations before income taxes</b>		22,865,810	696,492	(6,914,759)	(227,759)
<b>Income taxes (expense) benefit</b>	2,24	(2,089,163)	(63,636)	4,733,385	155,909
<b>Income (losses) from continuing operations after income taxes</b>		20,776,647	632,856	(2,181,374)	(71,850)
<b>Consolidated net income (losses)</b>		\$20,776,647	\$632,856	\$(2,181,374)	\$(71,850)
<b>Include:</b>					
Parent company		\$20,683,076	\$630,005	\$(2,220,182)	\$(73,129)
Minority interest		93,571	2,851	38,808	1,279
Consolidated net income (losses)		\$20,776,647	\$632,856	\$(2,181,374)	\$(71,850)
<b>Earnings per share (expressed in dollars) :</b>	25				
Primary earnings per share:		Before tax	After tax	Before tax	After tax
Consolidated income before cumulative effect of accounting principles		\$2.37	\$2.15	\$0.07	\$0.07
Consolidated net income (losses)		\$2.37	\$2.15	\$(0.72)	\$(0.23)
		\$0.07	\$0.07	\$(0.72)	\$(0.23)
		\$0.02	\$0.02	\$(0.02)	\$(0.01)

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2007 and 2008 were NT\$32.83 and NT\$30.36 to US\$1.00, respectively)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Financial Holding Co., Ltd. and Subsidiaries  
 Consolidated statements of changes in stockholders' equity  
 For the six months ended June 30, 2007 and 2008  
 (Expressed in thousands of dollars)

Summary	Capital Stock				Retained earnings						Other stockholders' equity								Total						
	Common stock		Stock dividend to be distributed		Capital surplus		Legal reserve		Unappropriated retained earnings		Land revaluation increment		Cumulative conversion adjustments		Unrealized gains or losses on financial instruments		Treasury stock				Net loss not yet recognized as net pension cost		Minority interest		
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	
<b>Balance on January 1, 2007</b>	\$92,068,174	\$2,804,392	\$-	\$-	\$78,867,213	\$2,402,291	\$8,188,136	\$249,410	\$19,710,210	\$600,372	\$2,106	\$64	\$105,170	\$3,203	\$21,345,473	\$650,182	\$(4,140,047)	\$(126,106)	\$(573)	\$(17)	\$2,879,875	\$87,720	\$219,025,737	\$6,671,511	
Minority interest																						(47,415)	(1,444)	(47,415)	(1,444)
Appropriations and distribution for 2006																									
Legal reserve							1,057,726	32,218	(1,057,726)	(32,218)															
Cash dividends									(13,815,539)	(420,820)														(13,815,539)	(420,820)
Remuneration paid to directors and supervisors									(5,700)	(174)														(5,700)	(174)
Bonus paid to employees									(1,383)	(42)														(1,383)	(42)
Convertible notes converted into common stock	702,018	21,383			3,104,004	94,548																		3,806,022	115,931
Capital surplus					(87)	(3)																		(87)	(3)
Cumulative conversion adjustments													61,444	1,872										61,444	1,872
Unrealized gains or losses of financial instruments															1,280,062	38,991								1,280,062	38,991
Other capital surplus					37	1																		37	1
Consolidated net income for the six months ended June 30, 2007									20,683,076	630,005												93,571	2,851	20,776,647	632,856
<b>Balance on June 30, 2007</b>	\$92,770,192	\$2,825,775	\$-	\$-	\$81,971,167	\$2,496,837	\$9,245,862	\$281,628	\$25,512,938	\$777,123	\$2,106	\$64	\$166,614	\$5,075	\$22,625,535	\$689,173	\$(4,140,047)	\$(126,106)	\$(573)	\$(17)	\$2,926,031	\$89,127	\$231,079,825	\$7,038,679	
<b>Balance on January 1, 2008</b>	\$92,770,192	\$3,055,672	\$-	\$-	\$81,971,213	\$2,699,974	\$9,245,862	\$304,541	\$35,577,963	\$1,171,870	\$2,106	\$69	\$183,766	\$6,053	\$10,955,521	\$360,854	\$(4,140,047)	\$(136,365)	\$(3,107)	\$(102)	\$3,326,309	\$109,562	\$229,889,778	\$7,572,128	
Minority interest																						(624,653)	(20,576)	(624,653)	(20,576)
Appropriations and distribution for 2007																									
Legal reserve							3,074,810	101,278	(3,074,810)	(101,278)															
Cash dividends									(23,025,898)	(758,429)														(23,025,898)	(758,429)
Stock dividend to be distributed			4,605,180	151,686					(4,605,180)	(151,686)															
Remuneration paid to directors and supervisors									(5,400)	(178)														(5,400)	(178)
Bonus paid to employees									(2,764)	(91)														(2,764)	(91)
Cumulative conversion adjustments													(521,036)	(17,162)										(521,036)	(17,162)
Unrealized gains or losses of financial instruments															(27,078,755)	(891,922)								(27,078,755)	(891,922)
Consolidated net (losses) income for the six months ended June 30, 2008									(2,220,182)	(73,129)												38,808	1,279	(2,181,374)	(71,850)
<b>Balance on June 30, 2008</b>	\$92,770,192	\$3,055,672	\$4,605,180	\$151,686	\$81,971,213	\$2,699,974	\$12,320,672	\$405,819	\$2,643,729	\$87,079	\$2,106	\$69	\$(337,270)	\$(11,109)	\$(16,123,234)	\$(531,068)	\$(4,140,047)	\$(136,365)	\$(3,107)	\$(102)	\$2,740,464	\$90,265	\$176,449,898	\$5,811,920	

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2007 and 2008 were NTS32.83 and NTS30.36 to US\$1.00, respectively)

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Consolidated statements of cash flows**  
**For the six months ended June 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Consolidated net income (losses)	\$20,776,647	\$632,856	(\$2,181,374)	(\$71,850)
Adjustments:				
Income and other adjustments with no cash flow effects				
Depreciation and amortization expenses	2,089,710	63,652	1,844,344	60,749
Investment income recognized by equity method excess of cash dividends received	536,007	16,327	244,268	8,046
Bad debt expenses -loans	1,697,018	51,691	965,404	31,799
Provision for premiums reserve from insurance business	70,177,552	2,137,604	45,686,673	1,504,831
Gain on disposal of property and equipment	(1,226,100)	(37,347)	(378,748)	(12,475)
Impairment (loss) reversal	(39,096)	(1,191)	39,772	1,310
Other adjustments	(5,942)	(181)	1,169,294	38,514
Changes in operating assets and liabilities				
Decrease in receivables	560,432	17,071	3,186,801	104,967
Decrease (increase) in deferred income tax assets	1,012,861	30,852	(7,550,758)	(248,707)
(Increase) decrease in financial assets at fair value through profit or loss	(4,342,813)	(132,282)	7,975,765	262,706
(Increase) decrease in other financial assets	(1,309,972)	(39,902)	233,993	7,707
Increase in other assets	(799,735)	(24,360)	(2,519,141)	(82,976)
Increase in payables	9,007,284	274,361	13,151,260	433,177
Decrease in financial liabilities at fair value through profit or loss	(3,524,840)	(107,366)	(2,550,532)	(84,010)
Decrease in deferred income tax liabilities	(24,955)	(760)	(144,911)	(4,773)
Increase in other financial liabilities	146,012	4,448	303,023	9,981
Decrease in other liabilities	(3,417,281)	(104,090)	(1,107,309)	(36,472)
<b>Net cash provided by operating activities</b>	<b>91,312,789</b>	<b>2,781,383</b>	<b>58,367,824</b>	<b>1,922,524</b>
<b>Cash flows from investing activities</b>				
Decrease (increase) restricted assets	2,450,000	74,627	(90,000)	(2,964)
Increase in loans	(38,834,113)	(1,182,885)	(47,383,866)	(1,560,733)
Decrease in due from the Central Bank and call loans to banks	12,757,121	388,581	4,541,493	149,588
Increase in available-for-sale financial assets	(73,627,525)	(2,242,691)	(30,299,097)	(997,995)
Increase in held-to-maturity financial assets	(23,682,025)	(721,353)	(15,356,675)	(505,819)
Decrease in investments under -equity method	199,661	6,082	72,766	2,397
Increase investments in real estate	(2,797,221)	(85,203)	(560,873)	(18,474)
(Acquisition) disposal of property and equipment	(1,039,911)	(31,676)	287,778	9,479
Decrease (increase) in securities purchased under agreements to resell	31,846,843	970,053	(3,504,997)	(115,448)
(Increase) decrease in other financial assets	(39,264,226)	(1,195,986)	36,027,249	1,186,668
Increase in other assets	(1,189,499)	(36,232)	(1,321,985)	(43,544)
<b>Net cash used in investing activities</b>	<b>(133,180,895)</b>	<b>(4,056,683)</b>	<b>(57,588,207)</b>	<b>(1,896,845)</b>
<b>Cash flows from financing activities</b>				
(Decrease) increase in due to the Central Bank and call loans from banks	(34,800,022)	(1,060,007)	2,888,908	95,155
Increase (decrease) in deposits	43,589,981	1,327,749	(3,064,115)	(100,926)
(Decrease) increase in securities sold under agreements to repurchase	(4,436,319)	(135,130)	13,478,375	443,952
Increase in banker's acceptances and funds borrowed	4,750	145	2,868,099	94,470
Decrease in bonds payable	(868,967)	(26,469)	(3,279,144)	(108,009)
Increase (decrease) in other financial liabilities	520,742	15,862	(315,862)	(10,404)
Decrease in other liabilities	(153,174)	(4,666)	(1,875,968)	(61,791)
Cash dividends	(31,680)	(965)	(16,830)	(554)
Disposal of treasury stock	37	1	-	-
Remuneration paid to directors and supervisors	-	-	(8,500)	(280)
Bonus paid to employees	1,478	45	2,615	86
<b>Net cash provided by financing activities</b>	<b>3,826,826</b>	<b>116,565</b>	<b>10,677,578</b>	<b>351,699</b>
<b>Effects of exchange rate changes</b>	<b>196,723</b>	<b>5,992</b>	<b>(1,397,808)</b>	<b>(46,041)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(37,844,557)</b>	<b>(1,152,743)</b>	<b>10,059,387</b>	<b>331,337</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>472,721,562</b>	<b>14,399,073</b>	<b>381,587,302</b>	<b>12,568,752</b>
<b>Cash and cash equivalents at the end of period</b>	<b>\$434,877,005</b>	<b>\$13,246,330</b>	<b>\$391,646,689</b>	<b>\$12,900,089</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid (excluding capitalized interest)	\$10,397,163	\$316,697	\$9,978,270	\$328,665
Income tax paid	\$845,502	\$25,754	\$1,125,745	\$37,080
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$3,806,022	\$115,931	\$-	\$-

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2007 and 2008 were NT\$32.83 and NT\$30.36 to US\$1.00, respectively)

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

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

**Cathay Financial Holding Co., Ltd. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**(Expressed in thousands of dollars except for share and per share**  
**data and unless otherwise stated)**  
**June 30, 2007 and 2008**

**1. Organization and business scope**

On December 31, 2001, Cathay Life Insurance Co., Ltd. (“Cathay Life”) was reincorporated as Cathay Financial Holding Co., Ltd. (the “Company”) through stock conversion pursuant to the provisions of the Republic of China (“ROC”) Financial Holding Company Act (“Financial Holding Company Act”) and its shares were listed on the Taiwan Stock Exchange Corporation (TSE) on the same day. On April 22, 2002, Cathay Century Insurance Co., Ltd. (“Cathay Century”) and Cathay United Bank Co., Ltd. (“Cathay United Bank”) became subsidiaries of the Company through stock conversion approved by the government. On December 18, 2002, United World Chinese Commercial Bank Co., Ltd. (“UWCCB”) also became a subsidiary of the Company through stock conversion approved by the government. UWCCB and Cathay United Bank merged on October 27, 2003, in accordance with the relevant laws and regulations. UWCCB was the surviving company and was re-named to Cathay United Bank Co., Ltd. (“Cathay United Bank”). On May 12, 2004 the Company established Cathay Securities Corporation (“Cathay Securities”) as a wholly owned subsidiary. On June 30, 2005, the Company has invested Lucky Bank, Inc. (“Lucky Bank”) which was approved as a strategic investment by the Financial Supervisory Commission, Executive Yuan. Lucky Bank became a subsidiary of the Company by stock conversion on August 25, 2006. Cathay United Bank absorption merged with Lucky Bank on January 1, 2007. Cathay United Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on December 29, 2007 to improve competitiveness. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs). The Company mainly engages in financial holding business activities. As of June 30, 2007 and 2008, the total numbers of the employees of the Company and Subsidiaries were 35,764 and 41,634, respectively.

As of and for the six months ended June 30, 2007 and 2008, the consolidated financial statements include the following entities:



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Investor	Investee	Business	2007.6.30 Ownership interest	2008.6.30 Ownership interest	Notes
The Company	Cathay Life	Life insurance	100.00%	100.00%	Cathay Life was incorporated in Taiwan on October 23, 1962 under the provisions of the ROC Company Act (the "Company Act").
The Company	Cathay United Bank	Commercial banking operations	100.00%	100.00%	UWCCB was enfranchised by the ROC government on January 4, 1975. On October 27, 2003, UWCCB was merged with the former Cathay United Bank which was dissolved after the merger; the merged entity was renamed Cathay United Bank. The new Cathay United Bank absorption merged with Lucky Bank on January 1, 2007.
The Company	Cathay Century	Property and casualty insurance	100.00%	100.00%	Cathay Century was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Act. Cathay Century changed its name from "Tong Tai Insurance Co., Ltd." to "Cathay Century Insurance Co., Ltd." on August 2, 2002.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Investor	Investee	Business	2007.6.30 Ownership interest	2008.6.30 Ownership interest	Notes
The Company	Cathay Securities	Securities	100.00%	100.00%	Cathay Securities was incorporated on May 12, 2004, under the Company Act. The securities department and the securities agent (Taipei branch) of Cathay United Bank were transferred to Cathay Securities using operating assignment along with its business, assets and liabilities. The assignment date was August 13, 2004.
The Company	Cathay Pacific Venture Capital Co., Ltd. (“Cathay Pacific Venture”)	Venture capital investment	100.00%	100.00%	Cathay Pacific Venture was incorporated on April 16, 2003, under the Company Act.
The Company、 Cathay Life、 Cathay United Bank、Cathay Century	Cathay Venture Capital Co., Ltd. (“Cathay Venture”)	Venture capital investment	67.00%	67.00%	Cathay Venture was incorporated on September 13, 2000, under the Company Act.
The Company	Cathay II Venture Capital Co., Ltd. (“Cathay II Venture”)	Venture capital investment	100.00%	100.00%	Cathay II Venture was incorporated on April 12, 2004, under the Company Act.
Cathay Life	Cathay Life Insurance Company (Shanghai) (“Cathay Life (Shanghai)”)	Life insurance	50.00%	50.00%	Cathay Life (Shanghai) was incorporated on December 29, 2004. Cathay Life and China Eastern Airlines Corporation Limited each owns 50% interest in Cathay Life (Shanghai).

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Investor	Investee	Business	2007.6.30 Ownership interest	2008.6.30 Ownership interest	Notes
Cathay Life 、 Cathay Venture	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	99.53%	100.00%	Symphox Information was incorporated on December 12, 1999, under the Company Act. Cathay Life and Cathay Venture each owns 60.12% and 39.88% interest in Symphox Information, respectively.
Cathay Life	Cathay Life Insurance (Vietnam) Co., Ltd. (“Cathay Life (Vietnam)”)	Life insurance	-	100.00%	Cathay Life (Vietnam) was incorporated on November 21, 2007.
Cathay United Bank	Indovina Bank Limited (“Indovina Bank”)	Wholesale banking	50.00%	50.00%	Indovina Bank was incorporated in Vietnam on October 29, 1992.
Cathay United Bank 、 Cathay Securities	Cathay Futures Corp. (“Cathay Futures”)	Futures related business	99.99%	99.99%	Cathay Futures, formerly Seaward Futures Agency Co., Ltd., was incorporated on December 29, 1993 under the Company Act and renamed to Seaward Futures Corp. on March 6, 1998. On December 24, 2003, Seaward Futures Corp. changed its name to Cathay Futures Corp. On February 10, 2006, Cathay United Bank sold all the stocks of Cathay Futures to Cathay Securities.

As of and for the six months ended June 30, 2007 and 2008, the consolidated financial statements

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

excluded the following subsidiaries due to the respective total assets and operating revenues were considered immaterial to the Company.

Investor	Investee	Business	2007.6.30 Ownership interest	2008.6.30 Ownership interest	Notes
The Company	Cathay Capital Management Inc., (“Cathay Capital Management”)	Management consultant	100.00%	100.00%	Cathay Capital Management was incorporated on June 12, 2000.
Cathay life	Cathay Insurance (Bermuda) Co., Ltd. (“Cathay Insurance (Bermuda)”)	Reinsurance	100.00%	100.00%	Cathay Insurance (Bermuda) was incorporated on January 24, 2000.
Cathay life	Cathay Securities Investment Co., Ltd. (“Cathay Securities Investment”)	Securities investment research analysis	100.00%	100.00%	Cathay Securities Investment was incorporated on November 25, 2002.
Cathay United Bank	Cathay Life Insurance Agent Co., Ltd. (“Cathay Life Insurance Agent”)	Life insurance agent	100.00%	100.00%	Cathay Life Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Cathay Property Insurance Agent Co., Ltd (“Cathay Property Insurance Agent”)	Property insurance agent	100.00%	100.00%	Cathay Property Insurance Agent was incorporated on March 23, 2000.
Cathay United Bank	Seaward Card Co., Ltd. (“Seaward Card”)	Credit card service	100.00%	100.00%	Seaward Card was incorporated on April 9, 1999.
Cathay Capital Management	Cathay Pacific Partners Co., Ltd. (“Cathay Pacific Partners”)	Finance consultant	60.00%	60.00%	Cathay Pacific Partners was incorporated on October 15, 2002.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

**2. Summary of significant accounting policies**

The financial statements were prepared in accordance with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Financial Holding Companies and generally accepted accounting principles. A summary of significant accounting policies is as follows:

*(1) Principles of consolidation*

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

*(2) Cash and cash equivalents*

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in values from fluctuations of interest rates. Cash and cash equivalents include cash on hand, unrestricted bank deposits, checks for clearance, due from commercial banks and all other highly liquid investments with maturities of less than three months.

*(3) Financial assets and financial liabilities*

In accordance with the ROC SFAS No.34 “Accounting for Financial Instruments”, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Regulations Governing the Preparation of Financial Reports by Financial Holding Company”, financial assets are categorized as “financial assets at fair value through profit or loss”, “held-to-maturity financial assets”, “investments in debt securities with no active market”, “available-for-sale financial assets”, “derivative financial assets for hedging” or “financial assets carried at cost”. Upon initial recognition, financial assets are measured at fair value, plus in some cases, transaction costs that are directly attributable to the acquisition or issue of the financial assets. Financial liabilities are categorized as “financial liabilities at fair value through profit or loss”, “derivative financial liabilities for hedging”, or “financial liabilities carried at cost”.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share  
data and unless otherwise stated)**

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

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

Financial assets or liabilities at fair value through profit or loss include financial assets or liabilities held for trading or financial assets or liabilities designated as at fair value through profit or loss. Such assets or liabilities are measured at fair value with changes in fair value recognized in profit or loss.

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity financial assets when the Company has both the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains and losses from changes in fair values are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process. The amortized cost is computed as the cost (amount initially recognized) minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the cost and the maturity amount, and less any impairment loss or amount unrecoverable. The calculation of effective interest rate includes all fees and points paid or received between parties, transaction costs and all other premiums and discounts.

C. Investments in debt securities with no active market

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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 until the assets are derecognized, except for impairment losses and foreign exchange gains or losses upon translation of the assets. When the financial asset is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be recognized in profit or loss.

E. Derivative financial assets or liabilities for hedging

Derivative financial assets or liabilities for hedging are derivative financial assets or liabilities that have been designated as hedging instruments and meet the criteria for hedge accounting. These assets or liabilities are measured at fair value.

F. Financial assets carried at cost

Financial assets measured at cost are investments not measured at fair value because fair value cannot be reliably measured. They are either holdings in non-listed companies or emerging stocks, which have no significant influence or derivative assets that are linked to and must be settled by delivery of the above-mentioned equity instruments. If there is objective evidence that an impairment loss has been incurred on the investment, an impairment loss will be recognized. Such impairment loss shall not be reversed.

G. Financial liabilities

The financial liabilities of the Company and its subsidiaries are subsequently measured at amortized cost after initial recognition, except for “financial liabilities at fair value through profit or loss” and “derivative financial liabilities for hedging”, which are both measured at fair value.

The fair value of investments is determined by reference to the close price at the balance sheet date for listed shares, the net assets value for open-ended funds, and the quoted price by the Taiwan Gre Tai Securities Market for bonds. Valuation techniques are used to determine fair value for debt securities with no active market, hybrid instruments and derivative instruments.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

*(4) Derecognition of financial assets and liabilities*

A. Derecognition of financial assets

A financial asset (or a portion of the asset) is derecognized when the control over the asset (or a portion of the asset) is surrendered. Transferring or surrendering control over a financial asset (or a portion of the asset) in exchange of consideration received is deemed a sale.

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

B. Derecognition of financial liabilities

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

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

*(5) Accounting for impairment of financial assets*

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

A. Financial assets carried at amortized cost

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



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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 by adjusting an allowance account. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed what its amortized cost would have been had the impairment not been recognized at the reversal date.

B. Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, then the amount of the loss is determined 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. Such impairment loss can not be reversed.

C. Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss but through equity. 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 and hedging transactions*

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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, or an unrecognized firm commitment.
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is both attributable to a particular risk associated with a recognized asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction, and could affect 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 and Subsidiaries formally designate and document hedge relationship to which the Company and Subsidiaries wish 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:

A. Fair value hedges

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

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

The Company and Subsidiaries discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation.

Hedging instruments are subsequently measured at fair value and the gains (losses) resulting from the exchange rate changes are recognized in current period profit or loss in accordance with the ROC SFAS No.14 “Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements”.

**B. Cash flow hedges**

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

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.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

C. Hedges of a net investment in a foreign operation

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

*(7) Allowance for bad debts*

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

*(8) Investments-equity method*

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

*(9) Investments in real estate*

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

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

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

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

*(10) Property and equipment*

Property and equipment are stated at cost or cost plus appreciation. When revaluing property and equipment, land and other properties shall be revalued separately. Property appreciation shall be recorded under “land revaluation adjustments” of shareholders’ 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 the respective accounts.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that continue to be in use after reaching its originally estimated useful life are depreciated based on the residual value and the newly estimated remaining useful lives.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

*(11) Intangible assets*

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

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

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

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

*(12) Accounting for Assets Impairment*

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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 by reducing the carrying amount of the assets of the CGU or the group of CGUs in the following order:

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

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

*(13) Real Estate Investment Trust (REIT) and financial assets securitization*

Cathay Life has adopted “Accounting Treatment under Real Estate Securitization” issued by 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 of 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 of 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.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Under the Regulations for Financial Assets Securitization, Subsidiaries, with the assistance of a trustee securitized its financial assets for the purposes of offering asset-backed securities in the form of related beneficiary certificates through a special purpose trust. Due to Subsidiaries having surrendered the rights and control on these securitized financial assets, such financial assets are no longer recognized on the Subsidiaries' accounts. The gain or loss from securitization is recognized thereon, except for the retained interests in the form of subordinated seller certificates for credit enhancement, which are classified as held-to-maturity financial assets and investments in debt securities with no active market due to lack of market quotes.

The gain or loss from securitization of the financial assets is determined based on the difference between the proceeds from securitization and carrying value of the securitized financial assets. The cost of each class of asset-backed securities which is determined based on the previous carrying value of the securitized financial assets, is allocated in proportion to the fair value of each class of the asset-backed securities and the retained interests on the date of transfer. Due to securitized financial assets not having a quoted market price, the fair value of each class of the asset-backed securities and the retained interests are evaluated based on the present value of future cash flows considering the expected credit loss rate, prepayment rate, and discount rate on the financial assets.

*(14) Reserves for operations and liabilities*

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

*(15) Treasury stock*

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



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

- A. In accordance with Article 38 of the Financial Holding Company Act which provides strict prohibitions on cross-holdings, all the prior share buybacks conducted by listed or over-the-counter traded financial institutions (in accordance with Article 28-2 of Securities Exchange Act), upon the conversion of such institutions into wholly-owned subsidiaries of a financial holding company, must be converted into treasury shares of the financial holding company to be held by such subsidiaries for a period of no more than three years. If such subsidiaries fail to dispose such treasury shares within this period, those shares will be deemed as un-issued share capital of the financial holding company and shall be cancelled accordingly.
- B. Treasury shares of a financial holding company held by its subsidiaries as described above are also treated as their own treasury shares and therefore such subsidiaries may not exercise shareholders rights with respect to those stocks in accordance with Article 28-2 of the Securities Exchange Act.

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

*(16) Recognition of interest income and service fees*

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

*(17) Insurance premium income and expenses*

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

*(18) Pension plan*

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

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

*(19) Foreign currency transactions*

A. Translation of foreign currency transactions

Monetary assets or liabilities denominated in foreign currencies shall be translated using the applicable rate at each balance sheet date and exchange differences shall be recognized in profit or loss for the period. Non-monetary assets or liabilities denominated in foreign currencies that are measured at fair value 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 measured at fair value is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. Conversely, when a gain or loss on a non-monetary item measured at fair value is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Non-monetary assets or liabilities denominated in foreign currencies that are measured in terms of historical cost shall be translated using the exchange rate at the date of the transaction.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

B. Translation of foreign subsidiaries' financial statements

Financial statements of foreign subsidiaries under the equity method are translated into NT dollars on the following basis: all assets and liabilities denominated in foreign currencies are translated into NT dollars at the exchange rate prevailing on the balance sheet date. Shareholders' equity items are translated based on the historical rates except for the opening balance of retained earnings, which is the translated amount from prior period carried forward. Income statement items are translated using a weighted-average exchange rate of the fiscal year. Differences arising from above translation are recorded under cumulative translation adjustments under shareholders' equity.

*(20)Income taxes*

The Company adopted ROC SFAS No. 22, "Accounting for Income Taxes", which requires inter-period and intra-period tax allocations in addition to computing current period income tax payable. Deferred income tax liabilities are recognized for taxable temporary differences; while deferred income tax assets are recognized for deductible temporary differences, tax losses and investment tax credits. An allowance is provided based on an assessment of the realizability of deferred tax assets. Adjustment of prior years' income tax payable is included in the current period income tax expense.

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

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

The additional 10% income tax imposed on undistributed earnings is recognized as expenses on the date when the shareholders resolve that the earnings shall be retained.

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

*(21) Capital expenditure*

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

*(22) Employee bonus and remuneration of directors*

Pursuant to Article No.52 issued by the Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are accounted for as expenses and not distribution of earnings.

*(23) The interim financial statement*

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

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

The financial statements are stated in NT dollars. The translated U.S. dollars amounts from NT dollars as of June 30, 2007 and 2008 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.83 and NT\$30.36 provided by Federal Reserve Bank of New York of June 30, 2007 and 2008 are used for the translation.

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

The Company and Subsidiaries adopted the accounting principles prescribed in Article No.52 “Accounting for employee bonus and remuneration of directors” by the Accounting Research and Development Foundation on January 1, 2008.

The above change in accounting principles decreased the Company and Subsidiaries’ net income before tax and earnings per share by NT\$11,253 (US\$371) thousands and NT\$0.001 (US\$-), respectively, for the six months ended June 30, 2008.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

**4. Cash and cash equivalents**

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Petty cash and cash on hand	\$10,703,273	\$326,021	\$10,711,597	\$352,820
Cash in banks	6,954,386	211,830	13,972,138	460,216
Time deposits	396,477,271	12,076,676	356,329,703	11,736,815
Cash equivalents	3,578,103	108,989	3,100,402	102,121
Checks for clearance	10,609,761	323,173	3,283,658	108,157
Due from commercial banks	6,554,211	199,641	4,249,191	139,960
Total	<u>\$434,877,005</u>	<u>\$13,246,330</u>	<u>\$391,646,689</u>	<u>\$12,900,089</u>

As of June 30, 2007 and 2008, the amounts of time deposits with maturities beyond one year were NT\$1,388,751 (US\$42,301) thousands and NT\$1,166,983 (US\$38,438) thousands, respectively.

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

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Common stock	\$21,165,392	\$644,696	\$12,312,896	\$405,563
Beneficiary certificates	14,555,205	443,351	11,042,026	363,703
Exchange traded funds	398,915	12,151	169,362	5,578
Real estate investment trust	680,000	20,713	649,750	21,402
Commercial papers	13,861,423	422,218	8,263,157	272,173
Corporate bonds	3,531,864	107,580	4,642,848	152,926
Government bonds	8,434,222	256,906	782,728	25,782
Financial debentures	22,878,320	696,872	17,378,767	572,423
Overseas financial instruments	45,632,028	1,389,949	51,021,127	1,680,538
Derivative financial instruments	1,941,099	59,126	49,101	1,617
Certificates of deposit	4,401	134	9,961	328
Structured time deposits	2,000,000	60,920	2,000,000	65,876
Valuation adjustment	26,658,077	812,004	18,587,522	612,237
Total	<u>\$161,740,946</u>	<u>\$4,926,620</u>	<u>\$126,909,245</u>	<u>\$4,180,146</u>

(1) As of June 30, 2007 and 2008, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of NT\$9,073,200 (US\$276,369) thousands and NT\$6,551,900 (US\$215,807) thousands, respectively. Such repurchase agreements amounting to NT\$9,081,944 (US\$276,636) thousands and NT\$6,532,399 (US\$215,165) thousands, respectively, were recorded in the account "Securities sold under agreements to repurchase" on the balance sheets. Repurchase agreements entered prior to June 30, 2007 and 2008 are settled at NT\$9,091,505 (US\$276,927) thousands and NT\$6,536,093 (US\$215,286) thousands prior to July 31, 2007 and August 30, 2008, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(2) Please refer to Note 26 for related information on the above financial assets at fair value through profit or loss as of June 30, 2007 and 2008 being pledged as collaterals.

**6. Loans-net**

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Inward-outward documentary bills	\$719,491	\$21,915	\$488,270	\$16,083
Loans	1,249,405,352	38,056,818	1,357,332,833	44,707,932
Overdrafts	515,867	15,713	434,422	14,309
Discount	85,447	2,603	-	-
Delinquent accounts	8,962,443	272,996	6,191,429	203,934
Subtotal	1,259,688,600	38,370,045	1,364,446,954	44,942,258
Less: Allowance for bad debts	(13,356,205)	(406,829)	(11,414,202)	(375,962)
Total	<u>\$1,246,332,395</u>	<u>\$37,963,216</u>	<u>\$1,353,032,752</u>	<u>\$44,566,296</u>

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

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Common stock	\$138,215,197	\$4,210,027	\$113,688,105	\$3,744,668
Beneficiary certificates	724,142	22,057	957,632	31,542
Collateralized loans obligation and collateralized bonds obligation	7,767,475	236,597	6,035,387	198,794
Exchange traded funds	4,888,119	148,892	4,142,211	136,436
Government bonds	51,805,490	1,577,992	82,778,199	2,726,555
Corporate bonds	36,067,795	1,098,623	16,141,315	531,664
Financial debentures	80,848,963	2,462,655	181,061,350	5,963,813
Overseas financial instruments	111,367,984	3,392,263	80,565,765	2,653,681
Real estate investment trust beneficiary	9,319,655	283,876	8,725,208	287,392
Valuation adjustment	22,758,375	693,219	(13,742,025)	(452,636)
Total	<u>\$463,763,195</u>	<u>\$14,126,201</u>	<u>\$480,353,147</u>	<u>\$15,821,909</u>

(1) As of June 30, 2007 and 2008, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of NT\$9,397,600 (US\$286,250) thousands and NT\$19,664,000 (US\$647,694) thousands, respectively. Such repurchase agreements amounting to NT\$10,143,477 (US\$308,970) thousands and NT\$21,581,399 (US\$710,850) thousands were recorded in the account “Securities sold under agreements to repurchase” on the balance sheets. Repurchase agreements entered prior to June 30, 2007 and 2008 are settled at NT\$10,173,918 (US\$309,897) thousands and NT\$21,617,841 (US\$658,478) thousands prior to December 31, 2007 and 2008, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(2) Please refer to Note 26 for related information on the above available-for-sale financial assets as of June 30, 2007 and 2008 being pledged as collaterals.

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

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Government bonds	\$20,996,425	\$639,550	\$18,565,345	\$611,507
Corporate bonds	5,833,376	177,684	3,969,814	130,758
Financial debentures	16,584,264	505,156	12,597,202	414,928
Overseas financial instruments	504,890,550	15,378,939	548,863,022	18,078,492
Collateralized loans obligation and collateralized bonds obligation	20,916,694	637,121	19,480,199	641,640
Short-term notes	296,051	9,018	-	-
Subtotal	569,517,360	17,347,468	603,475,582	19,877,325
Less: Accumulated impairment	(2,030)	(62)	-	-
Total	<u>\$569,515,330</u>	<u>\$17,347,406</u>	<u>\$603,475,582</u>	<u>\$19,877,325</u>

Please refer to Note 26 for related information on the above held-to-maturity financial assets as of June 30, 2007 and 2008 being pledged as collaterals.

**9. Investments under equity method**

Investee	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Consulting	\$121,800	\$3,710	\$135,529	\$4,464
Cathay Capital Management	40,823	1,243	39,527	1,302
Seaward Card	37,468	1,141	37,561	1,237
Cathay Property Insurance Agent	7,335	223	7,396	244
Cathay Life Insurance Agent	35,257	1,074	32,797	1,080
Cathay Insurance (Bermuda)	80,615	2,456	84,741	2,791
WK Technology Fund VI Co., Ltd	461,157	14,047	354,152	11,665
Vista Technology Venture Capital Corp.	55,414	1,688	55,379	1,824
Omnitek Venture Capital Corp.	250,445	7,629	183,378	6,040
Wa Tech Venture Capital Co., Ltd.	200,117	6,096	134,851	4,442
Taiwan Real-estate Management Corp.	35,502	1,081	43,660	1,438
Taiwan Finance Corp.	1,276,396	38,879	1,284,883	42,321
IBT Venture Capital Corp.	425,912	12,973	272,988	8,992
Cathay Securities Investment Trust Co., Ltd.	286,564	8,729	335,078	11,037
Subtotal	3,314,805	100,969	3,001,920	98,877
Less: Unrealized gain from intercompany transactions	(415,680)	(12,662)	(415,680)	(13,691)
Total	<u>\$2,899,125</u>	<u>\$88,307</u>	<u>\$2,586,240</u>	<u>\$85,186</u>

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

**10. Other financial assets-net**

Item	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Derivative financial assets for hedging	\$193,039	\$5,880	\$275,763	\$9,083
Financial assets carried at cost	27,364,333	833,516	26,922,840	886,787
Structured time deposits	19,963,071	608,074	26,432,315	870,630
Customer's margin accounts	957,571	29,168	1,792,916	59,055
Bills purchased	4,090	125	3,121	103
Other miscellaneous financial assets	333,672	10,164	1,276,972	42,061
Accumulated impairment	(1,665,966)	(50,746)	(1,820,740)	(59,972)
Total	<u>\$47,149,810</u>	<u>\$1,436,181</u>	<u>\$54,883,187</u>	<u>\$1,807,747</u>

**11. Investments in real estate**

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

Item	June 30, 2008									
	Cost		Revaluation increment		Accumulated depreciation		Accumulated impairment		Net value	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Investments in										
real estate	\$121,451,266	\$4,000,371	\$4,370	\$144	\$(16,272,599)	\$(535,988)	\$(195,923)	\$(6,453)	\$104,987,114	\$3,458,074
Construction	1,665,652	54,863	-	-	-	-	-	-	1,665,652	54,863
Total	<u>\$123,116,918</u>	<u>\$4,055,234</u>	<u>\$4,370</u>	<u>\$144</u>	<u>\$(16,272,599)</u>	<u>\$(535,988)</u>	<u>\$(195,923)</u>	<u>\$(6,453)</u>	<u>\$106,652,766</u>	<u>\$3,512,937</u>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semiannually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collaterals.



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(4) Cathay Life had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building to the trust in the first half of 2007. The accounting treatment of the transactions was in compliance with (93) Article 141 and (95) Article 023 of Accounting Research and Development Foundation, “Accounting Treatment of Real Estate Securitization” and “Interpretation of the Accounting Treatment of Real Estate Securitization”, respectively. As a result, the gain on disposal of real estates on this transaction was NT\$1,195,081 (US\$36,402) thousands for the six months ended June 30, 2007.

## 12. Financial assets securitization

During 2007, Cathay United Bank securitized a collateralized loans obligation (CLO) with a carrying value of NT\$5,446,335 (US\$165,895) with Land Bank Co., Ltd. as the Trustee. These beneficiary certificates have a redemption period from May 28, 2007 to May 28, 2014. The other terms of these beneficiary certificates are as follows:

Class of beneficiary certificates issued	Issue amount (in thousands of dollars)	Interest rate
Senior tranche 1 <sup>st</sup>	NT\$3,335,000(US\$101,584)	2.175%
Senior tranche 2 <sup>nd</sup>	NT\$315,000(US\$9,595)	2.325%
Senior tranche 3 <sup>rd</sup>	NT\$340,000(US\$10,356)	2.545%
Senior tranche 4 <sup>th</sup>	NT\$480,000(US\$14,621)	2.945%
Subordinated tranche 5 <sup>th</sup>	NT\$200,000(US\$6,092)	3.00%
Subordinated tranche 6 <sup>th</sup>	NT\$200,000(US\$6,092)	3.20%
Subordinated tranche 7 <sup>th</sup>	NT\$576,335(US\$17,555)	-

Cathay United Bank holds the subordinated beneficiary certificates amounting to NT\$976,335 (US\$29,739) thousands and retains the right to interest (if any) in excess of the amount paid to the holders of senior beneficiary certificates. If the loan debtors default, neither the investor nor Trustee has the right of recourse to Cathay United Bank. The retained interest of the principal of subordinated beneficiary certificates is subordinate to the investors’ certificates and its value is affected by the credit risk, prepayment rate and change in interest rate of the securitized loans.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(1) Key assumptions used in measuring retained interests:

The key assumptions used in measuring the subordinated seller certificates arising from the loan securitization at the loans securitization date and at the end of the year, 2008, were as follows:

	<u>Corporate Loans Securitization</u>	
	<u>May 28, 2007</u>	<u>June 30, 2008</u>
Expected weighted-average life (in years)	2.210	1.051
Prepayment rate (annual rate)	3%	3%
Expected credit losses rate (annual rate)	3.71%	3.71%
Discounting rate for residual cash flows (annual rate)	2.2%	2.49%

(2) Sensitivity analysis :

As of June 30, 2008, the key economic assumptions and sensitivity of the current fair value of residual cash flows with immediate 10% and 20% adverse changes in these assumptions were as follows:

	<u>June 30, 2008</u>	
	<u>NT\$</u>	<u>US\$</u>
Carrying amount of retained interests	\$976,335	\$32,159
Expected weighted-average life (in years)	1.051	1.051
Expected prepayment rate (annual rate)	3%	3%
Impact on fair value with 10% adverse change	(2,008)	(66)
Impact on fair value with 20% adverse change	(2,037)	(67)
Expected credit losses (annual rate)	3.71%	3.71%
Impact on fair value with 10% adverse change	(12,181)	(401)
Impact on fair value with 20% adverse change	(13,798)	(454)
Discounting rate for residual cash flows (annual rate)	2.49%	2.49%
Impact on faire value with 10% adverse change	(4,911)	(162)
Impact on faire value with 20% adverse change	(9,796)	(323)

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(3) Expected static pool credit losses:

As the securitized collateralized loans obligation does not have actual credit losses as of the balance sheet date, the expected static pool credit losses are, therefore, equal to the expected credit losses

(4) Cash flows:

The cash flows received from and paid to securitization trusts were as follows:

	January 1~June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
The cash received from securitization	\$4,470,000	\$136,156	\$-	\$-
Servicing fees received	20	1	120	4
Other cash received on retained interests	3,211	98	14,842	489
Repayment of cash reserve	747	23	5,155	170

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	January 1, 2008		Increase		Decrease		June 30, 2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Acquired cost								
Goodwill	\$6,537,374	\$215,328	\$141,997 (Note)	\$4,677 (Note)	\$(6,288) (Note)	\$(207) (Note)	\$6,673,083	\$219,798
Computer software	2,093,333	68,951	409,037	13,473	(166,211)	(5,475)	2,336,159	76,949
Land use right	19,630	647	-	-	-	-	19,630	647
Subtotal	8,650,337	284,926	551,034	18,150	(172,499)	(5,682)	9,028,872	297,394
Amortization and impairment								
Amortized	(1,070,670)	(35,266)	(210,504)	(6,933)	26,418	870	(1,254,756)	(41,329)
Impairment	(147,141)	(4,847)	-	-	146,081	4,812	(1,060)	(36)
Subtotal	(1,217,811)	(40,113)	(210,504)	(6,933)	172,499	5,682	(1,255,816)	(41,365)
Book value	<u>\$7,432,526</u>	<u>\$244,813</u>	<u>\$340,530</u>	<u>\$11,217</u>	<u>\$-</u>	<u>\$-</u>	<u>\$7,773,056</u>	<u>\$256,029</u>

Note: These are adjustment to the fair value during the purchase price allocation period.

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

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

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Derivative financial instruments	\$4,961,652	\$151,131	\$130,987	\$4,314
Financial debentures	39,700,000	1,209,260	39,700,000	1,307,642
Subordinated financial debentures	5,000,000	152,300	-	-
Valuation adjustment	14,867,596	452,866	17,645,005	581,193
Total	<u>\$64,529,248</u>	<u>\$1,965,557</u>	<u>\$57,475,992</u>	<u>\$1,893,149</u>

(1) On May 23, 2002, Cathay United Bank issued a five-year subordinated financial debenture totaling NT\$5,000,000 (US\$164,690) thousands which has matured. Subsequently on September 10, 2002, the Bank issued five-year and six-month subordinated financial debentures totaling NT\$5,000,000 (US\$164,690) thousands which has matured.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- (2) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, more senior to common stock.
- (3) On June 20, 2003, Cathay United Bank issued five-year and six-month dominant financial debentures amounting to NT\$5,000,000 (US\$164,690) thousands with inverse floating interest rate. On December 4, 2003, December 10, 2003 and December 11, 2003, Cathay United Bank issued five-year dominant financial debentures amounting to NT\$3,200,000 (US\$105,402) thousands, NT\$2,700,000 (US\$88,933) thousands and NT\$1,800,000 (US\$59,289) thousands, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. Subsequently on March 29, 2004, Cathay United Bank issued six-year dominant financial debentures amounting to NT\$2,000,000 (US\$65,876) thousands with a floating interest rate. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually.
- (4) On July 8 and July 15, 2004, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$1,000,000 (US\$32,938) thousands, NT\$3,500,000 (US\$115,283) thousands, NT\$2,000,000 (US\$65,876) thousands, and NT\$1,000,000 (US\$32,938) thousands, respectively, with floating interest rates, inverse floating interest rates or specific structure rates. These dominant financial debentures are repayable at maturity, and the interest is payable quarterly or semi-annually. On November 10, November 25, November 26, December 9, December 10, December 22, December 23, December 29, 2004, and on January 14 and February 22, 2005, Cathay United Bank issued five-year to seven-year dominant financial debentures amounting to NT\$2,500,000 (US\$82,345) thousands, NT\$1,500,000 (US\$49,407) thousands, NT\$1,500,000 (US\$49,407) thousands, NT\$2,500,000 (US\$82,345) thousands, NT\$1,500,000 (US\$49,407) thousands, NT\$2,500,000 (US\$82,345) thousands, NT\$1,000,000 (US\$32,938) thousands and NT\$1,000,000 (US\$32,938) thousands, NT\$2,000,000 (US\$65,876) thousands, NT\$1,500,000 (US\$49,407) thousands, respectively, with fixed interest rates. These dominant financial debentures are repayable at maturity and the interest is payable quarterly.
- (5) These dominant financial debentures are senior in priority to the subordinated financial debentures and common shares, but are equal to other debts of Cathay United Bank.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

**15. Deposits**

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Check deposits	\$14,920,278	\$454,471	\$11,615,072	\$382,578
Demand deposits	109,922,723	3,348,240	111,763,933	3,681,289
Savings deposits	387,601,916	11,806,333	348,079,301	11,465,063
Time deposits	493,095,964	15,019,676	540,869,277	17,815,193
Outward remittances	-	-	6,769,407	222,971
Remittances payable	668,886	20,374	534,211	17,596
Total	<u>\$1,006,209,767</u>	<u>\$30,649,094</u>	<u>\$1,019,631,201</u>	<u>\$33,584,690</u>

**16. Bonds payable**

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Subordinated financial debentures	\$18,770,000	\$571,733	\$15,177,000	\$499,901
Discount in financial debentures	(102,163)	(3,112)	(85,365)	(2,812)
Valuation adjustment	(981,035)	(29,882)	181,058	5,964
Total	<u>\$17,686,802</u>	<u>\$538,739</u>	<u>\$15,272,693</u>	<u>\$503,053</u>

- (1) On April 28, 2003, Cathay United Bank issued a five-year subordinated financial debentures totaling NT\$2,350,000 (US\$77,404) thousands with a stated interest rate of 2%. The subordinated financial debentures are repayable at maturity, and the interest is payable annually.
- (2) Cathay United Bank issued a 15-year US\$500 million subordinated bonds with a stated interest rate of 5.5% on October 5, 2005, and the interest is payable semi-annually. Cathay United Bank can redeem the bond after 10 years by exercising the call option. Cathay United Bank has adopted hedge accounting to account for its subordinated financial debentures.
- (3) Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, more senior to common stock.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

**17. Reserve for operations and liabilities**

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Reserve for insurance business	\$1,897,421,301	\$57,795,349	\$2,012,140,666	\$66,276,043
Reserves for losses on guarantees	28,690	874	28,402	936
Reserves for losses on stock brokerage transactions	23,519	716	36,264	1,195
Reserves for losses on trading securities	150,501	4,584	268,791	8,853
Total	\$1,897,624,011	\$57,801,523	\$2,012,474,123	\$66,287,027

Reserves for operations included the following reserves:

Unearned premium reserve, Special reserve, and Claims reserve are provided in accordance with the “Regulations on Calculation of Various Insurance Reserves” by Article 0910751651, 0920751929 and 09602505761 of Ministry of Finance:

(1) Unearned premium reserve

Effective from December 24, 2002, Cathay Century Insurance unearned premium reserves should be provided based on assumed risks of different insurance products. The calculation of the reserve requires the involvement of actuaries as well as disclosures on the insurance product calculation statement which can not be changed unless approved by authorities. The unearned premium reserve should be reversed and then accrued at the next year end.

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

(2) Special reserve

A. Catastrophe reserve :

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- c. Recovery: Amount in the catastrophe reserve over 15 years should be reversed and then accrued for subject to approvals from relevant authorities.
- B. Contingency reserve: reserve provided for unusual fluctuations of claims or loss ratios.
- a. Addition: Prior to January 1, 2008, thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve. After January 1, 2008, fifteen percent instead should be provided for based on the method mentioned above.
  - b. Reduction: The amount of actual claims paid for each insurance product categories in excess of the respective catastrophe reserve and expected loss should be deducted from the catastrophe reserve. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.
  - c. Recovery: Once the accumulated contingency reserve of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income. When the accumulated accidental insurance contingency reserve exceeds 30% of the retained earned premium for the year, the excess amount should be recorded as income. However, authorities can assign or limit the use of the amount based on the development need of the insurance industry.
- C. The special reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.
- D. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.
- E. The residential earthquake insurance product is in compliance of “Regulations for Method of insurance and Contingency allocation on Residential Earthquake”.



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(3) Claims reserve:

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

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

(4) Premiums deficiency reserve:

Effective from January 1, 2008, future benefit payments and expenses shall be estimated for unexpired insurance contracts or insurance risks. Premium deficiency reserve by category shall be recorded for the difference between the above estimated amount and the sum of unearned premium reserve and estimated future premium income.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

**18. Other financial liabilities**

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Derivative financial liabilities for hedging	\$1,145,401	\$34,889	\$538,210	\$17,728
Borrowed funds	310,850	9,468	282,509	9,306
Other miscellaneous financial liabilities	238,315	7,259	25,064	825
Total	<u>\$1,694,566</u>	<u>\$51,616</u>	<u>\$845,783</u>	<u>\$27,859</u>

**19. Common stock**

- (1) As of June 30, 2007 and 2008, the authorized share capital amounted NT\$120,000,000 (US\$3,952,569) thousands, and the issued share capital amounted NT\$92,770,192 (US\$3,055,672) thousands.
- (2) The recapitalization of undistributed earnings of NT\$4,605,180 (US\$151,686) thousands by issuing 460,518 thousand shares with par value of NT\$10 (US\$0.3) was resolved by the Company's shareholders' meeting on June 13, 2008 and approved by the Securities and Futures Bureau on July 10, 2008. The recapitalization record date was August 5, 2008.
- (3) On June 30, 2001, the Company listed its shares on Taiwan Stock Exchange Corporation (TSE) in accordance with relevant regulations. Since July 29, 2003, the Company listed a portion of its common shares on the Luxembourg Stock Exchange (LSE) in the form of Global Depositary Shares (GDSs).

**20. Capital surplus**

- (1) The capital surplus of the Company consists of consolidation premium from share exchange, accumulated adjustments on paid-in capital from investment under equity method, and paid-in capital from treasury stocks. Capital surplus were NT\$81,971,167 (US\$2,496,837) thousands and NT\$81,971,213 (US\$2,699,974) thousands as of June 30, 2007 and 2008, respectively. Retained earnings from certain subsidiaries of the Company before the stock exchange of formation of the financial holding company amounted to NT\$267,215 (US\$8,802) thousands were included in the capital surplus as of both June 30, 2007 and 2008.
- (2) The capital surplus of par value through the conversion of shares was generated from the transfer of the shares of the subsidiaries to the Company. In compliance with Item 4 of Article 47 of the Financial Holding Company Act, the portion of capital surplus from the share exchange which comes from the original financial institution's undistributed earnings is allowed to be distributed as cash dividends or to be capitalized.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- (3) In addition, pursuant to the Company Act, capital surplus can only be used to offset a deficit or to increase share capital. Capital surplus cannot be distributed as cash dividends. Issuance of new stock from capital surplus can be made only once per year. Furthermore, the amount to be capitalized should not exceed the specific percentage of capital surplus set by the SFC.

## **21. Retained earnings**

### **(1) Legal reserve**

Pursuant to the Company Act, 10% of the Company's after-tax net income in the current year must be appropriated to legal reserve until the total amount of the legal reserve equals the issued share capital. This legal reserve can be used to offset deficits but cannot be used for the purpose of cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if agreed by its shareholders.

### **(2) Undistributed earnings**

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

B. On June 13, 2008, the shareholders' meeting resolved the distribution of earnings of NT\$3.0 (US\$0.10) per share for the year ended December 31, 2007. The cash and stock dividends with record dates are NT\$2.5 (US\$0.08) and NT\$0.5 (US\$0.02) on July 8 and August 5, 2008, respectively.

C. On June 15, 2007, the shareholders' meeting resolved the appropriation of earnings for the year ended December 31, 2006. The Company declared cash dividends of NT\$1.5 (US\$0.05) per common share and such dividends with record date on July 5, 2007.

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- E. In accordance with SFC regulations, in addition to the legal reserve retained, the Company is required to provide a special reserve in the amount equal to current year's contra account in shareholders' equity from current year's earnings after tax or prior year's undistributed earnings. However, contra accounts in prior year's accumulated shareholders' equity should only be provided from prior year's undistributed earnings. If a reversal of shareholders equity contra account occurs, the reversed portion of the special reserve could be distributed as dividends.
- F. In accordance with SFC regulations, posterior to 2002 subsidiaries of financial holding companies that hold shares of their parent company should treat those shares as treasury stock. The costs of these shares are exempted from distributing as special reserve.
- G. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments, cumulative conversion adjustments, and net loss not yet recognized as net pension cost expect for the special reserve since 2007.
- H. Dividends policy
- The Company's dividends policy is to distribute dividends in stock in order to retain sufficient cash for operations. Excess cash from retained earnings after taking into account operating needs may be distributed in cash; moreover cash dividends must be a minimum of 10% of the total dividends declared.
- I. The accrual of employee bonus and remuneration of directors for the half year of 2008 was NT\$11,253 (US\$371) thousands based on the average of actual distribution in the past three years and the net income after tax for the half year of 2008 and was recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2009 fiscal year.
- J. The Company's distribution of 2007 retained earnings of NT\$20,470 (US\$674) thousands and NT\$13,500 (US\$445) thousands to employee and directors, respectively, has been approved by the board of directors and the shareholders. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

## 22. Treasury stock

The following is a summary of the movement of treasury stock as of June 30, 2007 and 2008:

June 30, 2007										
Reason for acquisition	In thousands of shares				Book value		Book value per share		Market value per share	
	January 1, 2007	Increase	Decrease	June 30, 2007	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares acquired through share exchange from merger transaction	66,660	-	-	66,660	\$4,140,047	\$126,106	\$62.11	\$1.89	\$78.50	\$2.39
June 30, 2008										
Reason for acquisition	In thousands of shares				Book value		Book value per share		Market value per share	
	January 1, 2008	Increase	Decrease	June 30, 2008	(NT\$)	(US\$)	(in NT dollars)	(in US dollars)	(in NT dollars)	(in US dollars)
Shares acquired through share exchange from merger transaction	66,660	-	-	66,660	\$4,140,047	\$136,365	\$62.11	\$2.05	\$66.00	\$2.17

## 23. Operating Expense

For the six months ended June 30, 2007 and 2008, personnel expense, depreciation and amortizations are summarized below:

	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Personnel expenses	\$19,900,217	\$606,160	\$19,527,979	\$643,214
Salary and wages	17,696,906	539,047	16,921,984	557,377
Labor & health insurance expenses	967,272	29,463	1,076,623	35,462
Pension expenses	455,231	13,866	664,267	21,880
Other expenses	780,808	23,784	865,105	28,495
Depreciation	1,907,489	58,102	1,635,174	53,859
Amortization	182,221	5,550	209,170	6,890

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

**24. Estimated income taxes**

(1) Income tax expenses include the following:

	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Adjusted income tax calculates on				
accounting income	\$(1,768,101)	\$(53,856)	\$2,187,201	\$72,042
Plus (Less): Tax of interest income on a				
separate basis	262,358	7,991	127,495	4,199
Extra 10% income tax on				
undistributed retained				
earning	55	2	12,394	408
Alternative minimum tax				
payable	391,512	11,926	711,483	23,435
Withholding tax for overseas				
investments	55,882	1,702	(21,033)	(693)
Tax effects under				
consolidated income tax	221,014	6,732	(114,880)	(3,784)
Deferred income tax				
expenses (benefits)	2,264,373	68,973	(7,646,274)	(251,853)
Adjustment of income tax	655,232	19,958	20,558	677
Income tax credit	(8,788)	(268)	(7,937)	(261)
Operating loss carry-forward	15,626	476	(2,392)	(79)
Total income tax expenses (benefits)	<u>\$2,089,163</u>	<u>\$63,636</u>	<u>\$(4,733,385)</u>	<u>\$(155,909)</u>

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

	June 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Total deferred tax assets	<u>\$10,413,266</u>	<u>\$317,188</u>	<u>\$19,403,765</u>	<u>\$639,123</u>
Total deferred tax liabilities	<u>\$2,881,503</u>	<u>\$87,770</u>	<u>\$2,719,388</u>	<u>\$89,571</u>
Allowance for deferred assets	<u>\$456,330</u>	<u>\$13,900</u>	<u>\$939,785</u>	<u>\$30,955</u>

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

	June 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Temporary differences:				
Pension expense	\$1,763,221	\$53,708	\$1,399,671	\$46,102
Unrealized exchange (gains) losses	(3,368,640)	(102,609)	44,505,759	1,465,934
Gains from valuation on financial assets and liabilities	(3,692,793)	(112,482)	(4,468,649)	(147,189)
Allowance for bad debts	7,269,558	221,430	4,631,991	152,569
Operating loss carry-forward	10,173,984	309,899	8,936,886	294,364
Other differences	1,211,777	36,911	720,220	23,723
Total	<u>\$13,357,107</u>	<u>\$406,857</u>	<u>\$55,725,878</u>	<u>\$1,835,503</u>
Tax effect under consolidated income tax system	<u>\$3,855,096</u>	<u>\$117,426</u>	<u>\$2,090,014</u>	<u>\$68,841</u>
Deferred income tax assets of foreign branches	<u>\$43,280</u>	<u>\$1,318</u>	<u>\$83,831</u>	<u>\$2,761</u>
Investment tax credit	<u>\$4,322</u>	<u>\$132</u>	<u>\$4,443</u>	<u>\$146</u>
Deferred income tax assets of changes in accounting principles	<u>\$286,271</u>	<u>\$8,720</u>	<u>\$-</u>	<u>\$-</u>

	June 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Deferred tax assets	\$10,413,266	\$317,188	\$19,403,765	\$639,123
Allowance for deferred tax assets	(456,330)	(13,900)	(939,785)	(30,955)
Net deferred tax assets	9,956,936	303,288	18,463,980	608,168
Deferred tax liabilities	(2,881,503)	(87,770)	(2,719,388)	(89,571)
Net offset balance of deferred tax assets	<u>\$7,075,433</u>	<u>\$215,518</u>	<u>\$15,744,592</u>	<u>\$518,597</u>

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(2) Income tax returns:

		June 30, 2008
		Notes
	Income tax returns examined by tax authorities	
The Company	through 2003	The Company filed applications for re-examination of 2002 and 2003 tax returns.
Cathay Life	through 2003	Cathay Life filed applications for re-examination of 2002 and 2003 tax returns.
Cathay United Bank	through 2003	-
Cathay Century	through 2003	The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in year 1999, 2001 and 2002 tax returns, respectively, were rejected by the Tax Authority as being able to offset income tax payable. Cathay Century has filed the dispute. Cathay Century also filed an application for re-examination of 2003 tax return.
Cathay Securities	through 2004	-
Cathay Pacific Venture	through 2003	-
Symphox Information	through 2005	-
Cathay Futures	through 2005	-
Cathay Venture	through 2005	-
Cathay II Venture	through 2004	-

(3) Information related to imputation credit account:

A. Balance of imputation credit account

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
The Company	\$2,611,187	\$79,537	\$4,617,807	\$152,102
Cathay Life	72,984	2,223	61,734	2,033
Cathay United Bank	552,402	16,826	58,753	1,935
Cathay Century	8,775	267	1,460	48
Cathay Securities	5,880	179	6,049	199
Cathay Pacific Venture	132	4	2	-
Cathay Venture	183	6	9,408	310
Cathay II Venture	7,022	214	9,702	320
Cathay Futures	13,918	424	15,244	502



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

B. Imputation ratio

	For the six months ended June 30,	
	2007	2008
	Actual	Actual
The Company-cash dividends	13.25%	12.98%
The Company-stock dividends	-	12.99%
Cathay Life	7.96%	5.62%
Cathay United Bank	13.98%	9.78%
Cathay Century	1.62%	1.61%
Cathay Securities	14.76%	15.18%
Cathay Pacific Venture	1.11%	0.99%
Cathay Venture	32.56%	17.87%
Cathay II Venture	7.26%	5.45%
Cathay Futures	33.33%	33.33%

(4) Information relating of undistributed retained earnings:

Year	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Prior to 1997	\$267,215	\$8,139	\$267,215	\$8,801
After 1998	4,829,862	147,118	4,863,911	160,208
Total	<u>\$5,097,077</u>	<u>\$155,257</u>	<u>\$5,131,126</u>	<u>\$169,009</u>

- A. Undistributed earnings post 1998 did not include the net income from January 1 to June 30, 2007 and 2008.
- B. The undistributed retained earnings prior to 1997 which derived from the undistributed retained earnings of the subsidiaries were included in the Company's capital surplus and were allowed to be distributed as cash dividends by the regulations.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

## 25. Earnings per share

	For the six months ended June 30, 2007								
	Amount (Numerator)				Shares	EPS (in dollars)			
	Before income taxes		After income taxes		(in thousands	Before income taxes		After income taxes	
	(NT\$)	(US\$)	(NT\$)	(US\$)	of shares)	(NT\$)	(US\$)	(NT\$)	(US\$)
Primary earnings per share:									
Income from continuing operations	\$22,865,810	\$696,492	\$20,776,647	\$632,856	9,644,095	<u>\$2.37</u>	<u>\$0.07</u>	<u>\$2.15</u>	<u>\$0.07</u>
Effect of potentially dilutive common stock:									
Convertible notes payable	37,610	1,145	28,207	859	26,782				
Fully-diluted earnings per share:									
Consolidated income	<u>\$22,903,420</u>	<u>\$697,637</u>	<u>\$20,804,854</u>	<u>\$633,715</u>	9,670,877	<u>\$2.37</u>	<u>\$0.07</u>	<u>\$2.15</u>	<u>\$0.07</u>
For the six months ended June 30, 2008									
	Amount (Numerator)				Shares	EPS (in dollars)			
	Before income taxes		After income taxes		(in thousands	Before income taxes		After income taxes	
	(NT\$)	(US\$)	(NT\$)	(US\$)	of shares)	(NT\$)	(US\$)	(NT\$)	(US\$)
	(NT\$)	(US\$)	(NT\$)	(US\$)	(denominator)	(NT\$)	(US\$)	(NT\$)	(US\$)

Primary earnings per share:

Consolidated income	<u>\$(6,914,759)</u>	<u>\$(227,759)</u>	<u>\$(2,181,374)</u>	<u>\$(71,850)</u>	9,670,877	<u>\$(0.72)</u>	<u>\$(0.02)</u>	<u>\$(0.23)</u>	<u>\$(0.01)</u>
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## 26. Related party transactions

### (1) Related parties

Name	Relationship
Cathay Life	Subsidiary of the Company
Cathay United Bank	//
Cathay Century	//
Cathay Securities	//
Cathay Pacific Venture	//
Cathay II Venture	//
Cathay Capital Management	//
Cathay Venture	//
Cathay Life (Shanghai)	Subsidiary of Cathay Life
Cathay Life Insurance (Vietnam) Co., Ltd.	//

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Name	Relationship
Symphox Information	Subsidiary of Cathay Life
Cathay Insurance (Bermuda)	"
Cathay Securities Investment Consulting	"
Indovina Bank	Subsidiary of Cathay United Bank
Cathay Life Insurance Agent	"
Seaward Card	"
Cathay Property Insurance Agent	"
Cathay Futures	Subsidiary of Cathay Securities
Cathay Pacific Partners	Subsidiary of Cathay Capital Management
Cathay Securities Investment Trust Co., Ltd.	Investee accounted for under the equity method
Taiwan Finance Corp.	"
Taiwan Real-estate Management Corp.	"
Vista Technology Venture Capital Corp.	"
IBT Venture Capital Corp.	"
Cathay General Hospital	The chairman is also the Company's chairman
Lin Yuan Investment Co., Ltd.	The chairman is a second immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	"
Taiwan Asset Management Corporation	The representative of Cathay United Bank is the chairman of the corporation
Cathay Bond Fund etc.	The fund is managed by Cathay Securities Trust Co., Ltd.
Vietinbank	Joint venture partner of Indovina Bank
Lin Yuan Property Management Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Seaward Leasing Ltd.	"
Cathay Real Estate Development Co., Ltd.	"
San Ching Engineering Co., Ltd.	"
Cathay Charity Foundation	"
Cathay Lin Yuan Security Co., Ltd.	"
Cathay Real Estate Management Co., Ltd.	"
Cathay Century Realty Co., Ltd.	"
Cathay Biology Technology Co., Ltd.	"
Cathay Real Estate Holding Corporation	"
Culture and Charity Foundation of the CUB	"
Cathay Cultural Foundation	"
Other related parties	Includes chairmen, managers, their spouses and linear relatives of Subsidiaries

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(2) Significant transactions with related parties:

Transactions with related parties less than NT\$3,000 (US\$99) thousands will no longer be disclosed after the first quarter of 2008.

A. Due from the Central Bank and call loans to banks

Name	For the six months ended June 30,							
	2007				2008			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$4,496	\$137	\$13	\$-	\$460,345	\$15,163	\$2,414	\$80

B. Funds borrowed from other banks

Name	For the six months ended June 30,							
	2007				2008			
	Ending balance		Interest revenue		Ending balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Vietinbank	\$101,792	\$3,101	\$1,215	\$37	\$-	\$-	\$-	\$-

C. Financial assets at fair value through profit or loss

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$8,602,088	\$262,019	\$7,750,015	\$255,271

D. Receivables

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$11,199	\$341	\$16,566	\$546
Cathay Capital Management	8,377	255	-	-
Cathay General Hospital	1,526	47	-	-
Cathay Real Estate Development Co., Ltd.	538	16	-	-
Cathay Securities Investment	23,008	701	-	-
Total	\$44,648	\$1,360	\$16,566	\$546

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

E. Loans

Name	For the six months ended June 30, 2007			
	Ending Balance	Ending Balance	Interest Revenue	Interest Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$2,120,000	\$64,575	\$20,063	\$611
Taiwan Real-estate Management Corp.	125,000	3,807	1,796	54
Cathay General Hospital	4,734,653	144,217	76,687	2,336
Other related parties	405,917	12,364	5,115	156
<b>Total</b>	<b>\$7,385,570</b>	<b>\$224,963</b>	<b>\$103,661</b>	<b>\$3,157</b>

Name	For the six months ended June 30, 2008			
	Ending Balance	Ending Balance	Interest Revenue	Interest Revenue
	(NT\$)	(US\$)	(NT\$)	(US\$)
Seaward Leasing Ltd.	\$2,942,280	\$96,913	\$33,194	\$1,093
Taiwan Real-estate Management Corp.	109,000	3,590	1,579	52
Cathay General Hospital	4,602,505	151,598	84,748	2,791
Other related parties	671,870	22,130	9,275	306
<b>Total</b>	<b>\$8,325,655</b>	<b>\$274,231</b>	<b>\$128,796</b>	<b>\$4,242</b>

F. Available-for-sale financial assets

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$408,237	\$12,435	\$249,897	\$8,231

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

G. Deposit

Name	For the six months ended June 30, 2007			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Expense (NT\$)	Interest Expense (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$375,474	\$11,437	\$4,184	\$127
Cathay Real Estate Development Co., Ltd.	72,636	2,212	99	3
Other related parties	2,512,861	76,542	21,007	640
<b>Total</b>	<b>\$2,960,971</b>	<b>\$90,191</b>	<b>\$25,290</b>	<b>\$770</b>

Name	For the six months ended June 30, 2008			
	Ending Balance (NT\$)	Ending Balance (US\$)	Interest Expense (NT\$)	Interest Expense (US\$)
Cathay Securities Investment Trust Co., Ltd.	\$539,871	\$17,782	\$8,814	\$290
Cathay Real Estate Development Co., Ltd.	81,761	2,693	104	4
Other related parties	4,393,072	144,700	41,015	1,351
<b>Total</b>	<b>\$5,014,704</b>	<b>\$165,175</b>	<b>\$49,933</b>	<b>\$1,645</b>

H. Property transactions

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

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

  

Name	Item	For the six months ended June 30, 2008	
		(NT\$)	(US\$)
Lin Yuan Property Management Co., Ltd.	International Building etc.	\$112,809	\$3,716

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

The total amounts of contracted construction projects for real estate as of June 30, 2007 and 2008 between Cathay Life and San Ching Engineering Co., Ltd. were NT\$22,567 (US\$687) thousands and NT\$176,453 (US\$5,812) thousands, respectively.

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

Name	Rental income			
	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Consulting	\$1,764	\$54	\$-	\$-
Cathay Capital Management	1,075	33	-	-
Cathay Real Estate Development Co., Ltd.	8,366	255	8,733	288
Cathay General Hospital	79,401	2,418	85,174	2,805
San Ching Engineering Co., Ltd.	3,953	120	4,265	140
Cathay Securities Investment Trust Co., Ltd.	6,520	199	8,892	293
Taiwan Asset Management Corporation	7,315	223	-	-
Culture and Charity Foundation of CUB	500	15	-	-
Seaward Leasing Ltd.	719	22	-	-
Total	<u>\$109,613</u>	<u>\$3,339</u>	<u>\$107,064</u>	<u>\$3,526</u>

  

Name	Guarantee deposits in			
	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Consulting	\$877	\$27	\$-	\$-
Cathay Capital Management	479	15	-	-
Cathay Real Estate Development Co., Ltd.	3,645	111	4,886	161
Cathay General Hospital	8,455	257	10,991	362
San Ching Engineering Co., Ltd.	1,709	52	-	-
Cathay Securities Investment Trust Co., Ltd.	2,738	83	4,234	139
Taiwan Asset Management Corporation	3,477	106	-	-
Seaward Leasing Ltd.	346	11	-	-
Total	<u>\$21,726</u>	<u>\$662</u>	<u>\$20,111</u>	<u>\$662</u>

Lease periods are usually between 2 to 5 years and rental incomes are collected monthly.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

c. Real estate rental expense from Cathay Life and Cathay United Bank.

Name	Rental expenses			
	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Real Estate Development Co., Ltd.	\$20,937	\$638	\$20,900	\$689
Lin Yuan Investment Co., Ltd.	1,256	38	-	-
Seaward Leasing Ltd.	6,111	186	7,206	237
Other	163	5	-	-
<b>Total</b>	<b>\$28,467</b>	<b>\$867</b>	<b>\$28,106</b>	<b>\$926</b>

Name	Guarantee deposits paid			
	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Real Estate Development Co., Ltd.	\$11,561	\$352	\$8,779	\$289
Lin Yuan Investment Co., Ltd.	628	19	-	-
Seaward Leasing Ltd.	33,393	1,017	33,395	1,100
Other	2	-	-	-
<b>Total</b>	<b>\$45,584</b>	<b>\$1,388</b>	<b>\$42,174</b>	<b>\$1,389</b>

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

I. Other assets

Prepayment

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Lin Yuan Investment Co., Ltd.	\$419	\$13	\$-	\$-
Other	92	3	-	-
<b>Total</b>	<b>\$511</b>	<b>\$16</b>	<b>\$-</b>	<b>\$-</b>



**English Translation of Financial Statements Originally Issued in Chinese**  
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J. Due to the Central Bank and call loans from banks

Name	For the six months ended June 30, 2008			
	Ending balance	Interest expense	Ending balance	Interest expense
	(NT\$)	(NT\$)	(US\$)	(US\$)
Vietinbank	\$505,471	\$3,552	\$16,649	\$117

K. Securities sold under agreements to repurchase

Name	June 30,			
	Ending balance			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Wan Pao Development Co., Ltd.	\$4,203,527	\$128,039	\$646,779	\$21,304
Other related parties	820,917	25,005	1,409,757	46,434
Total	\$5,024,444	\$153,044	\$2,056,536	\$67,738

Name	For the six months ended June 30,			
	Interest expenses			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Wan Pao Development Co., Ltd.	\$24,368	\$742	\$4,353	\$143
Other related parties	7,696	235	17,224	568
Total	\$32,064	\$977	\$21,577	\$711

L. Payables

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Seaward Card	\$9,914	\$302	\$32,817	\$1,081
Lin Yuan Property Management Co., Ltd.	16,413	500	36,848	1,214
Cathay Real Estate Development Co., Ltd.	1,200	36	-	-
San Ching Engineering Co., Ltd.	-	-	5,056	167
Cathay Securities Investment Consulting	13,125	400	5,670	187
Vietinbank	-	-	129,005	4,249
Other	54	2	-	-
Total	\$40,706	\$1,240	\$209,396	\$6,898

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

M. Advance receipts

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Taiwan Asset Management Corporation	\$2,484	\$76	\$-	\$-

N. Net commission and handling fees

a. Handling fees income

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$9,609	\$293	\$10,503	\$346
Cathay Securities Investment Consulting	954	29	-	-
Other	41	1	-	-
Total	\$10,604	\$323	\$10,503	\$346

b. Reinsurance handling fees paid

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$-	\$-	\$5,097	\$168

c. Commissions expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life Insurance Agent	\$11,257	\$343	\$9,746	\$321

d. Reinsurance commissions expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	\$422	\$13	\$-	\$-

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

O. Net premiums from insurance business

a. Insurance income

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay General Hospital	\$16,585	\$505	\$12,984	\$428
Cathay Real Estate Development Co., Ltd.	811	25	-	-
San Ching Engineering Co., Ltd.	625	19	-	-
Cathay Securities Investment Trust Co., Ltd.	541	17	-	-
Seaward Leasing Ltd.	3,379	103	-	-
Other related parties	324,719	9,891	241,449	7,953
Total	<u>\$346,660</u>	<u>\$10,560</u>	<u>\$254,433</u>	<u>\$8,381</u>

b. Reinsurance income

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	<u>\$58,571</u>	<u>\$1,784</u>	<u>\$70,249</u>	<u>\$2,314</u>

c. Reinsurance claims payment

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Insurance (Bermuda)	<u>\$6,025</u>	<u>\$184</u>	<u>\$60,569</u>	<u>\$1,995</u>

P. Net other non-interest income

a. Sales

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay General Hospital	\$3,076	\$94	\$-	\$-
Cathay Securities Investment Trust Co., Ltd.	1,695	52	-	-
Other related parties	1,793	54	-	-
Total	<u>\$6,564</u>	<u>\$200</u>	<u>\$-</u>	<u>\$-</u>

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

b. Service Income

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay General Hospital	\$2,634	\$80	\$-	\$-
Other related parties	1,089	33	-	-
Total	\$3,723	\$113	\$-	\$-

c. Miscellaneous income

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$3,185	\$97	\$30,320	\$999
Cathay General Hospital	2,416	74	-	-
Other related parties	1,341	41	-	-
Total	\$6,942	\$212	\$30,320	\$999

Q. Operating expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Consulting	\$26,250	\$800	\$18,795	\$619
Seaward Card	172,791	5,263	160,871	5,299
Cathay Pacific Management	32,925	1,003	30,276	997
Cathay Pacific Partners	6,750	206	6,000	198
Lin Yuan Property Management Co., Ltd.	302,679	9,220	308,391	10,158
Cathay Real Estate Development Co., Ltd.	6,090	185	7,428	245
San Ching Engineering Co., Ltd.	2,018	61	-	-
Cathay General Hospital	2,676	82	-	-
Cathay Lin Yuan Security Co., Ltd.	1,154	35	-	-
Seaward Leasing Ltd.	4,338	132	5,475	180
Other related parties	36	1	-	-
Total	\$557,707	\$16,988	\$537,236	\$17,696

R. Other Disclosures

a. Cathay United Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$ 1,411,880 (US\$43,671) thousands, in 2006. Cathay United Bank had paid the amount of NT\$259,042 (US\$7,890) thousands and NT\$360,591 (US\$11,877) thousands during the six-month periods ended June 30, 2007 and 2008. As of June 30, 2007 and 2008, the accumulated paid amount was NT\$349,592 (US\$10,649) thousands and NT\$922,414(US\$30,383) thousands, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- b. Cathay United Bank has paid decoration and fix fees to San Ching Engineering Corp. in the amount of NT\$2,203 (US\$67) thousands and NT\$2,501 (US\$82) thousands during the six months periods ended June 30, 2007 and 2008, respectively.
- c. Cathay United Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management Co., Ltd. in the amount of NT\$8,935 (US\$272) thousands (capitalized) and NT\$11,096 (US\$365) thousands (expensed) during the six months periods ended June 30, 2007 and 2008, respectively.
- d. Cathay Century Realty Co., Ltd. acted as a broker for Cathay United Bank to dispose of real estate, the service fees of NT\$10,500 (US\$346) thousands and NT\$4,004 (US\$132) thousands were included in disposal of foreclosed properties premises and equipment, respectively, for the six-month period June 30, 2008
- f. Cathay United Bank paid the amount of NT\$45,546 (US\$1,387) thousands to certain managers according to the intercession content regarding a dispute involving dissolving the construction contract on Shih-Hua Hills and repossessing the land.

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

A. Cash in bank

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

		For the six months ended June 30, 2008		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits	\$1,487,346	2.42%~4.57%	\$25,711
	Cash in bank	3,059,562	0.00%~1.70%	530
	Total	<u>\$4,546,908</u>		<u>\$26,241</u>

		For the six months ended June 30, 2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits	\$48,990	2.98%~4.57%	\$847
	Cash in bank	100,776	0.00%~1.70%	17
	Total	<u>\$149,766</u>		<u>\$864</u>

**B. Receivables**

		June 30,			
Name	Item	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay United Bank	Interest Receivables due to consolidated income tax	\$109,660	\$3,340	\$736,683	\$24,265
Cathay Life	Receivables due to consolidated income tax	-	-	1,010,644	33,289
Cathay Century	Receivables due to consolidated income tax	136,475	4,157	183,222	6,035
Cathay Capital Management	Receivables due to consolidated income tax	8,377	255	5,169	170
Cathay Securities	Receivables due to consolidated income tax	8,329	254	-	-
Cathay II Venture	Receivables due to consolidated income tax	1,456	44	9,117	300
Total		<u>\$264,297</u>	<u>\$8,050</u>	<u>\$1,944,835</u>	<u>\$64,059</u>

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

C. Guarantee deposits paid:

Name	As of and For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$4,598	\$140	\$4,885	\$161

D. Payables

Name	Item	June 30,			
		2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	Receivables due to consolidated income tax	\$737,751	\$22,472	\$541,486	\$17,835
Cathay United Bank	Receivables due to consolidated income tax	638,005	19,433	983,685	32,401
Cathay Pacific Venture	Receivables due to consolidated income tax	847	26	-	-
Total		\$1,376,603	\$41,931	\$1,525,171	\$50,236

E. Operating expenses

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$8,407	\$256	\$10,803	\$356
Lin Yuan Property Management Co., Ltd.	117	3	-	-
Symphox Information	722	22	-	-
Seaward Leasing Ltd.	483	15	-	-
Total	\$9,729	\$296	\$10,803	\$356

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

A. Cathay Life

a. Cash in banks

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

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

		For the six months ended June 30,2008		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United	Time deposit	\$1,751,850	1.24%~2.70%	\$17,642
Bank	Cash in bank	3,041,968	0.04%~1.85%	2,209
Total		<u>\$4,793,818</u>		<u>\$19,851</u>

		For the six months ended June 30,2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United	Time deposit	\$57,703	1.24%~2.70%	\$581
Bank	Cash in bank	100,196	0.04%~1.85%	73
Total		<u>\$157,899</u>		<u>\$654</u>



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

b. Other Receivables

Name	June 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Financial Holding.	\$737,751	\$22,472	\$541,486	\$17,835
Cathy Century	260,490	7,935	158,223	5,212
Total	\$998,241	\$30,407	\$699,709	\$23,047

c. Other financial assets – current

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

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

Name	For the six months ended June 30,2008		
	Ending balance	Rate	Interest income
	(NT\$)		(NT\$)
Cathay United Bank	\$1,500,000	3.17%~3.37%	\$48,975

Name	For the six months ended June 30,2008		
	Ending balance	Rate	Interest income
	(US\$)		(US\$)
Cathay United Bank	\$49,407	3.17%~3.37%	\$1,613

d. Secured loans

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

For the six months ended June 30,2008				
Name	Maximum amount (NT\$)	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay General Hospital	\$4,388,030	\$4,344,505	3.57%~3.83%	\$81,337
Other related parties	304,449	272,884	2.20%~5.61%	3,971
Total	\$4,692,479	\$4,617,389		\$85,308

For the six months ended June 30,2008				
Name	Maximum amount (US\$)	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay General Hospital	\$144,533	\$143,100	3.57%~3.83%	\$2,679
Other related parties	10,028	8,988	2.20%~5.61%	131
Total	\$154,561	\$152,088		\$2,810

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

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$7,630,959	\$232,439	\$6,856,163	\$225,829

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

f. Property transactions

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

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

Name	Item	For the six months ended June 30, 2008	
		NT\$	US\$
Lin Yuan Property Management	International Building etc.	<u>\$112,809</u>	<u>\$3,716</u>

The total amounts of contracted projects for real estate as of June 30, 2007 and 2008 between Cathay Life and San Ching Engineering Co., Ltd. were NT\$22,567 (US\$687) thousands and NT\$176,453 (US\$5,812) thousands, respectively.

g. Other assets-other

Name	June 30,			
	2007		2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Life (Shanghai)	<u>\$298,343</u>	<u>\$9,088</u>	<u>\$265,211</u>	<u>\$8,735</u>

h. Guarantee deposits paid

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Futures	<u>\$345,322</u>	<u>\$10,518</u>	<u>\$624,819</u>	<u>\$20,580</u>

As of June 30, 2007 and 2008, the imputed interest income from guarantee deposits paid to Cathay Futures were NT\$78 (US\$2) thousands and NT\$231 (US\$8) thousands, respectively.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

i. Other payables

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Financial Holding	\$-	\$-	\$1,010,644	\$33,289

The above other payables relate to income tax payable calculated under consolidated tax return.

j. Rental income

Name	For the six months ended June 30,			
	2007 (NT\$)	2007 (US\$)	2008 (NT\$)	2008 (US\$)
Cathay United Bank	\$136,276	\$4,151	\$147,082	\$4,845

k. Insurance income

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008 (US\$)
Cathay United Bank	\$222,268	\$6,770	\$267,006	\$8,795
Other related parties	324,719	9,891	241,449	7,953
Total	\$546,987	\$16,661	\$508,455	\$16,748

l. Miscellaneous income

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Century	\$282,913	\$8,617	\$472,773	\$15,572

m. Operating expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay United Bank	\$136,122	\$4,146	\$508,478	\$16,748
Symphox Information	114,063	3,474	124,733	4,109
Lin Yuan Property Management Co., Ltd.	302,562	9,216	308,391	10,158
Total	\$552,747	\$16,836	\$941,602	\$31,015

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

n. Other Disclosures

As of June 30, 2007 and 2008, the notional amounts of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	June 30,	
	2007	2008
Forward foreign exchange contracts	USD1,324,364	USD530,807
CS contracts	USD1,473,439	USD1,235,000
Financial debentures	NTD200,000	NTD198,413
	(USD6,092)	(USD6,535)

During the six months ended June 30, 2007 and 2008, Cathay Life had entered a credit assignment agreement with Cathay United Bank in the amount of NT\$344,050 (US\$10,480) thousands and NT\$1,000,000 (US\$32,938) thousands, respectively.

B. Cathay United Bank

a. Loans and deposits

Account/Name	For the six months ended June 30,							
	2007				2008			
	Ending Balance		Interest revenue		Ending Balance		Interest revenue	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Loans								
Seaward								
Leasing Ltd.	\$2,120,000	\$64,575	\$20,063	\$611	\$2,942,280	\$96,913	\$33,194	\$1,093
Taiwan								
Real-estate								
Management								
Corp.	125,000	3,807	1,796	54	109,000	3,590	1,579	52
Cathay General								
Hospital	288,969	8,802	3,832	117	258,000	8,498	3,411	112
Other related								
parties	297,828	9,072	3,902	119	371,626	12,241	4,906	162
Total	\$2,831,797	\$86,256	\$29,593	\$901	\$3,680,906	\$121,242	\$43,090	\$1,419

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Account/Name	For the six months ended June 30,							
	2007				2008			
	Ending Balance		Interest expense		Ending Balance		Interest expense	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Deposits								
Cathay Life	\$5,578,377	\$169,917	\$17,493	\$533	\$4,793,818	\$157,899	\$19,851	\$654
Cathay								
Financial								
Holding	3,796,044	115,627	91,376	2,783	4,819,505	158,745	26,241	864
Cathay Futures	1,082,581	32,975	7,277	222	1,590,263	52,380	13,579	447
Cathay								
Securities	707,981	21,565	7,098	216	309,516	10,195	2,118	70
Cathay Century	642,296	19,564	4,809	146	897,983	29,578	5,488	181
Cathay Pacific								
Venture	228,648	6,965	2,975	91	4,433	146	6	-
Cathay								
Securities								
Investment								
Trust Co.,								
Ltd.	375,474	11,437	4,184	127	539,871	17,782	8,814	290
Other related								
parties	2,512,861	76,542	21,007	640	4,388,891	144,562	41,015	1,351
Total	<u>\$14,924,262</u>	<u>\$454,592</u>	<u>\$156,219</u>	<u>\$4,758</u>	<u>\$17,344,280</u>	<u>\$571,287</u>	<u>\$117,112</u>	<u>\$3,857</u>

Account/Name	For the six months ended June 30, 2007							
	Maximum amount		Ending balance		Rate	Interest revenue (expense)		
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)	
Call loans to banks								
Indovina Bank	<u>\$267,434</u>	<u>\$8,146</u>	<u>\$158,286</u>	<u>\$4,821</u>	5.1%~7.7%	<u>\$1,651</u>	<u>\$50</u>	
Due from commercial								
Indovina Bank	<u>\$200,197</u>	<u>\$6,098</u>	<u>\$5,376</u>	<u>\$164</u>	0.5%~2.16%	<u>\$48</u>	<u>\$1</u>	
Call loans from banks								
Indovina Bank	<u>\$372,134</u>	<u>\$11,335</u>	<u>\$-</u>	<u>\$-</u>	4.5%~8.7%	<u>\$(500)</u>	<u>\$(15)</u>	

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

For the six months ended June 30, 2008							
Account/Name	Maximum amount		Ending balance		Rate	Interest revenue (expense)	
	(NT\$)	(US\$)	(NT\$)	(US\$)		(NT\$)	(US\$)
Call loans to banks							
Indovina Bank	<u>\$3,217,904</u>	<u>\$105,992</u>	<u>\$1,770,564</u>	<u>\$58,319</u>	2.56%~26%	<u>\$25,957</u>	<u>\$855</u>
Due from commercial							
Indovina Bank	<u>\$371,403</u>	<u>\$12,233</u>	<u>\$3,861</u>	<u>\$127</u>	0.5%~2.4%	<u>\$110</u>	<u>\$4</u>
Call loans from banks							
Indovina Bank	<u>\$352,545</u>	<u>\$11,612</u>	<u>\$-</u>	<u>\$-</u>	4.5%~18%	<u>\$(645)</u>	<u>\$(21)</u>

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

b. Securities sold under agreements to repurchase

Name	June 30,			
	Ending balance			
	2007 (NT\$)	2007 (US\$)	2008 (NT\$)	2008 (US\$)
Wan Pao Development Co., Ltd.	\$4,203,527	\$128,039	\$646,779	\$21,304
Other related parties	820,917	25,005	1,409,757	46,434
Total	<u>\$5,024,444</u>	<u>\$153,044</u>	<u>\$2,056,536</u>	<u>\$67,738</u>

Name	For the six months ended June 30,			
	Interest expense			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Wan Pao Development Co., Ltd.	\$24,368	\$742	\$4,353	\$143
Other related parties	7,696	235	17,224	568
Total	<u>\$32,064</u>	<u>\$977</u>	<u>\$21,577</u>	<u>\$711</u>

c. Rental Expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	<u>\$136,276</u>	<u>\$4,151</u>	<u>\$147,303</u>	<u>\$4,852</u>

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

d. Handling fees income

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$136,122	\$4,146	\$508,478	\$16,748

e. Payables

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Financial Holding	\$109,660	\$3,340	\$-	\$-

f. Accrued insurance expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$222,268	\$6,770	\$267,006	\$8,795

g. General expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Seaward Card	\$169,797	\$5,172	\$137,887	\$4,542
Symphox Information	231,823	7,061	236,301	7,783
Total	\$401,620	\$12,233	\$374,188	\$12,325

h. Receivables

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Financial Holding	\$638,005	\$19,434	\$253,007	\$8,334

i. Other receivables

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Indovina Bank	\$98,520	\$3,001	\$129,005	\$4,249



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

j. Financial assets at fair value through profit or loss-mutual fund

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Trust Co., Ltd.	\$745,649	\$22,712	\$775,649	\$25,548

k. Other Disclosures

(a) Cathay United Bank entered into a contract with San Ching Engineering Corp. to build the Nei-hu Financial Building and North Taoyuan Branch totaling NT\$1,411,880 (US\$43,671) thousands, in 2006. Cathay United Bank paid the amount of NT\$259,042 (US\$7,890) thousands and NT\$360,591 (US\$11,877) thousands during the six-month periods ended June 30, 2007 and 2008. As of June 30, 2007 and 2008, the accumulated paid amount was NT\$349,592 (US\$10,649) thousands and NT\$922,414(US\$30,383) thousands, respectively.

(b) Cathay United Bank enters into a contract with Cathay Life Insurance Co., Ltd. to transferring credit facilities. The transferring loan amount was NT\$344,050 (US\$10,480) thousands and NT\$1,000,000 (US\$32,938) thousands during the six-month periods ended June 30, 2007 and 2008, respectively.

(c) The Cathay Life held the dominant financial debentures with notional amounts of NT\$200,000 (US\$6,588) thousands which was issued by Cathay United in 2003.

C. Cathay Century

a. Cash in banks

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

		For the six months ended June 30, 2008		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Cash in banks	\$488,533	0.10%	\$165
	Time deposits	409,450	2.21%~2.62%	5,323
Total		<u>\$897,983</u>		<u>\$5,488</u>

		For the six months ended June 30, 2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Cash in banks	\$16,091	0.10%	\$6
	Time deposits	13,487	2.21%~2.62%	175
Total		<u>\$29,578</u>		<u>\$181</u>

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

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$154,376</u>	<u>\$4,702</u>	<u>\$43,320</u>	<u>\$1,427</u>

c. Accrued marketing expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	<u>\$260,490</u>	<u>\$7,935</u>	<u>\$158,223</u>	<u>\$5,212</u>

d. Available-for-sale financial assets-beneficiary certificates

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	<u>\$77,127</u>	<u>\$2,349</u>	<u>\$117,783</u>	<u>\$3,880</u>

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

e. Other payables – income tax payable

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Financial Holding	\$136,475	\$4,157	\$183,222	\$6,035

f. Operating expense

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Life	\$318,380	\$9,698	\$515,911	\$16,993

g. Other Disclosures

As of June 30, 2007 and 2008 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	For the six months ended June 30,	
	2007	2008
Forward foreign exchange contracts	US\$21,054	US\$22,150
CS contracts	US\$34,550	US\$31,150
IRS	NT\$- (USD\$-)	NT\$600,000 (US\$19,763)

D. Cathay Securities

a. Cash in bank

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

		For the six months ended June 30, 2007		
Name	Item	Ending balance		Interest income
		(US\$)	Rate	(US\$)
Cathay United Bank	Cash in banks	\$3,521	0.10%~2.35%	\$1
	Negotiable certificates of deposit	17,058	1.50%~1.53%	207
	Time deposits	305	1.39%~1.76%	8
Total		<u>\$20,884</u>		<u>\$216</u>

		For the six months ended June 30, 2008		
Name	Item	Ending balance		Interest income
		(NT\$)	Rate	(NT\$)
Cathay United Bank	Cash in banks	\$149,016	0.10%	\$-
	Time deposits	160,500	1.77%~2.62%	-
Total		<u>\$309,516</u>		<u>\$-</u>

		For the six months ended June 30, 2008		
Name	Item	Ending balance		Interest income
		(US\$)	Rate	(US\$)
Cathay United Bank	Cash in banks	\$4,908	0.10%	\$-
	Time deposits	5,287	1.77%~2.62%	-
Total		<u>\$10,195</u>		<u>\$-</u>

As of June 30, 2007 and 2008 except for the NT\$300,000 (US\$9,138) thousands and NT\$40,000 (US\$1,318) thousands of negotiable certificate pledged as collaterals for the overdraft of settlement accounts and recorded as restricted assets, the remaining negotiable certificates were not pledged as collaterals.

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

For the six months ended June 30, 2008

Name	Clearing and settlement fees		Dealing handling fee expense		Accounts payable		Margin for futures trading – own funds	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Cathay Futures	\$-	\$-	\$-	\$-	\$-	\$-	\$122,405	\$4,032

E. Cathay Pacific Venture

a. Cash in bank

For the six months ended June 30, 2007

Name	Item	Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Cathay United Bank	Time deposits	\$225,224	1.28%~1.49%	\$2,968
	Cash in bank	3,425	0.10%	7
	Total	\$228,649		\$2,975

For the six months ended June 30, 2007

Name	Item	Ending balance	Rate	Interest income
		(US\$)		(US\$)
Cathay United Bank	Time deposits	\$6,860	1.28%~1.49%	\$91
	Cash in bank	105	0.10%	-
	Total	\$6,965		\$91

For the six months ended June 30, 2008

Name	Item	Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Cathay United Bank	Cash in bank	\$4,433	0.10%	\$7

For the six months ended June 30, 2008

Name	Item	Ending balance	Rate	Interest income
		(US\$)		(US\$)
Cathay United Bank	Cash in bank	\$146	0.10%	\$-

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

F. Indovina Bank

a. Call Loans from Banks

For the six months ended June 30, 2007				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$158,286	\$4,821	\$1,651	\$50
Vietinbank	101,792	3,101	1,215	37
Total	\$260,078	\$7,922	\$2,866	\$87

For the six months ended June 30, 2008				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Cathay United Bank	\$1,770,564	\$58,319	\$25,957	\$855

b. Dividends Payable

June 30,				
Name	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay United Bank	\$98,520	\$3,001	\$129,005	\$4,249
Vietinbank	-	-	129,005	4,249
Total	\$98,520	\$3,001	\$258,010	\$8,498

c. Due to Commercial Banks

For the six months ended June 30, 2008				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Vietinbank	\$505,471	\$16,649	\$3,522	\$117

d. Due from Commercial Banks

For the six months ended June 30, 2007				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Vietinbank	\$4,496	\$137	\$13	\$-

For the six months ended June 30, 2008				
Name	Ending balance (NT\$)	Ending balance (US\$)	Interest expense (NT\$)	Interest expense (US\$)
Vietinbank	\$460,345	\$15,163	\$2,414	\$80

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

G. Cathay Futures

a. Cash in bank and Cash equivalents

		For the six months ended June 30, 2007		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits			
	(Note)	\$275,000	1.34%~2.21%	\$1,737
	Cash in bank	9,574	0.02%~2.35%	9
	Total	<u>\$284,574</u>		<u>\$1,746</u>

		For the six months ended June 30, 2007		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits			
	(Note)	\$8,376	1.34%~2.21%	\$53
	Cash in bank	292	0.02%~2.35%	-
	Total	<u>\$8,668</u>		<u>\$53</u>

		For the six months ended June 30, 2008		
Name	Item	Ending balance (NT\$)	Rate	Interest income (NT\$)
Cathay United Bank	Time deposits			
	(Note)	\$290,500	1.56%~2.62%	\$13,573
	Cash in bank	14,832	0.04%~1.20%	6
	Total	<u>\$305,332</u>		<u>\$13,579</u>

		For the six months ended June 30, 2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposits			
	(Note)	\$9,568	1.56%~2.62%	\$447
	Cash in bank	489	0.04%~1.20%	-
	Total	<u>\$10,057</u>		<u>\$447</u>

As of June 30, 2007 and 2008, Cathay Futures has time deposit amounting to NT\$60,000 in Cathay United Bank as the guaranty bond, in accordance with Article 14 of Rules Governing Futures Commission Merchants and Article 11 of Regulation Governing Futures Advisory Enterprises.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

b. Customer's margin accounts

Name	June 30,					
	2007			2008		
	(NT\$)	(US\$)	Rate	(NT\$)	(US\$)	Rate
Cathay United Bank	<u>\$797,877</u>	<u>\$24,303</u>	0.02%~2.35%	<u>\$1,284,518</u>	<u>\$42,310</u>	0.04%~2.35%

c. Futures customers' equity

Name	June 30,			
	2007 (NT\$)	2007 (US\$)	2008 (NT\$)	2008 (US\$)
Cathay Life	\$345,322	\$10,519	\$624,819	\$20,580
Cathay Securities	313,077	9,536	122,405	4,032
Total	<u>\$658,399</u>	<u>\$20,055</u>	<u>\$747,224</u>	<u>\$24,612</u>

H. Symphox Information

a. Cash in bank

For the six months ended June 30,2007				
Name	Item	Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Cathay United	Time deposit	\$80,210	2.02%~2.16%	\$876
Bank	Cash in bank	<u>3,284</u>	0.10%	<u>14</u>
Total		<u>\$83,494</u>		<u>\$890</u>

For the six months ended June 30,2007				
Name	Item	Ending balance	Rate	Interest income
		(US\$)		(US\$)
Cathay United	Time deposit	\$2,443	2.02%~2.16%	\$27
Bank	Cash in bank	<u>100</u>	0.10%	<u>-</u>
Total		<u>\$2,543</u>		<u>\$27</u>

For the six months ended June 30,2008				
Name	Item	Ending balance	Rate	Interest income
		(NT\$)		(NT\$)
Cathay United	Time deposit	\$279,000	2.32%~2.49%	\$3,322
Bank	Cash in bank	<u>3,919</u>	0.10%	<u>13</u>
Total		<u>\$282,919</u>		<u>\$3,335</u>



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

		For the six months ended June 30, 2008		
Name	Item	Ending balance (US\$)	Rate	Interest income (US\$)
Cathay United Bank	Time deposit	\$9,190	2.32%~2.49%	\$109
	Cash in bank	129	0.10%	1
Total		<u>\$9,319</u>		<u>\$110</u>

b. Sales Revenue

Name	For the six months ended June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay United Bank	\$157,889	\$4,809	\$150,831	\$4,968

I. Cathay Venture Capital

Available-for-sale financial assets

Name	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Cathay Securities Investment Trust Co., Ltd.	\$245,845	\$7,488	\$72,439	\$2,386

**26. Pledged assets**

As of June 30, 2007 and 2008, the Company and Subsidiaries' pledged assets are summarized below:

Item	Guarantee purpose	Carrying amount			
		2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Time deposits	Correspondent deposit, collateral for the over-loaning of settlement accounts, loan, other financial items or leasing	\$516,060	\$15,719	\$1,557,256	\$51,293
Guarantee deposits paid	Government bonds	9,113,430	277,595	8,354,724	275,188

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	Guarantee purpose	Carrying amount			
		2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Financial assets at fair value through profit or loss	Business reserves and guarantees	\$124,902	\$3,805	\$110,874	\$3,652
Available-for-sale financial assets	Business reserves and guarantees	966,964	29,454	4,531,286	149,252
Held-to-maturity financial assets	Business reserves and guarantees	1,544,930	47,058	101,095	3,330
Investments in debt securities with no active market	Business reserves and guarantees	15,000,000	456,899	15,000,000	494,071
		<u>\$27,266,286</u>	<u>\$830,530</u>	<u>\$29,655,235</u>	<u>\$976,786</u>

**27. Commitment and contingent liabilities**

(1) Cathay United Bank

A. On January 1, 2004, Pacific SOGO issued its own SOGO membership card, which Cathay United Bank believes constituted a breach of Pacific SOGO's co-branded card contract with Cathay United Bank. Cathay United Bank has filed a motion of injunction and provisional measures against certain of Pacific SOGO's properties and the issuance of its own membership cards. As to the provisional measures, the Taipei District Court had adjudged in favor of Cathay United Bank on June 30, 2007. However, Pacific SOGO appealed against the decision and the appeal is currently being reviewed by the High Court. Furthermore, Cathay United Bank also filed an incidental civil procedures and claim, which is being reviewed by the Taipei District Court, against Pacific SOGO. Subsequently the Taipei District Court issued a judgment favoring Cathay United Bank on October 12, 2006, ordering Pacific SOGO to pay the punitive damages of NT\$400,000 (US\$13,175) thousands. Pacific SOGO had filed an appeal against such order and the appeal is currently being reviewed by the High Court.

B. Lee and Li Attorneys-at-Law and SanDisk Corporation filed lawsuits in the Taiwan Taipei District Court alleging that Cathay United Bank breached its contractual and fiduciary duties in connection with the embezzlement conducted by a former employee of Lee and Li Attorneys-at-Law, Eddie Liu, on October 2003. Both plaintiffs claimed indemnities amounted NT\$0.9 billion (US\$29,644 thousands) and NT\$3.09 billion (US\$101,779 thousands), respectively. Cathay United Bank has been advised by its legal advisor that it is possible, but not probable, that the action will succeed and accordingly no provision for any claims has been made in these financial statements.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

C. As of June 30, 2008, Cathay United Bank had entered into certain contracts to purchase premises and equipments totaling NT\$2,681,370 (US\$88,319) thousands with NT\$1,875,059 (US\$61,761) thousands of prepayment made.

(2) Cathay Century

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

(3) As of June 30, 2007 and 2008, Cathay United Bank subsidiaries had the following commitments and contingent liabilities, which were not reflected in the financial statements:

	June 30,			
	2007(NT\$)	2007(US\$)	2008(NT\$)	2008(US\$)
Trust and security held for safekeeping	\$277,934,034	\$8,465,855	\$210,177,300	\$6,922,836
Travelers checks for sale	670,507	20,424	515,543	16,981
Bills for collection	46,189,380	1,406,926	47,295,997	1,557,839
Guarantees on duties and contracts	17,431,844	530,973	17,495,216	576,259
Unused commercial letters of credit	4,268,673	130,024	4,982,176	164,103
Irrevocable loan commitments	33,314,917	1,014,771	45,642,543	1,503,378
Credit card lines commitments	281,247,456	8,566,782	274,216,214	9,032,155
Stamp tax, securities and memorial				
currency consignments	1,727	53	1,727	57
Book-entry for government bonds and				
depository for short-term marketable				
securities under management	337,968,700	10,294,508	347,129,400	11,433,775
Entrusted financial management				
business	-	-	2,492,318	82,092

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

Periods	NT\$	US\$
July 1, 2008~June 30, 2009	\$1,026,781	\$33,820
July 1, 2009~June 30, 2013	2,648,683	87,243
Total	<u>\$3,675,464</u>	<u>\$121,063</u>

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

**29. Subsequent events:** None.

**30. Other significant matters**

(1) Pension related information

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

(2) Disclosures information of CUTIC which was acquired by Cathay United Bank is as follow:

A. Brief introduction to transferor:

CUTIC was established in October 1971 to engage in the operations of trust and investment.

The Central Deposit Insurance Corporation (“CDIC”) took CUTIC into receivership from March 30, 2007. CUTIC went into receivership due to the deteriorating financial and operating conditions and with net worth dipped into the red.

B. Purpose of the transfer of assets and liabilities and related regulations:

(a) Purpose: To create a successful branch networking profit through 20 branch channels in the future. Furthermore, by expanding the branch channel, Cathay United Bank could provide customers with more convenient and diversifying financial services and to improve long-term profitability.

(b) Regulations: Transfer was governed by Article 9 and 18 of The Financial Institutions Merger Act, and Article 36 of the Security Exchange Act.

C. Effective date of the transfer: December 29, 2007.

D. Type, quantity, and amount of marketable securities issued for the transfer: None.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

E. Accounting treatment for assets acquired and liabilities assumed:

(a) Accounting methods for the transfer: Cathay United Bank assumed the specific assets and liabilities of CUTIC and the difference in the amount of money received from Financial Restructuring Fund (the “FRF”) and net fair value of identifiable net assets acquired is recognized as goodwill.

(b) Relevant accounts and amounts of assets and liabilities assumed through the transfer:

	Amount	
	NT\$	US\$
Assets	\$59,212,341	\$1,950,340
Liabilities	(74,549,715)	(2,455,524)
Net	(15,337,374)	(505,184)
Add: Received from the FRF and CDIC	8,800,000	289,855
Adjustment of purchase price relating to fair value adjustments	(135,709)	(4,470)
Goodwill arising on acquisition	\$(6,673,083)	\$(219,799)

On December 31, 2007, Cathay United Bank has received NT\$8,800 (US\$268) million as cash subsidies from the FRF and CDIC, and will settle the rest of the amount pursuant to contract. The initial purchase price allocations may be adjusted within one year of the acquired date for changes in estimates of the fair value of assets acquired and liabilities assumed. The purchase price was adjusted to NT\$135,709 (US\$4,470) thousands for the six-month period ended June 30, 2008.

(3) Financial instruments related information

A. The Company

a. Information of fair value

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$24,114,697	\$24,114,697	\$734,532	\$734,532
Receivables	1,529,451	1,529,451	46,587	46,587

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Investments under equity method	\$215,954,606	\$215,954,606	\$6,577,965	\$6,577,965
Other financial assets	31,720	31,720	966	966
<u>Liabilities</u>				
Payables	15,348,449	15,348,449	467,513	467,513
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	1,009,083	1,009,083	30,737	30,737

  

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$18,176,091	\$18,176,091	\$598,685	\$598,685
Receivables	3,149,204	3,149,204	103,729	103,729
Investments under equity method	176,001,582	176,001,582	5,797,154	5,797,154
Other financial assets	31,720	31,720	1,045	1,045
<u>Liabilities</u>				
Payables	26,507,144	26,507,144	873,094	873,094

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

(a) The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents, receivables payables and other financial assets.

(b) The fair value of derivative and bonds payable was determined based on the present value of anticipated cash flow.

c. The fair value of the Company's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Financial instruments	June 30, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$24,114,697	\$734,532
Receivables	-	-	1,529,451	46,587
Investments under equity method	-	-	215,954,606	6,577,965
Other financial assets	-	-	31,720	966
<u>Liabilities</u>				
Payables	-	-	15,348,449	467,513
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
CCS, option	-	-	1,009,083	30,737
Financial instruments	June 30, 2008			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$-	\$-	\$18,176,091	\$598,685
Receivables	-	-	3,149,204	103,729
Investments under equity method	-	-	176,001,582	5,797,154
Other financial assets	-	-	31,720	1,045
<u>Liabilities</u>				
Payables	-	-	26,507,144	873,094

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

d. Information on financial risks

(a) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at June 30, 2007 and 2008:

- ① As of June 30, 2008, the Company's financial instruments were all redeemed; therefore the Company's exposure to interest risk is minimal.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

② June 30, 2007

Fixed interest rate

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

  

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

Floating interest rate

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

  

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

The interest rate of a financial instrument with floating interest rate is repriced within a year. The interest rate of a financial instrument with fixed interest rate is fixed until the due date. Financial instruments excluded from the tables above due to absence of interest risk are non-interesting bearing financial instruments.

(b) Credit risk

The Company's exposure to credit risk is minimal.



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

e. Financial risk management objectives and policies

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

The Company enters into derivative transactions such as foreign currency options and cross currency swaps to protect against the risks from net investments in foreign operations arising from interest rate and exchange rate fluctuations. Derivatives not qualified for hedge accounting are measured at fair value through profit or loss.

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 has also established risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitor and manage the Company's risks.

#### Market Risk

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

#### Credit Risk

Credit risk is the risk of loss arising from the potential default of the counter-party. An internal credit risk evaluation model for investments in financial instruments is created based on external credit assessments and various characteristics of financial instruments. The Company also monitors the credit risk level of the investment targets, issuers or counterparties by evaluating the credit concentration of the investments or counterparties.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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 procedures. The Company has also commenced the development of information systems to accommodate and support the aforementioned policies.

Liquidity Risk

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

B. Cathay Life

a. Information of fair value

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$208,693,950	\$208,693,950	\$6,356,806	\$6,356,806
Notes and accounts receivable	39,346,635	39,346,635	1,198,496	1,198,496
Financial assets at fair value through profit or loss - current	92,314,258	92,314,258	2,811,887	2,811,887
Available-for-sale financial assets - current	208,231,727	208,231,727	6,342,727	6,342,727
Held-to-maturity financial assets - current	8,929,280	8,908,982	271,985	271,367
Investments in debt securities with no active market - current	5,784,912	5,786,617	176,208	176,260
Other financial assets - current	8,450,000	8,450,000	257,387	257,387
Available-for-sale financial assets - noncurrent	193,994,896	193,994,896	5,909,074	5,909,074

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Held-to-maturity financial assets - noncurrent	\$551,699,219	\$529,892,120	\$16,804,728	\$16,140,485
Financial assets carried at cost - noncurrent	19,665,955	-	599,024	-
Investments in debt securities with no active market - noncurrent	47,303,121	45,860,765	1,440,851	1,396,916
Long-term investments in stocks under the equity method	4,139,018	4,139,018	126,074	126,074
Other financial assets – noncurrent	13,800,000	13,800,000	420,347	420,347
Guarantee deposits paid	9,941,144	9,941,144	302,807	302,807
<u>Liabilities</u>				
Notes and accounts payable	25,748,621	25,748,621	784,302	784,302
Guarantee deposits received	1,435,917	1,435,917	43,738	43,738
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Option	152,898	152,898	4,658	4,658
Forward	16,759,752	16,759,752	510,501	510,501
IRS	283,526	283,526	8,636	8,636
Derivative financial assets for hedging - current				
IRS	193,039	193,039	5,880	5,880
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Option	\$3,537	\$3,537	\$108	\$108
Forward	15,655,928	15,655,928	476,878	476,878
IRS	102,391	102,391	3,119	3,119
Derivative financial liabilities for hedging - current				
IRS	107,267	107,267	3,268	3,268

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$185,559,533	\$185,559,533	\$6,111,974	\$6,111,974
Notes and accounts receivable	26,600,111	26,600,111	876,156	876,156
Financial assets at fair value through profit or loss - current	72,989,144	72,989,144	2,404,122	2,404,122
Available-for-sale financial assets - current	162,622,729	162,622,729	5,356,480	5,356,480
Held-to-maturity financial assets - current	2,152,735	2,146,703	70,907	70,708
Investments in debt securities with no active market - current	5,621,772	5,621,772	185,170	185,170
Available-for-sale financial assets - noncurrent	253,180,259	253,180,259	8,339,271	8,339,271
Held-to-maturity financial assets - noncurrent	594,552,042	575,612,857	19,583,401	18,959,580
Financial assets carried at cost - noncurrent	19,055,198	-	627,641	-
Investments in debt securities with no active market - noncurrent	61,512,273	53,656,291	2,026,096	1,767,335
Long-term investments in stocks under the equity method	5,226,620	5,226,620	172,155	172,155
Other financial assets – noncurrent	27,954,287	27,954,287	920,760	920,760
Guarantee deposits paid	11,509,833	11,509,833	379,112	379,112
<u>Liabilities</u>				
Notes and accounts payable	\$16,539,599	\$16,539,599	\$544,782	\$544,782
Guarantee deposits received	1,507,250	1,507,250	49,646	49,646
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Option	82,725	82,725	2,725	2,725
Forward	16,519,435	16,519,435	544,118	544,118
IRS	119,398	119,398	3,933	3,933
Derivative financial assets for hedging - current				
IRS	96,575	96,575	3,181	3,181

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Forward	\$13,087,910	\$13,087,910	\$431,091	\$431,091
IRS	72,302	72,302	2,381	2,381
Derivative financial liabilities for hedging - current				
IRS	528,906	528,906	17,421	17,421

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

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

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

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

(d) The fair value of Cathay Life's financial instruments is based on market prices if available at the reporting date. When market prices are not available, the fair value is based on carrying amount or other relevant financial information.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- (e) If no quoted market prices exist for Cathay Life's long-term investments accounted for under the equity method, then their fair value is taken as approximating their carrying amounts when no permanent market value decline exists.
- c. The fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	June 30, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$189,939,280	\$5,785,540	\$18,754,670	\$571,266
Notes and accounts receivable	-	-	39,346,635	1,198,496
Financial assets at fair value through profit and loss - current	81,087,878	2,469,932	11,226,380	341,955
Available-for-sale financial assets - current	208,230,673	6,342,695	1,054	32
Held-to-maturity financial assets - current	8,556,353	260,626	352,629	10,741
Investment in debt securities with no active market - current	-	-	5,786,617	176,260
Other financial assets - current	-	-	8,450,000	257,387
Available-for-sale financial assets - noncurrent	184,962,384	5,633,944	9,032,512	275,130
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Held-to-maturity financial assets - noncurrent	\$95,081,910	\$2,896,190	\$434,810,210	\$13,244,295
Financial assets carried at cost-noncurrent	-	-	19,665,955	599,024
Investment in debt securities with no active market - noncurrent	-	-	45,860,765	1,396,916
Long-term investments in stocks under the equity method	-	-	4,139,018	126,074
Other financial assets - noncurrent	-	-	13,800,000	420,347
<u>Liabilities</u>				
Notes and accounts payable	-	-	25,748,621	784,302

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2007			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<b><u>Derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Financial assets at fair value through profit and loss - current				
Option	\$2,728	\$83	\$150,170	\$4,575
Forward	-	-	16,759,752	510,501
IRS	-	-	283,526	8,636
Derivative financial assets for hedging - current				
IRS	-	-	193,039	5,880
<b><u>Liabilities</u></b>				
Financial liabilities at fair value through profit and loss - current				
Option	3,537	108	-	-
Forward	-	-	15,655,928	476,878
IRS	-	-	102,391	3,119
Derivative financial liabilities for hedging - current				
IRS	-	-	107,267	3,268
June 30, 2008				
Item	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<b><u>Non-derivative financial instruments</u></b>				
<b><u>Assets</u></b>				
Cash and cash equivalents	\$163,908,525	\$5,398,831	\$21,651,008	\$713,143
Notes and accounts receivable	-	-	26,600,111	876,156
Financial assets at fair value through profit or loss - current				
Available-for-sale financial assets - current	69,555,698	2,291,031	3,433,446	113,091
Held-to-maturity financial assets - current	162,622,729	5,356,480	-	-
Investments in debt securities with no active market - current	889,774	29,307	1,256,929	41,401
Available-for-sale financial assets - noncurrent	-	-	5,621,772	185,170
	251,927,084	8,297,994	1,253,175	41,277

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets -				
noncurrent	\$76,351,878	\$2,514,884	\$499,260,979	\$16,444,696
Financial assets carried at cost-noncurrent	-	-	19,055,198	627,642
Investment in debt securities with no active market – noncurrent	-	-	53,656,291	1,767,335
Long-term investments in stocks under the equity method	-	-	5,226,620	172,155
Other financial assets-noncurrent	-	-	27,954,287	920,760
<u>Liabilities</u>				
Notes and accounts payable	-	-	16,539,599	544,783
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss - current				
Option	82,725	2,725	-	-
Forward	-	-	16,519,435	544,118
IRS	-	-	119,398	3,933
Derivative financial assets for hedging - current				
IRS	-	-	96,575	3,181
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss - current				
Forward	-	-	13,087,910	431,091
IRS	-	-	72,302	2,381
Derivative financial liabilities for hedging - current				
IRS	-	-	528,906	17,421

d. Information on financial risk

(a) Interest rate risk

The following table summarizes the maturities of Cathay Life's financial instruments at June 30, 2007 and 2008:



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

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

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

**Derivative financial instruments**

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

Item	June 30, 2008							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$2,624,273	\$86,439	\$962,230	\$31,694	\$27,637	\$910	\$2,466,781	\$81,251
Available-for-sale financial assets	2,495,430	82,195	334,542	11,019	5,382,739	177,297	7,842,542	258,318
Held-to-maturity financial assets	163,262,022	5,377,537	12,514,246	412,195	13,669,748	450,255	4,242,928	139,754
Investments in debt securities with								
no active market	721,772	23,774	771,191	25,402	1,207,424	39,770	1,320,736	43,503

Item	June 30, 2008					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$1,262,087	\$41,571	\$6,631,403	\$218,426	\$13,974,411	\$460,291
Available-for-sale financial assets	13,707,720	451,506	111,543,619	3,674,032	141,306,592	4,654,367
Held-to-maturity financial assets	9,087,410	299,322	295,269,374	9,725,605	498,045,728	16,404,668
Investments in debt securities with						
no active market	4,995,147	164,531	37,908,360	1,248,628	46,924,630	1,545,608

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

Item	June 30, 2008							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$3,049,033	\$100,429	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	122,823,939	4,045,584	-	-	-	-	-	-
Held-to-maturity financial assets	98,659,049	3,249,639	-	-	-	-	-	-
Investments in debt securities with								
no active market	20,209,415	665,659	-	-	-	-	-	-

Item	June 30, 2008					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$3,049,033	\$100,429
Available-for-sale financial assets	-	-	-	-	122,823,939	4,045,584
Held-to-maturity financial assets	-	-	-	-	98,659,049	3,249,639
Investments in debt securities with						
no active market	-	-	-	-	20,209,415	665,659

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Derivative financial instruments

Item	June 30, 2008							
	Less than one year		Due in 1~2 year		Due in 2~3 year		Due in 3~4 year	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value								
through profit or loss	\$-	\$-	\$19,607	\$646	\$7,430	\$245	\$85,034	\$2,801
Derivative financial assets for								
hedging	1,003	33	41,240	1,358	1,621	53	13,194	435
Financial liabilities at fair value								
through profit or loss	2,765	91	22,842	752	25,386	836	-	-
Derivative financial liabilities for								
hedging	10,392	342	2,600	86	32,478	1,070	-	-

Item	June 30, 2008					
	Due in 4~5 year		Over 5 year		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Financial assets at fair value						
through profit or loss	\$2,860	\$94	\$4,467	\$147	\$119,398	\$3,933
Derivative financial assets for						
hedging	-	-	39,517	1,302	96,575	3,181
Financial liabilities at fair value						
through profit or loss	-	-	21,309	702	72,302	2,381
Derivative financial liabilities for						
hedging	20,284	668	463,152	15,255	528,906	17,421

(b) Credit risk

Cathay Life's exposure to credit risk is minimal.

e. Hedge Accounting Disclosures

Cash flow hedges - IRS

The following table summarizes the terms of the Cathay life's interest rate SWAP for bonds used as hedging instruments at June 30, 2007 and 2008:

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

a. June 30, 2007

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$500,000	\$15,230	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,092	7.603%-6ml	Half year	2007/7/31
300,000	9,138	2005/6/17~2005/7/31 : 7.25%-6ml 2005/7/31~2006/7/31 : 7.5%-6ml 2006/7/31~2007/7/31 : 7.75%-6ml	Half year	2007/7/31
300,000	9,138	If 6ml<6.9%,3.8% If 6ml>6.9%,0%	Half year	2007/7/31
500,000	15,230	The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP	Each quarter	2007/10/10
500,000	15,230	7.05%-90BACP	Each quarter	2007/10/10
300,000	9,138	5.1%-6ml	Half year	2007/12/19
300,000	9,138	5.5%-6ml	Half year	2007/12/26
300,000	9,138	5.35%-6ml	Half year	2008/1/8
300,000	9,138	180DCP + 40bps	Half year	2008/3/24
500,000	15,230	4%-12ml	Yearly	2008/6/5
300,000	9,138	180DCP	Half year	2008/6/12
200,000	6,092	4.003%-6ml	Half year	2008/6/13
200,000	6,092	180DCP+18bps	Half year	2008/7/11
2,000,000	60,920	90DCP+75bps	Each quarter	2008/7/19
250,000	7,615	90DCP	Each quarter	2008/8/10
450,000	13,707	90DCP	Each quarter	2008/8/22
330,000	10,052	90DCP	Each quarter	2008/8/24
1,150,000	35,029	90DCP+30bps	Each quarter	2008/9/17
350,000	10,661	4.0005%-6ml	Half year	2008/9/26
100,000	3,046	180DCP+30bps	Half year	2008/12/18
300,000	9,138	If 6ml<0.95%,Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,092	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
200,000	6,092	5.85%-6ml	Half year	2009/1/13

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$50,000	1,523	4.15%-6ml	Half year	2009/1/16
310,000	\$9,443	ARMS	Each quarter	2009/3/24
900,000	27,414	90DCP+100bps	Each quarter	2009/5/20
787,920	24,000	1.25% + 3ml	Each quarter	2009/9/23
200,000	6,092	4.000%-6ml	Half year	2010/4/7
300,000	9,138	4.0002%-6ml	Half year	2010/4/7
500,000	15,230	4.0006%-6ml	Half year	2010/4/7
500,000	15,230	4.0007%-6ml	Half year	2010/4/7
200,000	6,092	4.0003%-6ml	Half year	2010/4/7
300,000	9,138	4.3%-12ml	Yearly	2010/6/20
900,000	27,414	90DCP	Each quarter	2010/8/18
600,000	18,276	90DCP	Each quarter	2010/8/19
200,000	6,092	6.3%-6ml	Half year	2010/11/27
300,000	9,138	5.37%-6ml	Half year	2011/3/15
200,000	6,092	0.5Y:3.8%, 3.0%*n/N if 6ml 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1.0%-2.5%, 2.5-3.5Y:1.0%-3.0%, 3.5-4.5Y:1.0%-3.5%, 4.5-5.5Y:1.0%-4.0%, 5.5-6.5Y:1.0%-4.5%, 6.5-7.0Y:1.0%-5.0%	Half year	2011/3/19
500,000	15,230	If 6ml<1.1%,6ml If 1.1%<6ml<2.0%,3.8% If 6ml>2.0%,Max(5.50%-6ml,0)	Half year	2011/6/30
2,700,000	82,242	90DCP+25bps	Each quarter	2013/8/24
787,920	24,000	6ml	Half year	2013/9/20
2,000,000	60,920	90DCP+23bps	Each quarter	2013/12/14
2,000,000	60,920	90DCP+26.5bps	Each quarter	2013/12/14
1,300,000	39,598	90DCP+45bps	Each quarter	2013/12/27
459,620	14,000	6ml	Half year	2014/3/20
787,920	24,000	6ml	Half year	2014/3/24

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

b. June 30, 2008

Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$200,000	\$6,588	180DCP+18bps	Half year	2008/7/11
2,000,000	65,876	90DCP+75bps	Each quarter	2008/7/19
250,000	8,235	90DCP	Each quarter	2008/8/10
450,000	14,822	90DCP	Each quarter	2008/8/22
330,000	10,870	90DCP	Each quarter	2008/8/24
1,150,000	37,878	90DCP+30bps	Each quarter	2008/9/17
200,000	6,588	If 6ml<0.9%, 6ml If 0.9%≤6ml<2.0%,3.05% If 2.0%<6ml,Max(4.0005%-6ml)	Each quarter	2008/9/26
100,000	3,294	180DCP+30bps	Half year	2008/12/18
300,000	9,881	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	6,588	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
200,000	6,588	5.85%-6ml	Half year	2009/1/13
50,000	1,647	If 6ml≤1%,6ml+0.2% If 1%<6ml<2%,3.15% If 6ml≥2%, 4.15%-6ml	Half year	2009/1/16
247,500	8,152	ARMS	Each quarter	2009/3/24
900,000	29,644	90DCP+100bps	Each quarter	2009/5/20
200,000	6,588	4.000%-6ml	Half year	2010/4/7
300,000	9,881	4.0002%-6ml	Half year	2010/4/7
500,000	16,469	4.0006%-6ml	Half year	2010/4/7
500,000	16,469	4.0007%-6ml	Half year	2010/4/7
200,000	6,588	4.0003%-6ml	Half year	2010/4/7
300,000	9,881	4.3%-12ml	Yearly	2010/6/20
900,000	29,644	90DCP	Each quarter	2010/8/18
600,000	19,763	90DCP	Each quarter	2010/8/19
200,000	6,588	6.3%-6ml	Yearly	2010/11/27
300,000	9,881	5.37%-6ml	Yearly	2011/3/15

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$200,000	\$6,588	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
500,000	16,469	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
2,000,000	\$65,876	90DCP	Yearly	2013/3/26
2,700,000	88,933	90DCP+25bps	Each quarter	2013/8/24
3,000,000	98,814	90DCP+26.5bps	Yearly	2013/11/3
2,000,000	65,876	90DCP	Yearly	2013/11/3
1,000,000	32,938	90DCP+26.5bps	Yearly	2013/12/14
500,000	16,469	90DCP+23bps	Yearly	2013/12/14
1,500,000	49,407	90DCP+23bps	Yearly	2013/12/16
1,000,000	32,938	90DCP+26.5bps	Yearly	2013/12/16
1,300,000	42,819	90DCP+45bps	Each quarter	2013/12/27
900,000	29,644	90DCP	Yearly	2014/3/12
1,000,000	32,938	90DCP	Yearly	2014/6/12
2,000,000	65,876	90DCP	Yearly	2014/6/29
5,000,000	164,690	90DCP	Yearly	2014/8/23
1,000,000	32,938	90DCP	Yearly	2014/9/20
3,200,000	105,402	90DCP	Yearly	2014/9/27
2,000,000	65,876	90DCP	Each quarter	2014/9/28
1,500,000	49,407	90DCP	Yearly	2014/9/29
2,500,000	82,345	90DCP	Yearly	2014/12/20
2,000,000	65,876	90DCP	Yearly	2014/12/24
USD24,000	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.

The forward currency contracts are considered to be highly effective hedges



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Cathay Life's interest rate swap agreements are considered to be highly effective cash flow hedges. Unrealized gains (losses) on these financial instruments recognized in equity are NT\$220,700 (US\$6,723) thousands and NT\$(371,300) (US\$(12,230)) thousands as of June 30, 2007 and 2008.

f. Financial risk management objectives and policies

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

Cathay Life also 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 price risk of stock value, interest rate risk and foreign currency risk arising from investment activities.

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

Market Risk

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

Credit Risk

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Cathay Life has taken the credit concentration index of each conglomerate into the consideration of establishing Lending Policy to prevent over-exposure. Strict credit evaluations are carried out by Cathay Life before committing to any business lending, mortgage lending, policy loan, and security investments. All lending are secured by land, property, plant and equipments or financial guarantees.

Assessments on the mortgage repayment ability and personal credits are performed before the mortgages are granted. The total mortgage amounts granted are based on 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.

The Group trades only with recognized, creditworthy third parties in relation to financial assets or liabilities transactions. An internal credit risk evaluation model for investments in financial instruments is also created based on external credit assessments and various characteristics of financial instruments. Cathay Life also monitors the credit risk level of the investment targets, issuers or counterparties by evaluating the credit concentration of the investments or counterparties. Therefore Cathay Life is able to minimize its exposure to credit risk.

#### Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal controls, employee fraud or misconduct and management negligence. To mitigate the operational risk, Cathay Life has adopted and implemented the internal control regulations and procedures.

#### Liquidity Risk

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Country Risk

Country risk is the risk of market price fluctuation or default of the issuers due to the political or economical issues in the country where investments are located.

Cathay Life categorizes and manages the investment risk based on each country or region and minimizes the country risk by monitoring the concentration of country risk regularly.

C. Cathay United Bank

a. Information of fair value

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$44,798,347	\$44,798,347	\$1,364,555	\$1,364,555
Available-for-sale financial assets	57,377,590	57,377,590	1,747,718	1,747,718
Held-to-maturity financial assets	5,928,264	5,867,072	180,575	178,711
Investment accounted for using equity method	2,187,755	2,187,755	66,639	66,639
Other assets	1,116,622,856	1,116,622,856	34,012,271	34,012,271
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	43,834,863	43,834,863	1,335,208	1,335,208
Financial debentures payable	17,686,802	17,686,802	538,739	538,739
Other liabilities	1,116,653,146	1,116,653,146	34,013,194	34,013,194
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	1,603,961	1,603,961	48,857	48,857
Non-delivery forward	280,436	280,436	8,542	8,542
Currency swap	444,494	444,494	13,539	13,539
Interest rate swap	1,023,157	1,023,157	31,165	31,165
Futures	(12,905)	(12,905)	(393)	(393)
Options	12,910	12,910	393	393
Credit derivative instruments	22,900	22,900	698	698
Credit default swap	(67)	(67)	(2)	(2)

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Forward	\$1,311,014	\$1,311,014	\$39,933	\$39,933
Non-delivery forward	277,005	277,005	8,438	8,438
Currency swap	672,599	672,599	20,487	20,487
Interest rate swap	2,506,204	2,506,204	76,339	76,339
Cross currency swap	557,266	557,266	16,974	16,974
Options	12,354	12,354	376	376
Credit derivative instruments	28,158	28,158	858	858
Credit default swap	(281)	(281)	(8)	(8)
June 30, 2008				
Item	(NT\$)		(US\$)	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
	<u>Non-derivative financial instruments</u>			
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$29,451,699	\$29,451,699	\$970,082	\$970,082
Available-for-sale financial assets	61,673,067	61,673,067	2,031,392	2,031,392
Held-to-maturity financial assets	3,060,656	2,977,259	100,812	98,065
Investment accounted for using equity method	2,410,333	2,410,333	79,392	79,392
Other assets	1,146,272,089	1,146,272,089	37,755,998	37,755,998
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	39,430,573	39,430,573	1,298,767	1,298,767
Financial debentures payable	15,272,693	15,272,693	503,053	503,053
Other liabilities	1,148,609,855	1,148,609,855	37,832,999	37,832,999
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	340,881	340,881	11,228	11,228
Non-delivery forward	107,814	107,814	3,551	3,551
Currency swap	4,111,348	4,111,348	135,420	135,420
Interest rate swap	1,653,798	1,653,798	54,473	54,473
Cross currency swap	3,766	3,766	124	124
Options	90,812	90,812	2,991	2,991

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Credit derivative instruments	357	357	12	12
<u>Liabilities</u>				
Forward	\$3,372,998	\$3,372,998	\$111,100	\$111,100
Non-delivery forward	106,462	106,462	3,507	3,507
Currency swap	647,706	647,706	21,334	21,334
Interest rate swap	1,635,076	1,635,076	53,856	53,856
Cross currency swap	215,573	215,573	7,101	7,101
Options	90,777	90,777	2,990	2,990
Credit derivative instruments	408,133	408,133	13,443	13,443

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

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

The carrying values of these financial assets are amounts recoverable after deducting off allowance for doubtful accounts, as such the carrying values

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

approximate fair values.

- (d) The values of debt securities with no active market, financial assets carried at cost and investments accounted for using equity method are determined using pricing models. A pricing model incorporates all information that market participants would consider in setting a price that are available to Cathay United Banks. If fair value of equity securities can not be reliably measured, it will be taken as approximating the carrying value.
- (e) Fair value of financial debentures payable is based on quoted market price. If quoted market price is not available, pricing models are utilized to determine the fair value of such instrument.
- (f) The fair value of derivative financial instruments is based on the quoted market price in an active market. If a quoted market price does not exist, Cathay United Bank determines the fair value of the derivative by using pricing models, which generally take into account the unrealized gains or losses made on the derivative.
- c. The fair values of Cathay United Bank's financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	June 30,2007			
	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$43,041,436	\$1,311,040	\$1,756,911	\$53,515
Available-for-sale financial assets	54,717,055	1,666,678	2,660,535	81,040
Held-to-maturity financial assets and debt securities				
without active market	3,770,908	114,862	2,096,164	63,849
Other assets	(Note)	(Note)	(Note)	(Note)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	43,834,863	1,335,208
Financial debentures payable	-	-	17,686,802	538,739
Other liabilities	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	-	-	1,603,961	48,857
Non-delivery forward	-	-	280,436	8,542
Currency swap	-	-	444,494	13,539
Interest rate swap	-	-	1,023,157	31,165

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2007			
	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Futures	\$(12,905)	\$(393)	\$-	\$-
Options	578	18	12,332	375
Credit derivatives	-	-	22,900	698
Credit default swap	-	-	(67)	(2)
<u>Liabilities</u>				
Forward	-	-	1,311,014	39,933
Non-delivery forward	-	-	277,005	8,438
Currency swap	-	-	672,599	20,487
Interest rate swap	-	-	2,506,204	76,339
Cross currency swap	-	-	557,266	16,974
Options	22	1	12,332	375
Credit derivatives	-	-	28,158	858
Credit default swap	-	-	(281)	(8)
June 30, 2008				
Item	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$28,051,700	\$923,969	\$1,399,999	\$46,113
Available-for-sale financial assets	53,621,512	1,766,189	8,051,555	265,203
Held-to-maturity financial assets	1,789,218	58,933	1,188,041	39,132
Other assets	(Note)	(Note)	(Note)	(Note)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	39,430,573	1,298,767
Financial debentures payable	-	-	15,272,693	503,053
Other liabilities	(Note)	(Note)	(Note)	(Note)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	-	-	340,881	11,228
Non-delivery forward	-	-	107,814	3,551
Currency swap	-	-	4,111,348	135,420
Interest rate swap	-	-	1,653,798	54,473

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	Based on the quoted market price		Based on the pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Cross currency swap	\$-	\$-	\$3,766	\$124
Options	-	-	90,812	2,991
Credit derivative instruments	-	-	357	12
<b><u>Liabilities</u></b>				
Forward	-	-	3,372,998	111,100
Non-delivery forward	-	-	106,462	3,507
Currency swap	-	-	647,706	21,334
Interest rate swap	-	-	1,635,076	53,856
Cross currency swap	-	-	215,573	7,101
Options	-	-	90,777	2,990
Credit derivative instruments	-	-	408,133	13,443

Note: Most of such assets and liabilities are investment accounted for cost or using the equity method, therefore their carrying values approximate their fair values. As such their fair values are not determined by quoted market price or pricing models.

- d. Gains or losses recognized for the changes in fair values of financial assets or liabilities determined by pricing models were gains of NT\$277,982 (US\$8,467) thousands and losses of NT\$129,194 (US\$4,255) thousands for the six-month periods ended June 30, 2007 and 2008, respectively.
- e. The interest income arising from financial assets or liabilities not at fair value through profit or loss for the six-month periods ended June 30, 2007 and 2008 were NT\$18,961,671 (US\$577,571) thousands and NT\$19,711,957 (US\$649,274) thousands, respectively. Interest expenses were NT\$9,028,325 (US\$275,002) thousands and NT\$9,328,737 (US\$307,271) thousands, for the six-month periods ended June 30, 2007 and 2008, respectively.
- f. Cathay United Bank recognized unrealized gains of NT\$261,307 (US\$7,959) thousands and losses of NT\$251,823 (US\$8,295) thousands in shareholders' equity for the changes in fair value of available-for-sale financial assets. Realized gains of available-for-sale financial assets recycled to income statement amount to NT\$369,738 (US\$11,262) thousands and NT\$390,137 (US\$12,850) thousands, for the six-month periods ended June 30, 2007 and 2008, respectively.



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- g. Interest income from financial assets which were impaired amount to NT\$18 (US\$0) thousands and NT\$0 (US\$0) thousands for the six-month periods ended June 30, 2007 and 2008, respectively. Interest income of such financial assets is determined by discounting future cash flows using certain discount rate.
- h. Information on financial risk

(a) Market risk

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

Cathay United Bank has a dedicated team managing the Bank's exposure to market risk; there is also a Market Risk Management Committee supervising the overall market risk management. Cathay United Bank regularly assesses the level of its assets and liabilities and reviews its deposits pricing policy and medium to long term financing strategies.

Ⓐ Interest rate risk

Government bonds and corporate bonds owned by Cathay United Bank are exposed to interest rate risk. If the market interest rate rises, the fair values of Cathay United Bank's fixed-rate bond investments may decline.

Ⓑ Foreign exchange risk

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

Ⓒ Equity securities price risk

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Cathay United Bank adopts many methodologies to manage its market risk. Value-at-risk (VAR) is one of the methodologies. VAR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. The following charts disclose Cathay United Bank's 1 day potential exposure to market risk. As the charts are based on 95% confidence interval, the market risk exposure may exceed the amounts disclosed below on an average of 5 days in 100 days period. Cathay United Bank's overall exposure to market risk will be smaller than the combined market risk of all the factors below.

January 1 ~ June 30, 2007						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$106,565	\$3,246	\$163,705	\$4,986	\$43,942	\$1,338
Foreign exchange	97,494	2,970	388,037	11,820	3,842	117
Equity Securities price	118,237	3,601	250,352	7,626	31,352	955

January 1 ~ June 30, 2008						
Factors of market risk	Average balance		Maximum balance		Minimum balance	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Interest rate	\$144,458	\$4,758	\$191,605	\$6,311	\$71,356	\$2,350
Foreign exchange	216,594	7,134	361,216	11,898	126,382	4,163
Equity Securities price	142,935	4,708	208,847	6,879	88,708	2,922

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Foreign exchange rate factor sensitivities (“FX delta”) represent the foreign currency risks each foreign currency portfolio is exposed to, caused by the underlying currency exchange rate at the balance sheet date.

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

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

	(In thousands of US dollars)	
	<u>Currency</u>	<u>June 30, 2008</u>
<u>FX factor sensitivity (FX Delta)</u>		
	USD	(23,495)
	JPY	(140)
	NTD	19,828
	HKD	(771)
 <u>Interest rate factor sensitivity (PVBP)</u>		
	USD	(1,215)
	JPY	(2)
	NTD	(895)
	HKD	(3)
 <u>Equity factor sensitivity (Equity Delta)</u>		
	NTD	1,065

(b) Credit risk

Cathay United Bank’s exposure to credit risk represents the risk of loss arising from the potential defaults of counterparty.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

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

- Ⓐ The credit risk amounts are assessed for all contracts with positive fair value on balance sheet date and off-balance-sheet commitment and guarantee contracts. The maximum credit risk exposure amounts of various financial instruments are the same as carrying value except for items disclosed below:

Item	June 30, 2007			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	\$44,798,347	\$1,364,555	\$44,798,347	\$1,364,555
Available-for-sale financial assets	57,377,590	1,747,718	57,377,590	1,747,718
Held-to-maturity financial assets and debt securities with no active market	5,928,264	180,575	5,928,264	180,575
Investment accounted for using equity method	2,187,755	66,639	2,187,755	66,639
Other assets	1,116,622,856	34,012,271	1,116,622,856	34,012,271
Guarantees on duties and contracts	-	-	17,431,844	530,973
Unused commercial letters of credit	-	-	4,268,673	130,024
Irrevocable loan commitments	-	-	33,314,917	1,014,771
Credit card line commitments	-	-	281,247,456	8,566,782

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2007			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Forward	\$1,603,961	\$48,857	\$1,603,961	\$48,857
Non-delivery forward	280,436	8,542	280,436	8,542
Currency swap	444,494	13,539	444,494	13,539
Interest rate swap	1,023,157	31,165	1,023,157	31,165
Options	12,910	393	12,910	393
Credit derivatives	22,900	698	22,900	698
Item	June 30, 2008			
	Carrying value		Maximum credit risk exposed amount	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>on-derivative financial instruments</u>				
Financial assets at fair value through profit or loss	\$29,451,699	\$970,082	\$29,451,699	\$970,082
Available-for-sale financial assets	61,673,067	2,031,392	61,673,067	2,031,392
Held-to-maturity financial assets and debt securities with no active market	3,060,656	100,812	3,060,656	100,812
Investment accounted for using equity method	2,410,333	79,392	2,410,333	79,392
Other assets	1,146,272,089	37,755,998	1,146,272,089	37,755,998
Guarantees on duties and contracts	-	-	17,495,216	576,259
Unused commercial letters of credit	-	-	4,982,176	164,103
Irrevocable loan commitments	-	-	45,642,543	1,503,378
Credit card line commitments	-	-	274,216,214	9,032,155
<u>Derivative financial instruments</u>				
Forward	340,881	11,228	340,881	11,228
Non-delivery forward	107,814	3,551	107,814	3,551
Currency swap	4,111,348	135,420	4,111,348	135,420
Interest rate swap	1,653,798	54,473	1,653,798	54,473
Cross currency swap	3,766	124	3,766	124
Options	90,812	2,991	90,812	2,991
Credit derivatives instruments	357	12	357	12

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

	June 30,			
	2007		2008	
Loans, customers' liabilities under acceptances, bill purchased and guarantees account	(NT\$)	(US\$)	(NT\$)	(US\$)
Industry type				
Manufacturing	\$107,316,059	\$3,268,841	\$124,940,179	\$4,115,289
Financial institutions and insurance	48,150,828	1,466,672	49,673,518	1,636,150
Leasing and real estate	67,827,910	2,066,034	78,724,981	2,593,050
Individuals	412,576,972	12,567,072	430,050,382	14,165,032
Others	118,262,338	3,602,264	144,882,158	4,772,140
Total	754,134,107	22,970,883	828,271,218	27,281,661
Valuation allowance	(11,904,778)	(362,619)	(9,282,263)	(305,740)
Maximum credit risk exposed	<u>\$742,229,329</u>	<u>\$22,608,264</u>	<u>\$818,988,955</u>	<u>\$26,975,921</u>

	June 30,			
	2007		2008	
Loans, customers' liabilities under acceptances, bill purchased and guarantees account	(NT\$)	(US\$)	(NT\$)	(US\$)
Geographic Region				
Domestic	\$704,933,640	\$21,472,240	\$757,600,215	\$24,953,894
South East Asia	12,367,268	376,706	21,814,670	718,533
North East Asia	133,330	4,061	170,357	5,611
America	10,227,417	311,527	13,313,633	438,526
Others	26,472,452	806,349	35,372,343	1,165,097
Total	754,134,107	22,970,883	828,271,218	27,281,661
Valuation allowance	(11,904,778)	(362,619)	(9,282,263)	(305,740)
Maximum credit risk exposed	<u>\$742,229,329</u>	<u>\$22,608,264</u>	<u>\$818,988,955</u>	<u>\$26,975,921</u>

(c) Liquidity risk

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

Cathay United Bank's assets and liabilities management committee is responsible for overall liquidity risk management. Cathay United Bank's liquidity policy focuses on cash flow management, interbank funding capacity and the maintenance of sufficient liquid assets. The treasury department is responsible for daily operation and monitoring. The primary tools for monitoring liquidity include measurement of liquidity risk, analysis of interest rate sensitivity and scenario simulation, and continuous contingency planning. Cathay United Bank manages liquidity risks across all classes of assets and liabilities; when there are or expected to be significant changes to the liquidity risk faced by Cathay United Bank, the board of directors will be notified immediately.

The liquidity risk rate was 25.30%. Capital and working capital of Cathay United Bank is sufficient to satisfy all contractual obligations. Cathay United Bank assesses the liquidity risk by analyzing assets and liabilities which are categorized appropriately.

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

Cathay United Bank's financial debentures payable was matched with the interest rate swap and currency swap contracts which had been transferred from fixed rate to floating rate. Therefore changes in interest rates will cause fluctuations in future cash flows of the financial debentures payable.

Except for default or redemption in advance, expected reset and maturity dates of interest-bearing financial instruments are confirmed under related contracts. As of June 30, 2008, there is no significant change in these dates.

As of June 30, 2007 and 2008, the effective interest rates of financial instruments held and issued by Cathay United Bank are classified as follows:

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Financial instruments	Effective interest rate (%)	
	June 30, 2007	June 30, 2008
Available-for-sale financial assets		
Bonds	1.6676~6.8334	1.7063~6.8119
Overseas financial instruments	4.501~5.735	0~2.9959
Held-to-maturity financial assets		
Bonds	1.6495~6.95	2.2233~6.9480
Overseas financial instruments	3.45~6.65	2.38~3.77
Investments in debt securities with no active market		
Preferred stocks	5	5
Certificates of deposit	1.79~3	2.05~2.496
Overseas financial instruments	0~7.51	0~7.007
Financial debentures payable	2~5.593	2~5.593

i. Fair value hedge

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

Hedged item	Derivative designated as hedging instruments	Hedging instruments			
		Financial assets (liabilities) fair value			
		June 30, 2007		June 30, 2008	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Financial debentures payable	Interest rate swap	\$ (1,038,134)	\$ (31,622)	\$ 179,189	\$ 5,902

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



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

D. Cathay Century

a. Information of fair value

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments:</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$1,703,139	\$1,703,139	\$51,878	\$51,878
Financial assets at fair value through profit or loss -				
current	973,666	973,666	29,658	29,658
Available-for-sale financial assets - current	2,703,447	2,703,447	82,347	82,347
Investments in debt securities with no active market -				
current	76,478	76,478	2,330	2,330
Receivables	2,035,163	2,035,163	61,991	61,991
Prepaid reinsurance premiums	1,087,006	1,087,006	33,110	33,110
Claims recoverable from reinsurers	1,100,107	1,100,107	33,509	33,509
Due from reinsurers and ceding companies	115,393	115,393	3,515	3,515
Accounts receivable - reinsurance	29,647	29,647	903	903
Secured loans	2,279,562	2,279,562	69,435	69,435
Held-to-maturity financial assets - noncurrent	4,271,002	4,271,002	130,094	130,094
Financial assets carried at cost - noncurrent	60,000	60,000	1,828	1,828
Investments in debt securities with no active market -				
noncurrent	227,795	227,795	6,939	6,939
Long-term investments under equity method	438,651	438,651	13,361	13,361
Guarantee deposits paid	420,485	420,485	12,808	12,808
<u>Non-derivative financial instruments:</u>				
<u>Liabilities</u>				
Claims outstanding	27,012	27,012	823	823
Due to reinsurers and ceding companies	358,675	358,675	10,925	10,925
Account payable-reinsurance	961,430	961,430	29,285	29,285
Operating and liabilities reserve	12,071,640	12,071,640	367,701	367,701
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss -				
current				
Options Contract	586	586	18	18
<u>Liabilities</u>				
Financial liabilities at fair value through profit or				
loss-current				
Forward	3,432	3,432	105	105

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments:</u>				
<u>Assets</u>				
Cash and Cash equivalents	\$2,441,823	\$2,441,823	\$80,429	\$80,429
Financial assets at fair value through profit or loss -				
current	681,103	681,103	22,434	22,434
Available-for-sale financial assets - current	2,920,293	2,920,293	96,189	96,189
Held-to-maturity financial assets - current	551,548	551,548	18,167	18,167
Financial assets carried at cost - current	24,000	24,000	791	791
Investments in debt securities with no active market -				
current	226,194	226,194	7,450	7,450
Receivables	2,125,311	2,125,311	70,004	70,004
Prepaid reinsurance premiums	1,340,946	1,340,946	44,168	44,168
Claims recoverable from reinsurers	1,244,518	1,244,518	40,992	40,992
Due from reinsurers and ceding companies	80,980	80,980	2,667	2,667
Account receivable - reinsurance	29,800	29,800	982	982
Secured loans	1,748,337	1,748,337	57,587	57,587
Held-to-maturity financial assets - noncurrent	2,986,795	2,986,795	98,379	98,379
Financial assets carried at cost-noncurrent	36,000	36,000	1,186	1,186
Long-term investments under equity method	409,143	409,143	13,476	13,476
Other financial assets - noncurrent	832,315	832,315	27,415	27,415
Guarantee deposits paid	446,285	446,285	14,700	14,700
<u>Liabilities</u>				
Claims outstanding	11,289	11,289	372	372
Due to reinsurers and ceding companies	340,221	340,221	11,206	11,206
Account payable - reinsurance	641,424	641,424	21,127	21,127
Operating and liabilities reserve	13,665,244	13,665,244	450,107	450,107
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Financial liabilities at fair value through profit or				
loss-current				
Forward	34,468	34,468	1,135	1,135
Derivative financial liabilities for hedging - current				
IRS	9,304	9,304	306	306

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2007			
	Based on the quoted market price		Based on pricing models	
	NT\$	US\$	NT\$	US\$
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current				
Option	\$586	\$18	\$-	\$-
<u>Liabilities</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	3,432	105	-	-
June 30, 2008				
Item	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$681,103	\$22,434	\$-	\$-
Available-for-sale financial assets-current	2,920,293	96,189	-	-
Held-to-maturity financial assets-current	-	-	551,548	18,167
Financial assets carried at cost-current	-	-	24,000	791
Investment in debt securities with no active market-current	-	-	226,194	7,450
Held-to-maturity financial assets-noncurrent	-	-	2,986,795	98,379
Financial assets carried at cost-noncurrent	-	-	36,000	1,186
Long-term investments under equity method	-	-	409,143	13,476
Other financial asset-noncurrent	-	-	832,315	27,415
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss-current				
Foreign exchange SWAP	34,468	1,135	-	-
Derivative financial liabilities for hedging-current				
IRS	9,304	306	-	-

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

d. Information on financial risk

(a) Interest rate risk

The following table summarizes the maturities of Cathay Century's financial instruments at June 30, 2007 and 2008:

Fixed interest rate

June 30, 2007

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$-	\$-	\$890,959	\$27,139	\$-	\$-	\$195,518	\$5,955
Investments in debt securities								
with no active market	76,478	2,330	125,257	3,815	102,538	3,123	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$640,624	\$19,513	\$2,543,901	\$77,487	\$4,271,002	\$130,094
Investments in debt securities						
with no active market	-	-	-	-	304,273	9,268

June 30, 2008

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$551,548	\$18,167	\$-	\$-	\$-	\$-	\$333,746	\$10,993
Investments in debt securities								
with no active market	226,194	7,450	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
Held-to-maturity financial assets	\$230,868	\$7,604	\$2,422,181	\$79,782	\$3,538,343	\$116,546
Investments in debt securities						
with no active market	-	-	-	-	226,194	7,450

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(b) Credit risk

Cathay Century's exposure to credit risk is minimal.

e. Hedging activities

Fair value hedges

Cathay Century's overseas bonds investments are exposed to potentially significant changes in fair value caused by fluctuations in foreign exchange rates. Therefore Cathay Century has purchased foreign currency contract for hedging purposes.

The following table summarizes the terms of Cathay Century's foreign exchange swap for overseas bonds hedging at June 30, 2008:

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		June 30, 2007		June 30, 2008	
		(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas bonds	Foreign exchange SWAP	<u>\$ (3,432)</u>	<u>\$ (105)</u>	<u>\$ (34,468)</u>	<u>\$ (1,135)</u>

Cash flow hedges-IRS

The following table summarizes the terms of Cathay Century's interest rate swap for bonds hedging at June 30, 2008:

① June 30, 2008

Par value		Exchange rate	Frequency	Maturity date
(NT\$)	(US\$)			
\$200,000	\$6,588	2.65%	Each quarter	2014/9/30
200,000	6,588	2.40%	Each quarter	2012/9/28
200,000	6,588	2.785%	Each quarter	2015/4/30

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Cathay Century's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized loss on the interest rate swap agreements were recognized in equity in the amount of NT\$9,304 (US\$306) thousands as of June 30, 2008.

g. Financial risk management objectives policies

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

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

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. The risk management policies approved by the board of directors are as follows:

Market Risk

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Cathay Century also has foreign currency exposures arising from transactions not denominated in functional currency. Such exposures arise from reinsurance transactions. These transactions with foreign reinsurance companies are usually settled on time and are of short durations; as such the fluctuation of exchange rate is not significant. Thus Cathay Century did not seek to hedge this exposure.

#### Credit risk

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

Cathay Century maintains a strict policy to evaluate customers' credit ratings when providing loan commitments. Customers are required to provide appropriate collateral for the related loans, and Cathay Century retains the legal right to foreclose on or liquidate the collateral.

The counterparties for Cathay Century's other financial assets (including cash and cash equivalents, current or noncurrent investments) are all reputable domestic or international financial institutions; therefore the credit risk is minimal.

#### Operational Risk

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

#### Liquidity risk

Cathay Century's exposure to liquidity risk is minimal.



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

E. Cathay Securities

a. Information of fair value

Item	June 30, 2007			
	Carrying amount (NT\$)	Fair value (NT\$)	Carrying amount (US\$)	Fair value (US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$475,377	\$475,377	\$14,480	\$14,480
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	130,027	130,027	3,961	3,961
Operating securities – net	1,063,563	1,063,563	32,396	32,396
Receivable amount for margin loans	943,591	943,591	28,742	28,742
Receivables	60,384	60,384	1,839	1,839
Restricted assets – current	300,000	300,000	9,138	9,138
Long-term investments under equity method	717,306	717,306	21,849	21,849
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	225,097	225,097	6,856	6,856
Settlement and clearance funds	50,550	50,550	1,540	1,540
Guarantee deposits paid	28,326	28,326	863	863
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Securities financing guarantee deposits-in	\$6,029	\$6,029	\$184	\$184
Deposit payable for securities financing	6,662	6,662	203	203
Payables	56,442	56,442	1,719	1,719
Guarantee deposits-in	141	141	4	4
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Margin for futures trading – own funds	313,077	313,077	9,536	9,536
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	1,200	1,200	36	36
Repurchase of issued call (put) warrants	(331)	(331)	(10)	(10)
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	5,115	5,115	156	156
Other financial liabilities – current	238,315	238,315	7,259	7,259

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$434,514	\$434,514	\$14,312	\$14,312
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	19,130	19,130	630	630
Operating securities – net	1,147,276	1,147,276	37,789	37,789
Receivable amount for margin loans	1,196,393	1,196,393	39,407	39,407
Receivables – net	26,884	26,884	886	886
Restricted assets – current	90,000	90,000	2,964	2,964
Long-term investments under equity method	729,505	729,505	24,028	24,028
Available-for-sale financial assets – noncurrent	18	18	1	1
Operating deposits	230,098	230,098	7,579	7,579
Settlement and clearance funds	51,519	51,519	1,697	1,697
Guarantee deposits paid	68,251	68,251	2,248	2,248
<u>Non-derivative financial instruments</u>				
<u>Liabilities</u>				
Securities financing guarantee deposits-in	20,537	20,537	676	676
Deposit payable for securities financing	22,690	22,690	747	747
Payables	52,720	52,720	1,736	1,736
Guarantee deposits-in	141	141	4	4
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Call options-futures	159	159	5	5
Margin for futures trading – own funds	122,405	122,405	4,032	4,032

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	\$510,600	\$510,600	\$16,818	\$16,818
Repurchase of issued call (put) warrants	(408,508)	(408,508)	(13,456)	(13,456)
Put options-futures	2,217	2,217	73	73
Derivative financial instrument liabilities				
-GreTai (over-the-counter)	(317)	(317)	(10)	(10)
Other financial liabilities – current	25,064	25,064	826	826

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

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

(b) The fair value of available-for-sale financial assets – noncurrent are determined based on quoted market prices, if available. If quoted market price does not exist, the carrying amount on the balance sheet date is used to estimate the fair value.

(c) If quoted market prices on the open market exist for the financial assets and liabilities, then the quoted market prices are regarded as their fair values. If quoted market prices do not exist then Cathay Securities determine the fair value of the financial asset or liability using pricing models. A pricing model incorporates all factors that market participants would consider in setting a price.

The fair values of financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

Financial instruments	June 30, 2008			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Assets</u>				
Financial assets at fair value through profit or loss – current				
Open-end funds and currency market instruments	\$19,130	\$630	\$-	\$-
Operating securities – net	1,147,276	37,789	-	-
Call options-futures	159	5	-	-
Margin for futures trading – own funds	122,450	4,032	-	-

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Financial instruments	June 30, 2008			
	Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss – current				
Liabilities for issuance of call (put) warrants	\$510,600	\$16,818	\$-	\$-
Repurchase of issued call (put) warrants	(408,508)	(13,455)	-	-
Put option liabilities-futures	2,217	73	-	-
Derivative financial instrument liabilities-GreTai (over-the-counter)	-	-	(317)	(10)
Other financial liabilities – current	-	-	25,064	826

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

c. Financial risk management objectives and policies

(a) Market risk

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

(b) Credit risk

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(c) Liquidity risk

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

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

(d) Cash flow risk from interest rate fluctuations

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

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

d. Derivatives

(a) Issuance call warrants

ⓐ Nominal principal or contract amount and credit risk

	June 30, 2007		June 30, 2008	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<u>For trading purposes</u>				
Issuance of call warrants	NT\$13,300 (US\$405)	NT\$- (US\$-)	NT\$1,411,237 (US\$46,483)	NT\$- (US\$-)

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Cathay Securities collects premiums from investors when issuing call warrants.

Therefore, Cathay Securities believes it does not have any credit risk with respect of these investors.

ⓑ Market price risk

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

ⓒ Liquidity risk, cash flow risk and future cash requirements

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

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

ⓓ Types, purposes, and strategies for financial derivatives

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

ⓔ Financial statement presentation of derivative financial instruments

As of June 30, 2007 and 2008, disclosure of the issuance of call (put) warrants on the balance sheets and statements of income are summarized as follows:

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

**Balance sheet**

	June 30, 2007		June 30, 2008	
	Financial liabilities at fair value through profit or loss-current		Financial liabilities at fair value through profit or loss-current	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Liabilities for issuance of call (put) warrants	\$1,200	\$36	\$510,600	\$16,818
Repurchase of issued call (put) warrants	(331)	(10)	(408,508)	(13,456)
Total	\$869	\$26	\$102,092	\$3,362

**Statement of income**

	For the six months ended June 30, 2007		For the six months ended June 30, 2008		Comments
	Profit from issuing call (put) warrants		Profit from issuing call (put) warrants		
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Liabilities for issuance of call (put) warrants	\$5,180	\$158	\$653,817	\$21,535	Fair value method
Repurchase of issued call (put) warrants					
- Loss on disposal	(10,391)	(317)	(638,382)	(21,027)	
- Gain (loss) from valuation	146	5	(362,944)	(11,955)	Fair value method
Gain from expiration of warrants issued	11,120	339	377,020	12,418	
Trading securities-hedging					
- Loss on disposal	(2,283)	(70)	(10,557)	(348)	
- Loss from valuation	(162)	(5)	(15,423)	(508)	Fair value method
Total	\$3,610	\$110	\$3,531	\$115	

(b) Structured notes transactions

① Nominal principal or contract amount and credit risk

Financial instruments	June 30, 2007		June 30, 2008	
	Nominal principal /contract amount	Credit risk	Nominal principal /contract amount	Credit risk
<b><u>For trading purposes</u></b>				
Principal guaranteed notes	NT\$240,100 (US\$7,313)	NT\$- (US\$-)	NT\$25,800 (US\$850)	NT\$- (US\$-)



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

ⓑ Market risk

Cathay Securities enters into structured notes transactions in which it receives proceeds from investors on the contract date and makes its investments pursuant to the contract. Cathay Securities invests in linked and fixed income assets that are subject to regulations and open market pricing. Since hedging positions for derivative instruments and stop-loss points are established, Cathay Securities believes it can limit its losses to within an expected range and, as a result, it is not exposed to significant market risk.

ⓒ Risk from liquidity, cash flow and future cash requirements

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

ⓓ Types, purposes, and strategies for financial derivatives

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(c) Financial statement presentation of derivative financial instruments

As of June 30, 2007 and 2008, the disclosure of structured notes transactions on the balance sheets and statements of income are summarized as follows:

**Balance sheet**

	June 30, 2007		June 30, 2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Derivative financial instrument assets – GreTai (over-the-counter) (note 1)				
Structured notes transactions	\$5,115	\$156	\$(317)	\$(10)
Other financial liabilities – current				
Principal of structured notes	238,315	7,259	25,064	826

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

**Statement of income**

	For the six months ended June 30, 2007		For the six months ended June 30, 2008		Comments
	(NT\$)	(US\$)	(NT\$)	(US\$)	
Gain (loss) from structured notes	\$(4,478)	\$(136)	\$174	\$6	Fair value method
Trading securities-hedging					
-Gain (Loss) on disposal	4,697	143	(1,124)	(37)	
-Gain (Loss) from valuation	621	19	(382)	(13)	Fair value method
Gain (loss) from structured notes	<u>\$840</u>	<u>\$26</u>	<u>\$(1,332)</u>	<u>\$(44)</u>	

e. Futures and options transactions

As of June 30, 2007 and 2008, the Cathay Securities’ unexercised options were as follows:

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

June 30,2007

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

June 30,2008

Item	Nature of Transaction	Unexercised options		Contract amount/ payment of premium		Fair value	
		Buy/Sell	Units	NT\$	US\$	NT\$	US\$
Futures	Mini-TAIEX futures	Buy	1	\$396	\$13	\$371	\$12
Options	TXO-Call	Sell	1,052	\$(781)	\$(26)	\$187	\$6
Options	TXO-Put	Buy	41	\$201	\$7	\$159	\$5
Options	TXO-Put	Sell	490	\$(1,432)	\$(47)	\$2,030	\$67

(a) Nominal principal or contract amount and credit risk

	June 30, 2007	
Financial instruments	Nominal principal/ contract amount	Credit risk
TAIEX futures	NT\$35,383 (US\$1,078)	NT\$- (US\$-)
	June 30, 2008	
Financial instruments	Nominal principal/ contract amount	Credit risk
TAIEX futures	NT\$396 (US\$13)	NT\$- (US\$-)
TXO	NT\$2,414 (US\$80)	NT\$- (US\$-)

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(b) Market risk

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

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

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

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

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

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

(e) Financial statement presentation of derivative financial instruments

The margin and premium resulting from trading are reflected in “financial assets at fair value through profit or loss – current (margin for futures trading – own funds)” on the balance sheet. For the six months ended June 30, 2007 and 2008, the related gains (losses) of futures and options on the statement of income were as follows:

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Gain from derivative financial instruments – futures				
Gain on futures contracts - realized	\$6,333	\$193	\$6,284	\$207
Gain on futures contracts-unrealized	159	5	288	9
Gain from options transactions - realized	1,830	55	552	18
Gain from options transactions - unrealized	1,012	31	412	14
Total	<u>\$9,334</u>	<u>\$284</u>	<u>\$7,536</u>	<u>\$248</u>

Item	For the six months ended June 30, 2007		For the six months ended June 30, 2008	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Loss from derivative financial instruments - futures				
Loss on futures contracts - realized	\$3,299	\$100	\$7,500	\$247
Loss on futures contracts – unrealized	8	-	313	10
Loss from options transactions – realized	643	20	833	28
Loss from options transactions - unrealized	1,012	31	457	15
Total	<u>\$4,962</u>	<u>\$151</u>	<u>\$9,103</u>	<u>\$300</u>

F. Cathay Pacific Venture

a. Information of fair value

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash in bank	\$4,453	\$4,453	\$147	\$147
Available-for-sale financial assets-current	328,903	328,903	10,833	10,833
Other current assets	1,027	1,027	34	34
Available-for-sale financial assets-noncurrent	148,935	148,935	4,906	4,906
<u>Liabilities</u>				
Other payables	201	201	7	7

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

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

(b) Quoted market prices, if available, are used to determine the fair values of available-for-sale financial assets.

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

c. The following table summarizes the basis of determining fair value of financial assets and liabilities as of June 30, 2007 and 2008:

Item	June 30, 2007			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-current	\$223,310	\$6,802	\$-	\$-
Available-for-sale financial assets-noncurrent	224,762	6,846	-	-

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-current	\$328,908	\$10,834	\$-	\$-
Available-for-sale financial assets-noncurrent	148,935	4,906	-	-

d. Information on financial risk

(a) Market risk

Market risk is the exposure to potential loss arising from adverse movements of market price, such as interest rates or foreign exchange rates. Cathay Pacific assesses the impact of market risk on financial assets and liabilities to be limited.

(b) Credit risk

A credit risk is the risk of loss arising from counterparty or a debtor defaulting on their contractual obligations. The level of exposure depends on several factors including concentrations of credit risk, components of credit risk, the price of contract and other receivable of financial instruments. Cathay Pacific believes the maximum credit exposure amount of financial instruments is equal to their carrying values.

(c) Liquidity risk

Cathay Pacific has sufficient working capital for its operation therefore there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital. In addition, except for the financial assets carried at cost (unquoted equity securities) which may be exposed to significant liquidity risks due to lack of active market, all other stocks Cathay Pacific held are able to be disposed rapidly at prices close to fair values.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

G. Cathay Futures

a. Information of fair value

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$224,625	\$224,625	\$6,842	\$6,842
Customers' margin accounts	957,571	957,571	29,168	29,168
Futures trading deposits receivable	538	538	16	16
Accounts receivable-related parties	124	124	4	4
Other receivable (contain transactions with related parties)	5,806	5,806	177	177
Available-for-sale financial assets-noncurrent	30,500	30,500	929	929
Operating deposits	60,000	60,000	1,828	1,828
Settlement and clearance funds	62,000	62,000	1,889	1,889
Guarantee deposits paid	1,279	1,279	39	39
<u>Liabilities</u>				
Futures customers' equity	957,277	957,277	29,159	29,159
Payables (contain transactions with related parties)	1,661	1,661	51	51
Advance receipts	295	295	9	9
Other payable (contain transactions with related parties)	3,793	3,793	116	116
June 30, 2008				
Item	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$245,384	\$245,384	\$8,082	\$8,082
Customers' margin accounts	1,792,916	1,792,916	59,055	59,055



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
Futures trading deposits receivable	\$356	\$356	\$12	\$12
Accounts receivable-related parties	51	51	2	2
Other receivable (contain transactions with related parties)	6,042	6,042	199	199
Available-for-sale financial assets-noncurrent	30,500	30,500	1,005	1,005
Operating deposits	60,000	60,000	1,976	1,976
Settlement and clearance funds	66,000	66,000	2,174	2,174
Guarantee deposits paid	1,279	1,279	42	42
<b><u>Liabilities</u></b>				
Futures customers' equity	1,792,189	1,792,189	59,031	59,031
Payables (contain transactions with related parties)	6,966	6,966	229	229
Advance receipts	395	395	13	13
Other payable (contain transactions with related parties)	3,159	3,159	104	104

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

- (a) The carrying amounts of the financial instruments such as cash and cash equivalents, customers' margin accounts, futures trading deposits receivables, accounts receivable-related parties, other receivables, operation deposits, settlement and clearance funds, guarantee deposits paid, futures customers' equity, payables, advance receipts under custody and other payables, approximate their fair values due to the short maturities of these instruments.
- (b) The fair value of available-for-sale financial assets-noncurrent is valued at market price or other financial information when available.
- (c) The fair value of financial assets and financial liabilities is determined using pricing models.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- c. The fair value of Cathay Futures financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	June 30, 2007			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-noncurrent	\$30,500	\$929	\$-	\$-

Item	June 30, 2008			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Available-for-sale financial assets-noncurrent	\$30,500	\$1,005	\$-	\$-

- d. Information on financial risk

- (a) Market risk - The fair values of the shares on listed companies or derivative instruments held by Cathay Futures will fluctuate under the influence of the related stock market factors.
- (b) Credit risk – Appropriate credit evaluation processes and continuous monitor of credit-lines are in place for all customers of the brokerage department. In addition, all transactions conducted by proprietary trading department go through Taiwan Futures Exchange and therefore no significant credit risk is expected.
- (c) Liquidity risk and cash flow risk – Cathay Futures has sufficient working capital for its operation and there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital.. In addition, except for the financial assets carried at cost which are exposed to significant liquidity risks due to lack of active market, all other stocks Cathay Futures held are able to be disposed rapidly at prices close to fair values.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

H. Symphox Information

a. Information of fair value

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$83,855	\$83,855	\$2,554	\$2,554
Financial assets at fair value through profit or loss-current	203,877	203,877	6,210	6,210
Receivables (contain transactions with related parties)	177,755	177,755	5,414	5,414
Guarantee deposits paid	8,172	8,172	249	249
<u>Liabilities</u>				
Payables (contain transactions with related parties)	122,200	122,200	3,722	3,722
Guarantee deposits in	84	84	3	3
Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$283,339	\$283,339	\$9,333	\$9,333
Financial assets at fair value through profit or loss-current	154,841	154,841	5,100	5,100
Receivables (contain transactions with related parties)	199,434	199,434	6,569	6,569
Guarantee deposits paid	10,229	10,229	337	337
<u>Liabilities</u>				
Payables (contain transactions with related parties)	152,606	152,606	5,027	5,027
Guarantee deposits in	78	78	3	3

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

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

(b) The fair value of the guarantee deposits paid and guarantee deposits in also approximates the carrying amount.

c. The fair value of Symphox Information financial assets or liabilities determined by quoted market price or pricing models are summarized as following:

Item	June 30, 2007			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$203,877	\$6,210	\$-	\$-
Item	June 30, 2008			
	Based on quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss-current	\$154,841	\$5,100	\$-	\$-

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

I. Cathay Venture Capital

a. Information of fair value

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$26,653	\$26,653	\$812	\$812
Financial assets at fair value through profit or loss-current	13,938	13,938	425	425
Available-for-sale financial assets- current	245,845	245,845	7,488	7,488
Available-for-sale financial assets- noncurrent	374,519	374,519	11,408	11,408
Financial assets carried at cost - noncurrent	861,035	861,035	26,227	26,227

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$19,933	\$19,933	\$657	\$657
Financial assets at fair value through profit or loss-current	31,075	31,075	1,024	1,024
Available-for-sale financial assets- current	72,439	72,439	2,386	2,386
Available-for-sale financial assets- noncurrent	262,352	262,352	8,641	8,641
Financial assets carried at cost - noncurrent	995,276	995,276	32,782	32,782

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

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

(b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However fair value is estimated using pricing model if an active market does not exist.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(c) When financial assets are quoted on an active market, the fair value is the market price. However fair value is estimated based on their carrying amount or other relevant financial information if an active market does not exist.

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

Item	June 30,							
	2007				2008			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss-current	\$13,938	\$425	\$-	\$-	\$31,075	\$1,024	\$-	\$-
Available-for-sale financial assets-current	245,845	7,488	-	-	72,439	2,386	-	-
Available-for-sale financial assets-noncurrent	374,519	11,408	-	-	262,352	8,641	-	-
Financial assets carried at cost - noncurrent	-	-	861,035	26,227	-	-	995,276	32,782

d. Information on financial risk

- (a) Market risk – Cathay Venture Capital invests in financial instruments relating to equity securities and the fair value of such investments will move based on fluctuations in the market price. As such there is no market risk.
- (b) Credit risk – Cathay Venture Capital has appropriate credit approval process and transaction limits in place, furthermore it only transacts with creditworthy individual or company. Therefore the credit risk is minimized.
- (c) Liquidity risk – Cathay Venture Capital has sufficient working capital for its operation and there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital.
- (d) Cash flow risk from fluctuations in interest rate – Cathay Venture Capital does not have interest-bearing financial instruments, as such there is no cash flow risk resulting from fluctuations in interest rate.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

I. Cathay II Venture Capital

a. Information of fair value

Item	June 30, 2007			
	(NT\$)		(US\$)	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$4,237	\$4,237	\$129	\$129
Available-for-sale financial assets- current	85,265	85,265	2,597	2,597
Available-for-sale financial assets- noncurrent	276,004	276,004	8,407	8,407
Financial assets carried at cost-noncurrent	510,475	510,475	15,549	15,549

Item	June 30, 2008			
	(NT\$)		(US\$)	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$10,231	\$10,231	\$337	\$337
Financial assets at fair value through profit or loss-current	13,838	13,838	456	456
Available-for-sale financial assets- current	59,675	59,675	1,966	1,966
Available-for-sale financial assets- noncurrent	141,421	141,421	4,658	4,658
Financial assets carried at cost-noncurrent	592,837	592,837	19,527	19,527

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

- (a) The fair value of Cathay II Venture Capital's short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.
- (b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However fair value is estimated using pricing model if an active market does not exist.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

(c) When financial assets are quoted on an active market, the fair value is the market price. However fair value is estimated based on their carrying amount or other relevant financial information if an active market does not exist.

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

Item	June 30,							
	2007				2008			
	Based on the quoted market price		Based on pricing models		Based on the quoted market price		Based on pricing models	
	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value through profit or loss-current	\$-	\$-	\$-	\$-	\$13,838	\$456	\$-	\$-
Available-for-sale financial assets-current	85,265	2,597	-	-	59,675	1,966	-	-
Available-for-sale financial assets-noncurrent	276,004	8,407	-	-	141,421	4,658	-	-
Financial assets carried at cost-noncurrent	-	-	510,475	15,549	-	-	592,837	19,527

d. Information on financial risk

(a) Market risk – Cathay II Venture Capital invests in financial instruments relating to equity securities and the fair value of such investments will move based on fluctuations in the market price. As such there is no market risk.

(b) Credit risk – Cathay II Venture Capital has appropriate credit approval process and transaction limits in place, furthermore it only transacts with creditworthy individual or company. Therefore the credit risk is minimized.

(e) Liquidity risk – Cathay II Venture Capital has sufficient working capital for its operation and there is no liquidity risk of defaulting on its contractual obligations due to insufficient working capital.

(f) Cash flow risk from fluctuations in interest rate – Cathay II Venture Capital does not have interest-bearing financial instruments, as such there is no cash flow risk resulting from fluctuations in interest rate.



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

K. Cathay Life (Shanghai)

a. Information of fair value

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

Item	June 30,2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Cash and cash equivalents	\$1,466,276	\$1,466,276	\$48,296	\$48,296
Financial assets at fair value through profit or loss-current	898,124	898,124	29,582	29,582
Available-for-sale financial assets-current	256,469	256,469	8,448	8,448

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30,2008			
	(NT\$)		(US\$)	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Non-derivative financial instruments</u>				
Held-to-maturity financial				
assets-current	\$205,737	\$205,737	\$6,777	\$6,777
Available-for-sale financial				
assets-noncurrent	3,173,314	3,173,314	104,523	104,523
Held-to-maturity financial				
assets-noncurrent	265,579	265,579	8,748	8,748
Investment in debt securities with no				
active market-noncurrent	732,971	721,842	24,143	24,143
Guarantee deposits paid	725,207	725,207	23,887	23,887
<u>Liabilities</u>				
Guarantee deposits in	3,332	3,332	110	110

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

- (a) The fair value of Cathay Life (Shanghai) short-term financial instruments approximates the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash and cash equivalents.
- (b) When financial assets or liabilities are quoted on an active market, the fair value is the market price. However fair value is estimated using pricing model if an active market does not exist. A pricing model incorporates all information that market participants would consider in setting a price which are available to Cathay Life (Shanghai). Cathay Life (Shanghai) 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.
- (c) The fair value of the guarantee deposits paid and guarantee deposits in approximates their carrying amount.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

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

Item	June 30,							
	2007				2008			
	Based on the quoted		Based on pricing		Based on the quoted		Based on pricing	
	market price		models		market price		models	
(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	(NT\$)	(US\$)	
<u>Non-derivative financial instruments</u>								
<u>Assets</u>								
Financial assets at fair value								
through profit or								
loss-current	\$165,982	\$5,056	\$-	\$-	\$898,124	\$29,582	\$-	\$-
Available-for-sale financial								
assets-current	344,803	10,503	-	-	256,469	8,448	-	-
Held-to-maturity financial								
assets-current	42,944	1,308	-	-	205,737	6,777	-	-
Available-for-sale financial								
assets-noncurrent	617,472	18,808	-	-	3,173,314	104,523	-	-
Held-to-maturity financial								
assets-noncurrent	365,030	11,119	-	-	265,579	8,748	-	-
Investment in debt securities								
with no active market-								
noncurrent	-	-	1,503,319	45,791	-	-	732,971	24,143

(3) Discretionary account management for Cathay Life and Cathay Century

Item	June 30, 2007			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$18,782,311	\$572,108	\$18,782,311	\$572,108
Repurchase bonds	8,034,532	244,732	8,034,532	244,732
Cash in banks	709,631	21,615	709,631	21,615
Net other assets less liabilities	366	11	366	11
Total	\$27,526,840	\$838,466	\$27,526,840	\$838,466

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

Item	June 30, 2008			
	Carrying value		Fair value	
	(NT\$)	(US\$)	(NT\$)	(US\$)
Listed stocks	\$9,494,365	\$312,726	\$9,494,365	\$312,726
Repurchase bonds	9,840,884	324,140	9,840,884	324,140
Cash in banks	879,555	28,971	879,555	28,971
Net other assets less liabilities	33,207	1,094	33,207	1,094
Total	\$20,248,011	\$666,931	\$20,248,011	\$666,931

As of June 30, 2007 and 2008, Cathay Life and Cathay Century had discretionary account management contracts in the amount of NT\$ 22,850,000(US\$696,010) thousands, and NT\$ 18,050,000(US\$594,532) thousands, respectively.

(4) Capital adequacy ratio on a consolidated basis:

A. Capital adequacy ratios

As of June 30, 2007

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

As of June 30, 2008

Item	Ownership interest	Eligible capital		Legal capital	
		(NT\$)	(US\$)	(NT\$)	(US\$)
The Company	100.00%	173,278,112	5,707,448	180,428,018	5,942,952
Cathay United Bank	100.00%	83,071,839	2,736,226	66,316,430	2,184,336
Cathay Securities	100.00%	2,881,671	94,917	425,946	14,030
Cathay Life	100.00%	88,149,424	2,903,472	82,213,440	2,707,953
Cathay Century	100.00%	4,535,596	149,394	2,131,716	70,215
Cathay Pacific Venture	100.00%	607,113	19,997	302,461	9,962
Cathay Venture	15.00%	240,739	7,929	120,835	3,980
Cathay II Venture	100.00%	808,631	26,635	409,001	13,472
Cathay Capital Management	100.00%	39,526	1,302	22,994	757
Less: Item		(192,698,756)	(6,347,126)	(176,001,582)	(5,797,154)
Subtotal		(A) 160,913,895	5,300,194	(B) 156,369,259	5,150,503
Consolidated capital adequacy ratios			(C)=(A)/(B)		102.91%

B. Eligible capital

As of June 30, 2007

Item	(NT\$)	(US\$)
Common Stock	92,770,192	2,825,775
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	-	-
Capital collected in advance	-	-
Capital surplus	81,971,167	2,496,837
Legal reserve	9,245,862	281,628
Special reserve	-	-
Accumulated profit	25,512,938	777,123
Equity adjustments	22,793,682	694,294
Less : Goodwill	-	-
Less : Deferred assets	(292,025)	(8,895)
Less : Treasury stock	(4,140,047)	(126,105)
Consolidated eligible capital	227,861,769	6,940,657

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

As of June 30, 2008

Item	(NT\$)	(US\$)
Common Stock	97,375,372	3,207,358
Non-cumulative perpetual preferred stocks and non-cumulative subordinated debts without maturity dates-qualified as bank-level Tier I Capital	-	-
Preferred Stocks and subordinated financial debenture	-	-
Capital collected in advance	-	-
Capital surplus	81,971,213	2,699,974
Legal reserve	12,320,672	405,819,
Special reserve	-	-
Accumulated profit	2,643,729	87,079
Equity adjustments	(16,461,505)	(542,210)
Less : Goodwill	-	-
Less : Deferred assets	(431,322)	(14,207)
Less : Treasury stock	(4,140,047)	(136,365)
Consolidated eligible capital	173,278,112	5,707,448

(5) Business or trading behaviors within Subsidiaries:

A. Business or trading behaviors

Please refer Note 5 (business with stakeholders) for further details.

B. Integrate business activities:

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

C. Cross utilization of information:

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

D. Locations and business utilities:

The Company has established national presence to provide customers with one-stop services not only in insurance but also in banking and securities services. Since July 2002, The Company has built up four flagship stores of wealth management in Taipei, Taichung and Kaohsiung. In November 2002, the Company upgraded 5 insurance branches into wealth management service locations.

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

Revenue, costs, expenses, profits or losses arising from integrate business activities between the subsidiaries are allocated to each subsidiary based on the related business features.

(5) Material contract: None.

(6) Presentation of financial statements:

Certain accounts in the consolidated financial statements for the six months ended June 30, 2007 have been reclassified in order to be comparable with those in the consolidated financial statements for the six months ended June 30, 2008.

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

(1) On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Life to remit US\$22,850 thousands and US\$27,150 thousands, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. Cathay Life's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of June 30, 2008, Cathay Life's remittances to this company totaled approximately US\$48,330 thousands.

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

- (2) On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay life to remit US\$26,390 thousands as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Century Insurance). On March 6, 2008, MOEAIC authorized Cathay life to increase the remittances from US\$26,390 thousands to US\$28,960 thousands. As of June 30, 2008, Cathay life's remittances to this general insurance company totaled approximately US\$28,144 thousands.

On June 30, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized Cathay Century to remit US\$28,960 thousands as the registered capital to establish a China-based general insurance subsidiary. Cathay Century has received approval from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The capital fund that has been wired out amounts to US\$27,420 thousands as of June 30, 2008.

### 32. Segment information

For the six months ended June 30, 2007

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



**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

For the six months ended June 30, 2007

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

For the six months ended June 30, 2008

Item	Bank division (NT\$)	Life insurance division (NT\$)	Property and casualty insurance division (NT\$)	Securities division (NT\$)	Other divisions (NT\$)	Total (NT\$)
Net interest income	10,824,141	36,851,030	201,754	46,172	57,100	47,980,197
Non income other than interest	2,197,411	14,144,404	1,768,906	126,126	(386,902)	17,849,945
Provision for premiums reserve	-	(45,388,010)	(298,663)	-	-	(45,686,673)
Total income	13,021,552	5,607,424	1,671,997	172,298	(329,802)	20,143,469
Bad debt expenses	(965,404)	-	-	-	-	(965,404)
Operating expenses	(6,080,542)	(18,764,625)	(666,682)	(190,812)	(390,163)	(26,092,824)
Income from continuing operations before income taxes	5,975,606	(13,157,201)	1,005,315	(18,514)	(719,965)	(6,914,759)
Income taxes (expense) benefit	(1,563,420)	6,382,753	(133,655)	699	47,008	4,733,385
Consolidated income	4,412,186	(6,774,448)	871,660	(17,815)	(672,957)	(2,181,374)

**English Translation of Financial Statements Originally Issued in Chinese**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**

For the six months ended June 30, 2008

Item	Bank division (US\$)	Life insurance division (US\$)	Property and casualty insurance division (US\$)	Securities division (US\$)	Other divisions (US\$)	Total (US\$)
Net interest income	356,526	1,213,802	6,645	1,521	1,881	1,580,375
Non income other than interest	72,379	465,890	58,264	4,154	(12,744)	587,943
Provision for premiums reserve	-	(1,494,994)	(9,837)	-	-	(1,504,831)
Total income	428,905	184,698	55,072	5,675	(10,863)	663,487
Bad debt expenses	(31,799)	-	-	-	-	(31,799)
Operating expenses	(200,281)	(618,071)	(21,959)	(6,285)	(12,851)	(859,447)
Income from continuing operations before income taxes	196,825	(433,373)	33,113	(610)	(23,714)	(227,759)
Income taxes (expense) benefit	(51,496)	210,236	(4,402)	23	1,548	155,909
Consolidated income	145,329	(223,137)	28,711	(587)	(22,166)	(71,850)

### 33. Parent Company financial statements

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

**Cathay Financial Holding Co., Ltd.**  
**Audited Balance Sheets**  
**As of June 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

	June 30, 2007		June 30, 2008	
	NT \$	US \$	NT \$	US \$
<b>Assets</b>				
Cash and cash equivalents	\$24,114,697	\$734,532	\$18,176,091	\$598,685
Receivables -net	1,529,451	46,587	3,149,204	103,729
Investments-equity method	215,954,606	6,577,966	176,001,582	5,797,153
Other financial assets -net	31,720	966	31,720	1,045
Property and equipment -net	4,171	127	3,145	104
Goodwill and intangible assets -net	1,373	42	800	26
Other assets -net	2,925,640	89,115	2,874,322	94,675
<b>Total assets</b>	<b>\$244,561,658</b>	<b>\$7,449,335</b>	<b>\$200,236,864</b>	<b>\$6,595,417</b>
<b>Liabilities &amp; stockholders' equity</b>				
Financial liabilities at fair value through profit or loss	1,009,083	30,737	-	-
Payables	15,348,449	467,513	26,507,144	873,094
Other liabilities	50,332	1,533	20,286	668
<b>Total liabilities</b>	<b>16,407,864</b>	<b>499,783</b>	<b>26,527,430</b>	<b>873,762</b>
<b>Stockholders' equity</b>				
Capital stock				
Common stock	92,770,192	2,825,775	92,770,192	3,055,672
Stock dividends to be distributed	-	-	4,605,180	151,686
Capital surplus	81,971,167	2,496,837	81,971,213	2,699,974
Retained earnings				
Legal reserve	9,245,862	281,628	12,320,672	405,819
Undistributed earnings	25,512,938	777,123	2,643,729	87,079
Other stockholders' equity				
Unrealized revaluation increments	2,106	64	2,106	69
Cumulative translation adjustments	166,614	5,075	(337,270)	(11,109)
Unrealized gains or losses on financial instruments	22,625,535	689,173	(16,123,234)	(531,068)
Treasury stock	(4,140,047)	(126,106)	(4,140,047)	(136,365)
Net loss not recognized as pension cost	(573)	(17)	(3,107)	(102)
<b>Total stockholders' equity</b>	<b>228,153,794</b>	<b>6,949,552</b>	<b>173,709,434</b>	<b>5,721,655</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$244,561,658</b>	<b>\$7,449,335</b>	<b>\$200,236,864</b>	<b>\$6,595,417</b>

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

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

**Audited Statements of Income**

**For the six months ended June 30, 2007 and 2008**

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

	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT \$	US \$	NT \$	US \$
<b>Income</b>				
Gain on investment-equity method	\$20,850,988	\$635,120	\$-	\$-
Gain on financial assets and liabilities at fair value through profit or loss	4,750	145	323,564	10,658
Gain on foreign exchange	48,038	1,463	-	-
Other operating income	9,294	283	9,337	307
<b>Total income</b>	<b>20,913,070</b>	<b>637,011</b>	<b>332,901</b>	<b>10,965</b>
<b>Expenses and loss</b>				
Interest income	561,922	17,116	423,076	13,935
Less: interest expenses	(557,644)	(16,986)	(340,531)	(11,216)
Net interest income	4,278	130	82,545	2,719
Loss on financial assets and liabilities at fair value through profit	-	-	(1,849,092)	(60,906)
Losses on foreign exchange	-	-	(726,549)	(23,931)
Operating expenses	(104,168)	(3,173)	(123,203)	(4,058)
<b>Income (loss) from continuing operations before income taxes</b>	<b>20,813,180</b>	<b>633,968</b>	<b>(2,283,398)</b>	<b>(75,211)</b>
<b>Income taxes (expense) benefit</b>	<b>(130,104)</b>	<b>(3,963)</b>	<b>63,216</b>	<b>2,082</b>
<b>Net income (loss)</b>	<b>\$20,683,076</b>	<b>\$630,005</b>	<b>\$(2,220,182)</b>	<b>\$(73,129)</b>
<b>Earnings per share (expressed in dollars)</b>				
Primary earnings per share:				
Net income (loss) from continuing operations	\$2.16	\$2.14	\$(0.24)	\$(0.23)
Net income (loss)	\$2.16	\$2.14	\$(0.24)	\$(0.23)

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Financial Holding Co., Ltd.**  
**Audited Consolidated Statements of Changes in Stockholders' Equity**  
**For the six months ended June 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

Summary	Retained earnings										Other stockholders' equity											
	Common stock		Stock dividend to be distributed		Capital surplus		Legal reserve		Undistributed earnings		Unrealized revaluation increments		Cumulative translation adjustments		Unrealized gains or losses on financial instruments		Treasury stock		Net loss not recognized as pension cost		Total	
	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$	NT \$	US \$
<b>Balance on January 1, 2007</b>	\$92,068,174	\$2,804,392	\$-	\$-	\$78,867,213	\$2,402,291	\$8,188,136	\$249,410	\$19,710,210	\$600,372	\$2,106	\$64	\$105,170	\$3,203	\$21,345,473	\$650,182	\$(4,140,047)	\$(126,106)	\$(573)	\$(17)	\$216,145,862	\$6,583,791
Appropriations and distribution for 2006																						
Legal reserve							1,057,726	32,218	(1,057,726)	(32,218)											-	-
Cash dividends									(13,815,539)	(420,820)											(13,815,539)	(420,820)
Remuneration paid to directors and supervisors									(5,700)	(174)											(5,700)	(174)
Bonus paid to employees									(1,383)	(42)											(1,383)	(42)
Convertible notes converted into common stock	702,018	21,383			3,104,004	94,548															3,806,022	115,931
Cumulative capital surplus increment					(87)	(3)															(87)	(3)
Cumulative translation adjustments												61,444	1,872								61,444	1,872
Unrealized gains or losses of financial instruments															1,280,062	38,991					1,280,062	38,991
Other capital surplus					37	1															37	1
Net income for the six months ended June 30, 2007									20,683,076	630,005											20,683,076	630,005
<b>Balance on June 30, 2007</b>	\$92,770,192	\$2,825,775	\$-	\$-	\$81,971,167	\$2,496,837	\$9,245,862	\$281,628	\$25,512,938	\$777,123	\$2,106	\$64	\$166,614	\$5,075	\$22,625,535	\$689,173	\$(4,140,047)	\$(126,106)	\$(573)	\$(17)	\$228,153,794	\$6,949,552
<b>Balance on January 1, 2008</b>	\$92,770,192	\$3,055,672	\$-	\$-	\$81,971,213	\$2,699,974	\$9,245,862	\$304,541	\$35,577,963	\$1,171,870	\$2,106	\$69	\$183,766	\$6,053	\$10,955,521	\$360,854	\$(4,140,047)	\$(136,365)	\$(3,107)	\$(102)	\$226,563,469	\$7,462,566
Appropriations and distribution for 2007																						
Legal reserve							3,074,810	101,278	(3,074,810)	(101,278)											-	-
Cash dividends									(23,025,898)	(758,429)											(23,025,898)	(758,429)
Stock dividend to be distributed			4,605,180	151,686					(4,605,180)	(151,686)											-	-
Remuneration paid to directors and supervisors									(5,400)	(178)											(5,400)	(178)
Bonus paid to employees									(2,764)	(91)											(2,764)	(91)
Cumulative translation adjustments												(521,036)	(17,162)								(521,036)	(17,162)
Unrealized gains or losses of financial instruments															(27,078,755)	(891,922)					(27,078,755)	(891,922)
Net loss for the six months ended June 30, 2008									(2,220,182)	(73,129)											(2,220,182)	(73,129)
<b>Balance on June 30, 2008</b>	\$92,770,192	\$3,055,672	\$4,605,180	\$151,686	\$81,971,213	\$2,699,974	\$12,320,672	\$405,819	\$2,643,729	\$87,079	\$2,106	\$69	\$(337,270)	\$(11,109)	\$(16,123,234)	\$(531,068)	\$(4,140,047)	\$(136,365)	\$(3,107)	\$(102)	\$173,709,434	\$5,721,655

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

**Cathay Financial Holding Co., Ltd.  
Audited Statements of Cash Flows  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT \$	US \$	NT \$	US \$
<b>Cash flows from operating activities</b>				
Net income (loss)	\$20,683,076	\$630,005	\$(2,220,182)	\$(73,129)
Adjustments:				
Amortizations	293	9	280	9
Depreciation	553	17	472	16
Losses on disposal of property and equipment	-	-	240	8
Investment income from equity method (excess) smaller of cash dividends received	(9,120,582)	(277,812)	25,513,710	840,373
Decrease in bonds payable redemption premium	(47,238)	(1,439)	-	-
Effects of exchange rate changes	(69,238)	(2,109)	559,269	18,421
Changes in operating assets and liabilities				
Decrease (increase) in accounts receivable	506,298	15,422	(658,751)	(21,698)
Decrease in deferred income tax assets	133,387	4,063	279,148	9,195
Increase in other assets	(217)	(7)	(313)	(10)
Decrease in accounts payable	(875,048)	(26,654)	(200,982)	(6,620)
Decrease in financial liabilities at fair value through profit or loss	(4,750)	(145)	(444,155)	(14,630)
Increase in income tax payable	59,507	1,813	622,304	20,497
Decrease in deferred income tax liabilities	(24,011)	(731)	(146,844)	(4,837)
(Decrease) Increase in other liabilities	(390)	(12)	605	20
<b>Net cash provided by operating activities</b>	<b>11,241,640</b>	<b>342,420</b>	<b>23,304,801</b>	<b>767,615</b>
<b>Cash flows from investing activities</b>				
Acquisition of property and equipment	(302)	(9)	(580)	(19)
Disposal of property and equipment	-	-	963	32
Decrease (Increase) in other assets	(25,798)	(786)	167,259	5,509
<b>Net cash (used in) provided by investing activities</b>	<b>(26,100)</b>	<b>(795)</b>	<b>167,642</b>	<b>5,522</b>
<b>Cash flows from financing activities</b>				
Decrease in bonds payable	(419,951)	(12,792)	-	-
Long-term stock investment	-	-	(15,000,000)	(494,071)
Disposal of treasury stock	37	1	-	-
<b>Net cash used in financing activities</b>	<b>(419,914)</b>	<b>(12,791)</b>	<b>(15,000,000)</b>	<b>(494,071)</b>
<b>Effects of exchange rate changes</b>	<b>69,238</b>	<b>2,109</b>	<b>(559,269)</b>	<b>(18,421)</b>
<b>Decrease in cash and cash equivalents</b>	<b>10,864,864</b>	<b>330,943</b>	<b>7,913,174</b>	<b>260,645</b>
<b>Cash and cash equivalents at the beginning of the periods</b>	<b>13,249,833</b>	<b>403,589</b>	<b>10,262,917</b>	<b>338,040</b>
<b>Cash and cash equivalents at the end of the periods</b>	<b>\$24,114,697</b>	<b>\$734,532</b>	<b>\$18,176,091</b>	<b>\$598,685</b>
<b>Supplemental disclosure of cash flows information</b>				
Interest paid during the period	\$641,061	\$19,527	\$398,098	\$13,113
Income tax paid	\$28,406	\$865	\$12,161	\$401
<b>Investing and financing activities with no cash flow effects</b>				
Conversion of convertible notes into common stock	\$3,806,022	\$115,931	\$-	\$-

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

**33. The major subsidiaries' condensed balance sheets and statements of income**

**Cathay Life Insurance Co., Ltd.  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Item	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$592,571,389	\$18,049,692	\$485,365,123	\$15,986,993
Loans	509,816,875	15,528,994	536,772,664	17,680,259
Funds and investments	935,869,593	28,506,537	1,068,133,445	35,182,261
Property and equipment	12,815,269	390,352	12,599,246	414,995
Intangible assets	335,798	10,228	583,024	19,204
Other assets	226,587,064	6,901,830	293,921,603	9,681,212
<b>Total assets</b>	<b>\$2,277,995,988</b>	<b>\$69,387,633</b>	<b>\$2,397,375,105</b>	<b>\$78,964,924</b>
<b>Liabilities</b>				
Current liabilities	\$43,343,661	\$1,320,246	\$32,813,335	\$1,080,808
Long-term liabilities	1,569,479	47,806	1,374,379	45,269
Other liabilities	2,106,695,312	64,169,824	2,275,122,310	74,938,153
<b>Total liabilities</b>	<b>2,151,608,452</b>	<b>65,537,876</b>	<b>2,309,310,024</b>	<b>76,064,230</b>
<b>Stockholders' equity</b>				
Capital stock	50,686,158	1,543,898	52,686,158	1,735,381
Capital surplus	9,648	294	13,009,648	428,513
Retained earnings	54,051,362	1,646,401	37,419,665	1,232,532
Others	21,640,368	659,164	(15,050,390)	(495,731)
<b>Total stockholders' equity</b>	<b>126,387,536</b>	<b>3,849,757</b>	<b>88,065,081</b>	<b>2,900,695</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$2,277,995,988</b>	<b>\$69,387,633</b>	<b>\$2,397,375,105</b>	<b>\$78,964,925</b>

**Cathay Life Insurance Co., Ltd.  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except earnings per share)**

Item	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$386,510,092	\$11,773,076	\$472,211,768	\$15,553,747
Operating costs	(365,045,936)	(11,119,279)	(479,487,341)	(\$15,793,390)
Operating gross profit	21,464,156	653,797	(7,275,573)	(239,643)
Operating expenses	(5,401,899)	(164,542)	(5,065,342)	(166,843)
Non-operating revenues & gains	750,923	22,873	661,382	21,785
Non-operating expenses & losses	(51,524)	(1,569)	(3,511)	(116)
Income from continuing operations before income taxes	\$16,761,656	\$510,559	\$(11,683,044)	\$(384,817)
Net income (loss)	\$16,168,646	\$492,496	\$(5,285,099)	\$(174,081)
Earnings per share (in dollars)				
Income from continuing operations before income taxes	\$3.31	\$0.10	\$(2.03)	\$(0.07)
Net income (loss)	\$3.19	\$0.10	\$(1.04)	\$(0.03)

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

**Cathay Century Insurance Co., Ltd.  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$9,858,043	\$300,275	\$11,775,370	\$387,858
Loans	2,279,562	69,435	1,748,337	57,587
Funds and investments	4,997,448	152,222	4,264,253	140,456
Fixed assets	40,493	1,233	153,180	5,045
Intangible assets	6,360	194	15,184	500
Other assets	649,580	19,787	779,629	25,680
<b>Total assets</b>	<b>\$17,831,486</b>	<b>\$543,146</b>	<b>\$18,735,953</b>	<b>\$617,126</b>
<b>Liabilities</b>				
Current liabilities	\$2,001,556	\$60,967	\$1,625,982	\$53,556
Long-term liabilities	3,405	104	15,172	500
Other liabilities	12,217,313	372,139	13,928,248	458,770
<b>Total liabilities</b>	<b>14,222,274</b>	<b>433,210</b>	<b>15,569,402</b>	<b>512,826</b>
<b>Stockholders' equity</b>				
Capital stock	2,317,006	70,576	2,317,006	76,318
Capital surplus	1,929	59	1,929	63
Retained earnings	1,096,371	33,395	978,717	32,237
Others	193,906	5,906	(131,101)	(4,318)
<b>Total stockholders' equity</b>	<b>3,609,212</b>	<b>109,936</b>	<b>3,166,551</b>	<b>104,300</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$17,831,486</b>	<b>\$543,146</b>	<b>\$18,735,953</b>	<b>\$617,126</b>

**Cathay Century Insurance Co., Ltd.  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$11,610,832	\$353,665	\$12,547,591	\$413,294
Operating costs	(9,713,380)	(295,869)	(10,734,407)	(353,571)
Operating gross profit	1,897,452	57,796	1,813,184	59,723
Operating expenses	(1,053,329)	(32,084)	(1,226,438)	(40,397)
Non-operating revenues	2,258	68	5,864	193
Non-operating expenses	(48)	(1)	(1,705)	(56)
Income from continuing operations before income taxes	\$846,333	\$25,779	\$590,905	\$19,463
Net income	\$679,537	\$20,699	\$457,250	\$15,061
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$1.83	\$0.06	\$2.55	\$0.08
Net income	\$2.93	\$0.09	\$1.97	\$0.06



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

**Cathay Life Insurance Company(Shanghai)  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$2,703,391	\$82,345	\$3,238,690	\$106,676
Loans	1,897	58	8,671	286
Funds and investments	2,507,545	76,380	4,171,864	137,413
Fixed assets	51,797	1,578	253,020	8,334
Intangible assets	3,181	97	127,428	4,197
Other assets	698,900	21,288	1,042,443	34,336
<b>Total assets</b>	<b>\$5,966,711</b>	<b>\$181,746</b>	<b>\$8,842,116</b>	<b>\$291,242</b>
<b>Liabilities</b>				
Current liabilities	\$27,017	\$823	\$466,464	\$15,365
Other liabilities	2,736,654	83,358	5,882,929	193,772
<b>Total liabilities</b>	<b>2,763,671</b>	<b>84,181</b>	<b>6,349,393</b>	<b>209,137</b>
<b>Stockholders' equity</b>				
Capital stock	3,257,376	99,220	3,257,376	107,291
Retained earnings	(251,301)	(7,655)	(784,169)	(25,829)
Others	196,965	6,000	19,516	643
<b>Total stockholders' equity</b>	<b>3,203,040</b>	<b>97,565</b>	<b>2,492,723</b>	<b>82,105</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$5,966,711</b>	<b>\$181,746</b>	<b>\$8,842,116</b>	<b>\$291,242</b>

**Cathay Life Insurance Company(Shanghai)  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$1,016,968	\$30,977	\$3,747,446	\$123,433
Operating costs	(784,007)	(23,881)	(3,481,599)	(114,677)
Operating gross profit	232,961	7,096	265,847	8,756
Operating expenses	(192,745)	(5,871)	(416,392)	(13,715)
Non-operating revenues	47	1	82	3
Non-operating expenses	(4)	-	(32)	(1)
Loss from continuing operations before income taxes	\$40,259	\$1,226	\$(150,495)	\$(4,957)
Net income	\$40,259	\$1,226	\$(150,495)	\$(4,957)
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net loss	Note	Note	Note	Note

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

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

**Cathay Life Insurance Co., Ltd.(Vietnam)  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$-	\$-	\$1,754,921	\$57,804
Funds and investments	-	-	14,059	\$463
Fixed assets	-	-	13,928	\$459
Intangible assets	-	-	41,539	\$1,368
Other assets	-	-	23,981	\$790
<b>Total assets</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,848,428</b>	<b>\$60,884</b>
<b>Liabilities</b>				
Current liabilities	-	-	\$72,836	2,399
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>72,836</b>	<b>2,399</b>
<b>Stockholders' equity</b>				
Capital stock	-	-	1,940,080	63,903
Retained earnings	-	-	27,793	915
Others	-	-	(192,281)	(6,333)
<b>Total stockholders' equity</b>	<b>-</b>	<b>-</b>	<b>1,775,592</b>	<b>58,485</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$-</b>	<b>\$-</b>	<b>\$1,848,428</b>	<b>\$60,884</b>

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

**Cathay Life Insurance Co., Ltd.(Vietnam)  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

For the six months ended June 30, 2007 and 2008 Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$-	\$-	\$58,003	\$1,910
Operating costs	-	-	(921)	(30)
Operating gross profit	-	-	57,082	1,880
Operating expenses	-	-	(14,097)	(464)
Loss from continuing operations before income taxes	\$-	\$-	\$42,985	\$1,416
<b>Net income</b>	<b>\$-</b>	<b>\$-</b>	<b>\$27,793</b>	<b>\$915</b>
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

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

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

**Cathay United Bank Co., Ltd.  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Cash and cash equivalents	\$26,983,076	\$821,903	\$16,091,365	\$530,019
Due from the Central Bank and call loans to banks	37,932,008	1,155,407	54,874,468	1,807,459
Financial assets at fair value through profit or loss	48,173,233	1,467,354	35,760,475	1,177,881
Securities purchased under agreements to resell	471,586	14,365	2,948,737	97,126
Receivables-net	45,452,188	1,384,471	43,466,595	1,431,706
Loans and advances to customers-net	723,545,164	22,039,146	800,553,833	26,368,703
Available-for-sale financial assets -net	57,377,590	1,747,718	61,673,067	2,031,392
Held-to-maturity financial assets-net	5,928,264	180,575	3,060,656	100,812
Investments-equity method	2,187,755	66,639	2,410,333	79,392
Investments in debt securities with no active market	4,486,166	136,648	4,427,776	145,843
Other financial assets-net	275,971,712	8,406,083	222,669,938	7,334,320
Property and equipment-net	25,354,838	772,307	26,682,655	878,875
Intangible assets-net	400,421	12,197	6,954,485	229,067
Other assets-net	10,912,477	332,393	9,238,286	304,291
<b>Total assets</b>	<b>\$1,265,176,478</b>	<b>\$38,537,206</b>	<b>\$1,290,812,669</b>	<b>\$42,516,886</b>
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$64,386,977	\$1,961,224	\$78,108,650	\$2,572,749
Funds borrowed from the Central and other banks	821,000	25,008	1,517,700	49,990
Deposits and remittances	48,161,048	1,466,983	45,907,298	1,512,098
Financial liabilities at fair value through profit or loss	19,225,421	585,605	28,113,798	926,015
Securities sold under agreements to repurchase	22,594,076	688,214	18,056,739	594,754
Payables	1,008,604,716	30,722,044	1,021,793,243	33,655,904
Financial debentures payable	17,686,802	538,739	15,272,693	503,053
Other financial liabilities	1,348,984	41,090	282,509	9,305
Other liabilities	1,961,248	59,740	2,294,981	75,592
<b>Total liabilities</b>	<b>1,184,790,272</b>	<b>36,088,647</b>	<b>1,211,347,611</b>	<b>39,899,460</b>
<b>Shareholders' equity</b>				
Capital stock	48,689,413	1,483,077	48,689,413	1,603,736
Capital reserves	15,213,565	463,404	15,213,611	501,107
Retained earnings	15,867,463	483,322	16,871,477	555,714
Others	615,765	18,756	(1,309,443)	(43,131)
<b>Total shareholders' equity</b>	<b>80,386,206</b>	<b>2,448,559</b>	<b>79,465,058</b>	<b>2,617,426</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$1,265,176,478</b>	<b>\$38,537,206</b>	<b>\$1,290,812,669</b>	<b>\$42,516,886</b>

**Cathay United Bank Co., Ltd.  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except per share information)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Net interest income	\$10,173,442	\$309,882	\$10,497,113	\$345,755
Non-interest income	3,348,820	102,005	1,929,647	63,559
Net operating income	13,522,262	411,887	12,426,760	409,314
Provision for loan losses	(1,554,629)	(47,354)	(965,404)	(31,799)
Operating expenses	(6,423,539)	(195,660)	(6,947,398)	(228,834)
Income from continuing operations before income taxes	\$5,544,094	\$168,873	\$4,513,958	\$148,681
Net income	\$4,385,094	\$133,570	\$3,003,958	\$98,945
<b>Earnings per share (in dollars)</b>				
Income from continuing operations before income taxes	\$1.14	\$0.03	\$0.93	\$0.03
Net income	\$0.90	\$0.03	\$0.62	\$0.02

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

**Indovina Bank Limited**  
**Condensed Balance Sheets**  
**As of June 30, 2007 and 2008**  
**(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Cash and cash equivalents	\$617,727	\$18,816	\$1,864,560	\$61,415
Due from the Central Bank and call loans to banks	1,068,514	32,547	1,229,170	40,486
Financial assets at fair value through profit or loss	162,932	4,963	108,085	3,560
Investments in debt securities with no active market	319,460	9,731	261,553	8,615
Securities purchased under agreements to resell	-	-	287,969	9,485
Receivables-net	152,410	4,642	107,173	3,530
Loans and advances to customers-net	10,455,415	318,471	13,652,703	449,694
Premises and equipment-net	115,548	3,519	169,490	5,583
Intangible assets-net	40,141	1,223	36,629	1,207
Other assets-net	258	8	389	13
<b>Total assets</b>	<b>\$12,932,405</b>	<b>\$393,920</b>	<b>\$17,717,721</b>	<b>\$583,588</b>
<b>Liabilities</b>				
Due to the Central Bank and call loans from banks	\$1,497,582	\$45,616	\$3,069,507	\$101,104
Payables	497,679	15,159	765,280	25,207
Deposits and remittances	9,429,541	287,223	11,954,116	393,746
<b>Total liabilities</b>	<b>11,424,802</b>	<b>347,998</b>	<b>15,788,903</b>	<b>520,057</b>
<b>Shareholders' equity</b>				
Capital stock	1,118,158	34,059	1,605,418	52,879
Retained earnings	353,311	10,762	254,512	8,383
Others	36,134	1,101	194,933	6,421
Cumulative conversion adjustments	-	-	(126,045)	(4,152)
<b>Total shareholders' equity</b>	<b>1,507,603</b>	<b>45,922</b>	<b>1,928,818</b>	<b>63,531</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$12,932,405</b>	<b>\$393,920</b>	<b>\$17,717,721</b>	<b>\$583,588</b>

**Indovina Bank Limited**  
**Condensed Statements of Income**  
**For the six months ended June 30, 2007 and 2008**  
**(Expressed in thousands of dollars, except per share information)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Net interest income	\$282,979	\$8,620	\$327,366	\$10,783
Non-interest income	15,993	487	45,772	1,507
Net operating revenue	298,972	9,107	373,138	12,290
Provision for loan losses	(41,551)	(1,266)	-	-
Operating expenses	(92,697)	(2,824)	(124,785)	(4,110)
Income from continuing operations before income taxes	\$164,724	\$5,017	\$248,353	\$8,180
Net income	\$134,926	\$4,110	\$194,933	\$6,421
Earnings per share (in dollars)				
Income from continuing operations before income taxes	Note	Note	Note	Note
Net income	Note	Note	Note	Note

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

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

**Cathay Securities Corporation  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$3,286,980	\$100,121	\$3,058,142	\$100,729
Funds and investments	717,324	21,850	729,523	24,029
Property and equipment	81,876	2,494	60,083	1,979
Intangible assets	9,588	292	5,952	196
Other assets	309,720	9,434	439,393	14,473
<b>Total assets</b>	<b>\$4,405,488</b>	<b>\$134,191</b>	<b>\$4,293,093</b>	<b>\$141,406</b>
<b>Liabilities</b>				
Current liabilities	\$324,470	\$9,884	\$232,467	\$7,657
Long-term liabilities	633	19	653	22
Other liabilities	36,250	1,104	35,409	1,166
<b>Total liabilities</b>	<b>361,353</b>	<b>11,007</b>	<b>268,529</b>	<b>8,845</b>
<b>Stockholders' equity</b>				
Capital stock	3,700,000	112,702	3,700,000	121,871
Capital surplus	258,434	7,872	258,434	8,512
Retained earnings	85,701	2,610	66,130	2,178
<b>Total stockholders' equity</b>	<b>4,044,135</b>	<b>123,184</b>	<b>4,024,564</b>	<b>132,561</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$4,405,488</b>	<b>\$134,191</b>	<b>\$4,293,093</b>	<b>\$141,406</b>

**Cathay Securities Corporation  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except for earnings per share)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Revenue	\$231,834	\$7,062	\$253,016	\$8,334
Expenses	(201,312)	(6,132)	(258,106)	(8,502)
Income (loss) from continuing operations before income taxes	\$30,522	\$930	\$(5,090)	\$(168)
Net income (loss)	\$9,578	\$292	\$(4,391)	\$(145)
<b>Earnings per share (in dollars)</b>				
Income (loss) from continuing operations before income taxes	\$0.08	\$-	\$(0.01)	\$-
Net income (loss)	\$0.06	\$-	\$(0.01)	\$-

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

**Cathay Pacific Venture Capital Co., Ltd.  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$455,816	\$13,884	\$336,776	\$11,093
Funds and investments	311,867	9,500	270,538	8,911
Total assets	<u>\$767,683</u>	<u>\$23,384</u>	<u>\$607,314</u>	<u>\$20,004</u>
Liabilities				
Current liabilities	\$244	\$7	\$201	\$7
Total liabilities	<u>244</u>	<u>7</u>	<u>201</u>	<u>7</u>
Stockholders' equity				
Capital stock	600,000	18,276	600,000	19,763
Retained earnings	6,327	193	(21,849)	(720)
Equity adjustment	161,112	4,908	28,962	954
Total stockholders' equity	<u>767,439</u>	<u>23,377</u>	<u>607,113</u>	<u>19,997</u>
Total liabilities and stockholders' equity	<u>\$767,683</u>	<u>\$23,384</u>	<u>\$607,314</u>	<u>\$20,004</u>

**Cathay Pacific Venture Capital Co., Ltd.  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$8,900	\$271	\$2,233	\$74
Operating gross profit	8,900	271	2,233	74
Operating expenses	(8,673)	(264)	(33,908)	(1,117)
Income from continuing operations before income taxes	<u>\$227</u>	<u>\$7</u>	<u>\$(31,675)</u>	<u>\$(1,043)</u>
Net losses	<u>\$980</u>	<u>\$30</u>	<u>\$(29,280)</u>	<u>\$(964)</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$-</u>	<u>\$-</u>	<u>\$(0.53)</u>	<u>\$(0.02)</u>
Net losses	<u>\$0.02</u>	<u>\$-</u>	<u>\$(0.49)</u>	<u>\$(0.02)</u>

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

**Cathay Venture Capital Co., Ltd.  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$292,262	\$8,902	\$130,788	\$4,308
Funds and investments	1,434,294	\$43,689	1,480,340	48,759
Total assets	<u>\$1,726,556</u>	<u>\$52,591</u>	<u>\$1,611,128</u>	<u>\$53,067</u>
Liabilities				
Current liabilities	\$3,619	\$110	\$6,204	\$204
Total liabilities	<u>3,619</u>	<u>110</u>	<u>6,204</u>	<u>204</u>
Stockholders' equity				
Capital stock	1,500,000	45,690	1,500,000	49,407
Retained earnings	29,343	894	125,111	4,121
Equity adjustment	193,594	5,897	(20,187)	(665)
Total stockholders' equity	<u>1,722,937</u>	<u>52,481</u>	<u>1,604,924</u>	<u>52,863</u>
Total liabilities and stockholders' equity	<u>\$1,726,556</u>	<u>\$52,591</u>	<u>\$1,611,128</u>	<u>\$53,067</u>

**Cathay Venture Capital Co., Ltd.  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$33,266	\$1,013	\$71,868	\$2,367
Operating costs	-	-	(2,431)	(80)
Operating gross profit	33,266	1,013	69,437	2,287
For the six months ended June 30, 2007 and 2008	(14,550)	(443)	(14,619)	(482)
Non-operating revenues	148	5	-	-
Non-operating expenses	-	-	(280)	(9)
Income from continuing operations before income taxes	<u>\$18,864</u>	<u>\$575</u>	<u>\$54,538</u>	<u>\$1,796</u>
Net income	<u>\$18,068</u>	<u>\$550</u>	<u>\$50,267</u>	<u>\$1,656</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$0.13</u>	<u>\$-</u>	<u>\$0.36</u>	<u>\$0.01</u>
Net income	<u>\$0.12</u>	<u>\$-</u>	<u>\$0.34</u>	<u>\$0.01</u>

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

**Cathay II Venture Capital Co., Ltd.  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Assets				
Current assets	\$91,682	\$2,793	\$83,744	\$2,758
Funds and investments	786,479	23,956	734,258	24,185
Total assets	<u>\$878,161</u>	<u>\$26,749</u>	<u>\$818,002</u>	<u>\$26,943</u>
Liabilities				
Current liabilities	\$1,667	\$51	\$9,371	\$308
Total liabilities	<u>1,667</u>	<u>51</u>	<u>9,371</u>	<u>308</u>
Stockholders' equity				
Capital stock	600,000	18,276	600,000	19,763
Retained earnings	122,840	3,742	205,263	6,761
Equity adjustment	153,654	4,680	3,368	111
Total stockholders' equity	<u>876,494</u>	<u>26,698</u>	<u>808,631</u>	<u>26,635</u>
Total liabilities and stockholders' equity	<u>\$878,161</u>	<u>\$26,749</u>	<u>\$818,002</u>	<u>\$26,943</u>

**Cathay II Venture Capital Co., Ltd.  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$21,127	\$644	\$23,875	\$786
Operating costs	-	-	(2,287)	(75)
Operating gross profit	21,127	644	21,588	711
For the six months ended June 30, 2007 and 2008	(4,897)	(149)	(4,738)	(156)
Non-operating expenses	-	-	(117)	(4)
Income from continuing operations before income taxes	<u>\$16,230</u>	<u>\$495</u>	<u>\$16,733</u>	<u>\$551</u>
Net income	<u>\$15,398</u>	<u>\$469</u>	<u>\$7,565</u>	<u>\$249</u>
Earning per share (in dollars)				
Income from continuing operations before income taxes	<u>\$0.27</u>	<u>\$0.01</u>	<u>\$0.28</u>	<u>\$0.01</u>
Net income	<u>\$0.26</u>	<u>\$0.01</u>	<u>\$0.13</u>	<u>\$-</u>



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

**Symphox Information Co., Ltd.  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$509,823	\$15,529	\$655,403	\$21,588
Fixed assets	148,888	4,535	88,317	2,909
Intangible assets	6,842	208	5,360	176
Other assets	11,865	362	22,927	755
<b>Total assets</b>	<b>\$677,418</b>	<b>\$20,634</b>	<b>\$772,007</b>	<b>\$25,428</b>
<b>Liabilities</b>				
Current liabilities	\$236,327	\$7,198	\$286,436	\$9,435
Other liabilities	84	3	78	2
<b>Total liabilities</b>	<b>236,411</b>	<b>7,201</b>	<b>286,514</b>	<b>9,437</b>
<b>Stockholders' equity</b>				
Capital stock	499,000	15,199	499,000	16,436
Retained earnings	(57,993)	(1,766)	(13,507)	(445)
<b>Total stockholders' equity</b>	<b>441,007</b>	<b>13,433</b>	<b>485,493</b>	<b>15,991</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$677,418</b>	<b>\$20,634</b>	<b>\$772,007</b>	<b>\$25,428</b>

**Symphox Information Co., Ltd.  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
Operating revenues	\$518,149	\$15,783	\$573,102	\$18,877
For the six months ended June 30, 2007 and 2008	(464,905)	(14,161)	(498,534)	(16,421)
Operating gross profit	53,244	1,622	74,568	2,456
Operating expenses	(51,299)	(1,563)	(43,214)	(1,423)
Non-operating revenues	2,226	68	4,947	163
Non-operating expenses	(560)	(16)	(170)	(6)
Income from continuing operations before income taxes	\$3,611	\$111	\$36,131	\$1,190
Net income	\$3,611	\$110	\$33,798	\$1,113
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$0.07	\$-	\$0.72	\$0.02
Net income	\$0.07	\$-	\$0.68	\$0.02

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

**Cathay Futures Corp.  
Condensed Balance Sheets  
As of June 30, 2007 and 2008  
(Expressed in thousands of dollars)**

Items	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
<b>Assets</b>				
Current assets	\$1,189,405	\$36,229	\$2,049,217	\$67,497
Funds and investments	30,500	929	30,500	1,005
Fixed assets	328,434	10,004	324,176	10,678
Intangible assets	9,955	304	9,038	298
Other assets	129,876	3,956	128,277	4,225
<b>Total assets</b>	<b>\$1,688,170</b>	<b>\$51,422</b>	<b>\$2,541,208</b>	<b>\$83,703</b>
<b>Liabilities</b>				
Current liabilities	\$963,224	\$29,340	\$1,802,922	\$59,385
Other liabilities	7,573	230	8,714	287
<b>Total liabilities</b>	<b>970,797</b>	<b>29,570</b>	<b>1,811,636</b>	<b>59,672</b>
<b>Stockholders' equity</b>				
Capital stock	650,000	19,799	650,000	21,410
Retained earnings	67,373	2,053	79,572	2,621
<b>Total stockholders' equity</b>	<b>717,373</b>	<b>21,852</b>	<b>729,572</b>	<b>24,031</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,688,170</b>	<b>\$51,422</b>	<b>\$2,541,208</b>	<b>\$83,703</b>

**Cathay Futures Corp.  
Condensed Statements of Income  
For the six months ended June 30, 2007 and 2008  
(Expressed in thousands of dollars, except earning per share)**

Items	January 1 ~ June 30, 2007		January 1 ~ June 30, 2008	
	NT\$	US\$	NT\$	US\$
For the six months ended June 30, 2007 and 2008	\$24,361	\$742	\$62,880	\$2,071
Operating costs	(9,878)	(301)	(34,866)	(1,148)
Operating gross profit	14,483	441	28,014	923
Operating expenses	(25,552)	(778)	(31,707)	(1,044)
Non-operating revenues	10,147	309	18,392	605
Non-operating expenses	(260)	(8)	(1,154)	(38)
Income from continuing operations before income taxes	\$(1,182)	\$(36)	\$13,545	\$446
Net (loss) income	\$(1,183)	\$(36)	\$10,713	\$353
<b>Earning per share (in dollars)</b>				
Income from continuing operations before income taxes	\$(0.02)	\$-	\$0.21	\$0.01
Net (loss) income	\$(0.02)	\$-	\$0.17	\$0.01