

Cathay Life Insurance Co., Ltd.
Financial Statements
As of June 30, 2007 and 2008
With Independent Auditors' Report

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

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

Board of Directors

Cathay Life Insurance Co., Ltd.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2007 and 2008, and the results of its operations and their cash flows for the six-month periods then ended in conformity with requirements of the Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries, and accounting principles generally accepted in the ROC.

In addition, we have also audited the consolidated financial statements of the Company as of and for the six-month periods ended June 30, 2007 and 2008, on which we have expressed an unqualified review report.

Ernst & Young
Taipei, Taiwan
Republic of China
July 22, 2008

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

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\$
Current assets					
Cash and cash equivalents	2,4	\$208,693,950	\$6,356,806	\$185,559,533	\$6,111,974
Financial assets at fair value through profit or loss - current	2,5	109,510,434	3,335,682	89,710,702	2,954,898
Available-for-sale financial assets - current	2,6	208,231,727	6,342,727	162,622,729	5,356,480
Held-to-maturity financial assets - current	2	8,929,280	271,985	2,152,735	70,907
Derivative financial assets for hedging - current	2,7	193,039	5,880	96,575	3,181
Investments in debt securities with no active market - current	2	5,784,912	176,208	5,621,772	185,170
Notes receivable	2	9,427,652	287,166	6,274,858	206,682
Prepaid reinsurance premium		-	-	174,494	5,747
Claims recoverable from reinsurers		-	-	14,116	465
Reinsurance accounts receivable		132,286	4,029	163,829	5,396
Other accounts receivable	2	30,656,734	933,802	20,866,739	687,310
Other financial assets - current		8,450,000	257,387	-	-
Prepayments		118,240	3,602	66,995	2,207
Deferred income tax assets - current	2,23	2,109,462	64,254	11,792,975	388,438
Other current assets		333,673	10,164	247,071	8,138
Subtotal		<u>592,571,389</u>	<u>18,049,692</u>	<u>485,365,123</u>	<u>15,986,993</u>
Loans					
Policy loans	2,8	179,206,147	5,458,609	193,180,903	6,363,007
Secured loans		330,610,728	10,070,385	343,591,761	11,317,252
Subtotal		<u>509,816,875</u>	<u>15,528,994</u>	<u>536,772,664</u>	<u>17,680,259</u>
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9	193,994,896	5,909,074	253,180,259	8,339,271
Held-to-maturity financial assets - noncurrent	2,10	551,699,219	16,804,728	594,552,042	19,583,401
Financial assets carried at cost - noncurrent	2,11	19,665,955	599,024	19,055,198	627,641
Investments in debt securities with no active market - noncurrent	2	47,303,121	1,440,851	61,512,273	2,026,096
Long-term investments in stocks under the equity method	2,13	4,139,018	126,074	5,226,620	172,155
Investments in real estate	2,14	105,267,384	3,206,439	106,652,766	3,512,937
Other financial assets - noncurrent		13,800,000	420,347	27,954,287	920,760
Subtotal		<u>935,869,593</u>	<u>28,506,537</u>	<u>1,068,133,445</u>	<u>35,182,261</u>
Property and equipment					
Land	2,15	4,734,936	144,226	4,723,189	155,573
Buildings and construction		10,092,275	307,410	9,917,187	326,653
Computer equipment		1,664,071	50,688	1,792,556	59,043
Communication and transportation equipment		18,619	567	15,415	508
Other equipment		2,945,805	89,729	2,971,067	97,861
Revaluation increments		1,054	32	1,317	44
Less: Accumulated depreciation		(6,562,940)	(199,907)	(6,965,616)	(229,434)
Less: Accumulated impairment		(85,519)	(2,605)	(85,519)	(2,817)
Construction in progress and prepayment for equipment		6,968	212	229,650	7,564
Subtotal		<u>12,815,269</u>	<u>390,352</u>	<u>12,599,246</u>	<u>414,995</u>
Intangible assets					
Computer software cost	2,16	335,798	10,228	583,024	19,204
Other assets					
Guarantee deposits paid	2	9,941,144	302,807	11,509,833	379,112
Deferred income tax assets - noncurrent	2,23	430,804	13,122	408,818	13,466
Other overdue receivables	2,17	26,830	817	14,158	466
Separate account products assets	2,30	211,438,582	6,440,408	278,968,903	9,188,699
Other assets - other		4,749,704	144,676	3,019,891	99,469
Subtotal		<u>226,587,064</u>	<u>6,901,830</u>	<u>293,921,603</u>	<u>9,681,212</u>
Total assets		<u>\$2,277,995,988</u>	<u>\$69,387,633</u>	<u>\$2,397,375,105</u>	<u>\$78,964,924</u>

(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)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Balance sheets - (continued)

As of June 30, 2007 and 2008

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	June 30, 2007		June 30, 2008	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,18	\$15,761,856	\$480,105	\$13,160,212	\$433,472
Derivative financial liabilities for hedging - current	2,19	107,267	3,268	528,906	17,421
Notes payable		3,429	105	2,261	74
Commissions payable		1,547,537	47,138	1,285,484	42,341
Life insurance proceeds payable		5,295	161	5,908	195
Reinsurance accounts payable		63,787	1,943	124,988	4,117
Other payable		25,745,192	784,197	17,547,982	577,997
Accounts collected in advance		109,298	3,329	157,594	5,191
Subtotal		<u>43,343,661</u>	<u>1,320,246</u>	<u>32,813,335</u>	<u>1,080,808</u>
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,581	109	3,581	118
Accrued pension liability	2,30	1,565,898	47,697	1,370,798	45,152
Subtotal		<u>1,569,479</u>	<u>47,806</u>	<u>1,374,379</u>	<u>45,270</u>
Reserve for operations and liabilities					
Unearned premium reserve	2	10,824,317	329,708	11,095,461	365,463
Reserve for life insurance liabilities		1,854,715,503	56,494,532	1,961,892,763	64,620,974
Special reserve		14,843,490	452,132	15,854,405	522,214
Reserve for claims		1,315,886	40,082	1,384,613	45,606
Premium deficiency reserve		2,996,054	91,260	2,688,177	88,543
Subtotal		<u>1,884,695,250</u>	<u>57,407,714</u>	<u>1,992,915,419</u>	<u>65,642,800</u>
Other liabilities					
Guarantee deposits received		1,435,917	43,738	1,507,250	49,646
Separate account products liabilities	2,30	211,438,582	6,440,408	278,968,903	9,188,699
Other liabilities - other		9,125,563	277,964	1,730,738	57,007
Subtotal		<u>222,000,062</u>	<u>6,762,110</u>	<u>282,206,891</u>	<u>9,295,352</u>
Total liabilities		<u>2,151,608,452</u>	<u>65,537,876</u>	<u>2,309,310,024</u>	<u>76,064,230</u>
Stockholders' equity					
Capital stock					
Common stock	2,20	50,686,158	1,543,898	52,686,158	1,735,381
Capital surplus	2	9,648	294	13,009,648	428,513
Retained earnings					
Legal reserve	2,21	21,188,906	645,413	23,535,758	775,222
Special reserve		16,693,810	508,492	19,169,006	631,390
Unappropriated retained earnings		16,168,646	492,496	(5,285,099)	(174,081)
Equity adjustment					
Unrealized (losses) gains on financial instruments	2,21	21,558,014	656,656	(14,966,788)	(492,977)
Unrealized revaluation increments	2	2,105	64	2,105	69
Cumulative conversion adjustments	2	80,249	2,444	(85,707)	(2,823)
Total stockholders' equity		<u>126,387,536</u>	<u>3,849,757</u>	<u>88,065,081</u>	<u>2,900,694</u>
Total liabilities and stockholders' equity		<u>\$2,277,995,988</u>	<u>\$69,387,633</u>	<u>\$2,397,375,105</u>	<u>\$78,964,924</u>

(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)

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

Cathay Life Insurance Co., Ltd.

Statements of income

For the six months ended June 30, 2007 and 2008

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

Item	Notes	January 1-June 30, 2007		January 1-June 30, 2008	
		NT\$	US\$	NT\$	US\$
Operating revenues	2,25				
Premiums income		\$138,165,532	\$4,208,514	\$160,186,891	\$5,276,248
Reinsurance commission earned		158,570	4,830	214,036	7,050
Claims recovered from reinsurers		206,542	6,291	103,120	3,396
Recovered premiums reserve		69,572,417	2,119,172	115,429,813	3,802,036
Recovered special reserve		85,058	2,591	85,751	2,824
Recovered claims reserve		1,470	45	93,100	3,066
Recovered premium deficiency reserve		370,038	11,271	208,986	6,884
Handling fees earned		845,853	25,765	4,304,401	141,779
Interest income		33,632,309	1,024,438	36,790,603	1,211,812
Gains from valuation on financial assets		10,467,534	318,840	6,226,929	205,103
Gains on long-term equity investments		171,139	5,213	141,863	4,673
Gains on foreign exchange		3,046,056	92,783	-	-
Gains on disposal of investments		8,131,852	247,696	17,505,308	576,591
Gains on investments - real estate		3,782,007	115,200	2,828,304	93,159
Separate account products revenues	30	117,873,715	3,590,427	128,092,663	4,219,126
Subtotal		386,510,092	11,773,076	472,211,768	15,553,747
Operating costs	2,25				
Reinsurance premiums ceded		(292,616)	(8,913)	(136,816)	(4,506)
Brokerage expenses		(14,364,322)	(437,536)	(13,947,703)	(459,411)
Commissions expenses		(33,128)	(1,009)	(42,394)	(1,396)
Insurance claims payment		(88,303,583)	(2,689,722)	(132,881,947)	(4,376,876)
Provision for premiums reserve		(138,419,278)	(4,216,244)	(159,239,630)	(5,245,047)
Provision for special reserve		(571,606)	(17,411)	(606,333)	(19,971)
Contribution to the stabilization funds		(138,039)	(4,205)	(160,047)	(5,272)
Provision for claims reserve		(13,553)	(413)	-	-
Provision for premium deficiency reserve		(501)	(15)	(75,675)	(2,493)
Handling fees paid		(660,108)	(20,107)	(705,814)	(23,248)
Interest expenses		(17,768)	(541)	(20,386)	(671)
Losses from valuation on financial liabilities		(4,215,330)	(128,399)	(101,592)	(3,346)
Losses on foreign exchange		-	-	(42,960,861)	(1,415,048)
Separate account products expenses	30	(117,873,715)	(3,590,427)	(128,092,663)	(4,219,126)
Other operating cost		(142,389)	(4,337)	(515,480)	(16,979)
Subtotal		(365,045,936)	(11,119,279)	(479,487,341)	(15,793,390)
Operating gross profit (loss)		21,464,156	653,797	(7,275,573)	(239,643)
Operating expenses	2,25				
Marketing expenses		(1,369,513)	(41,716)	(1,718,685)	(56,610)
Administrative and general expenses		(4,032,386)	(122,826)	(3,346,657)	(110,233)
Subtotal		(5,401,899)	(164,542)	(5,065,342)	(166,843)
Operating income (loss)		16,062,257	489,255	(12,340,915)	(406,486)
Non-operating revenues and gains	2,25				
Gains on disposal of property and equipment		1,776	54	2	-
Other non-operating revenues and gains		749,147	22,819	661,380	21,785
Subtotal		750,923	22,873	661,382	21,785
Non-operating expenses and losses	2,25				
Losses on disposal of property and equipment		(144)	(4)	(107)	(4)
Miscellaneous expenses		(51,380)	(1,565)	(3,404)	(112)
Subtotal		(51,524)	(1,569)	(3,511)	(116)
Income (loss) from continuing operations before income taxes		16,761,656	510,559	(11,683,044)	(384,817)
Income taxes (expense) benefit	2,23	(593,010)	(18,063)	6,397,945	210,736
Net income (loss)		\$16,168,646	\$492,496	\$(5,285,099)	\$(174,081)
Earnings per share (In dollars)	24				
Net income (loss)		\$3.19	\$0.10	\$(1.04)	\$(0.03)

(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)

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

Cathay Life Insurance Co., Ltd.
Statements of changes in stockholders' equity
For the six months ended June 30, 2007 and 2008
(Expressed in thousands of dollars)

Summary	Retained earnings								Equity adjustment				Total					
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized (losses) gains on financial instruments				Unrealized revaluation increments		conversion adjustments	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2007	\$50,686,158	\$1,543,898	\$9,648	\$294	\$19,684,163	\$599,579	\$14,133,703	\$430,511	\$15,047,432	\$458,344	\$20,222,726	\$615,983	\$2,105	\$64	\$34,973	\$1,065	\$119,820,908	\$3,649,738
Appropriations and Distributions for 2006																		
Legal reserve	-	-	-	-	1,504,743	45,834	-	-	(1,504,743)	(45,834)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,560,107	77,981	(2,560,107)	(77,981)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,962,644)	(333,921)	-	-	-	-	-	-	(10,962,644)	(333,921)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(247)	-	-	-	-	-	-	(8,100)	(247)
Bonus paid to employees	-	-	-	-	-	-	-	-	(11,838)	(361)	-	-	-	-	-	-	(11,838)	(361)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	1,335,288	40,673	-	-	-	-	1,335,288	40,673
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	45,276	1,379	45,276	1,379
Net income for the six months ended June 30, 2007	-	-	-	-	-	-	-	-	16,168,646	492,496	-	-	-	-	-	-	16,168,646	492,496
Balance on June 30, 2007	<u>\$50,686,158</u>	<u>\$1,543,898</u>	<u>\$9,648</u>	<u>\$294</u>	<u>\$21,188,906</u>	<u>\$645,413</u>	<u>\$16,693,810</u>	<u>\$508,492</u>	<u>\$16,168,646</u>	<u>\$492,496</u>	<u>\$21,558,014</u>	<u>\$656,656</u>	<u>\$2,105</u>	<u>\$64</u>	<u>\$80,249</u>	<u>\$2,444</u>	<u>\$126,387,536</u>	<u>\$3,849,757</u>
Balance on January 1, 2008	\$50,686,158	\$1,669,505	\$9,648	\$318	\$21,188,906	\$697,921	\$16,693,810	\$549,862	\$23,468,521	\$773,008	\$11,169,132	\$367,890	\$2,105	\$69	\$132,518	\$4,365	\$123,350,798	\$4,062,938
Appropriations and Distributions for 2007																		
Legal reserve	-	-	-	-	2,346,852	77,301	-	-	(2,346,852)	(77,301)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,475,196	81,528	(2,475,196)	(81,528)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(18,625,315)	(613,482)	-	-	-	-	-	-	(18,625,315)	(613,482)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(267)	-	-	-	-	-	-	(8,100)	(267)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,058)	(430)	-	-	-	-	-	-	(13,058)	(430)
Capital increase by cash	2,000,000	65,876	13,000,000	428,195	-	-	-	-	-	-	-	-	-	-	-	-	15,000,000	494,071
Changes in unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(26,135,920)	(860,867)	-	-	-	-	(26,135,920)	(860,867)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(218,225)	(7,188)	(218,225)	(7,188)
Net loss for the six months ended June 30, 2008	-	-	-	-	-	-	-	-	(5,285,099)	(174,081)	-	-	-	-	-	-	(5,285,099)	(174,081)
Balance on June 30, 2008	<u>\$52,686,158</u>	<u>\$1,735,381</u>	<u>\$13,009,648</u>	<u>\$428,513</u>	<u>\$23,535,758</u>	<u>\$775,222</u>	<u>\$19,169,006</u>	<u>\$631,390</u>	<u>\$(5,285,099)</u>	<u>\$(174,081)</u>	<u>\$(14,966,788)</u>	<u>\$(492,977)</u>	<u>\$2,105</u>	<u>\$69</u>	<u>\$(85,707)</u>	<u>\$(2,823)</u>	<u>\$88,065,081</u>	<u>\$2,900,694</u>

(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)

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

Cathay Life Insurance Co., Ltd.
Statements of cash flows
For the six months ended June 30, 2007 and 2008
(Expressed in thousands of dollars)

	January 1-June 30, 2007		January 1-June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income (loss) for the periods	\$16,168,646	\$492,496	\$(5,285,099)	\$(174,081)
Adjustments:				
Gains from valuation of financial assets	(10,467,534)	(318,840)	(6,226,929)	(205,103)
Losses from valuation on financial liabilities	4,215,330	128,399	101,592	3,346
Provision bad debt	63,078	1,921	331,886	10,932
Depreciation	1,257,234	38,295	988,413	32,557
Amortization	62,754	1,912	90,891	2,994
Provision or recovered for each reserve	68,975,955	2,101,004	44,103,986	1,452,701
(Loss) gains on disposal of property and equipment	(1,632)	(50)	105	4
Gains on disposal of investments in real estate	(1,241,651)	(37,821)	(128,968)	(4,248)
Gains on long-term equity investments less than of cash dividends received	105,848	3,224	232,182	7,647
Effects of exchange rate changes	(52,852)	(1,610)	(47,273)	(1,557)
(Increase) decrease in financial assets at fair value through profit or loss - current	(2,735,711)	(83,330)	9,699,287	319,476
Increase in available-for-sale financial assets - current	(48,704,791)	(1,483,545)	(4,631,290)	(152,546)
Decrease in held-to-maturity financial assets - current	4,383,953	133,535	6,155,152	202,739
Increase in derivative financial assets for hedging - current	(148,124)	(4,512)	(433,860)	(14,290)
(Increase) decrease in investments in debt securities with no active market - current	(783,083)	(23,853)	228,367	7,522
Decrease in notes receivable	3,114,354	94,863	2,231,249	73,493
Increase in prepaid reinsurance premium	-	-	(174,494)	(5,747)
Decrease in claims recoverable from reinsurers	-	-	669	22
Increase in reinsurance accounts receivable	(113,058)	(3,444)	(153,123)	(5,043)
(Increase) decrease in other accounts receivable	(3,506,278)	(106,801)	3,526,186	116,146
(Increase) decrease in other financial assets - current	(1,450,000)	(44,167)	4,000,000	131,752
Increase in prepayments	(99,670)	(3,036)	(33,566)	(1,106)
Decrease (increase) in deferred income tax assets - current	176,566	5,378	(8,121,872)	(267,519)
Decrease in other current assets	31,478	959	60,426	1,990
Decrease (increase) in deferred income tax assets - noncurrent	29,244	891	(4,945)	(163)
Increase in other assets - other	(587,609)	(17,898)	(2,170,187)	(71,482)
Decrease in financial liabilities at fair value through profit or loss - current	(28,951)	(882)	-	-
Increase in derivative financial liabilities for hedging - current	83,400	2,540	427,476	14,080
Increase (decrease) in notes payable	955	29	(51)	(2)
Increase in commissions payable	557,879	16,993	335,818	11,061
Increase in life insurance proceeds payable	4,392	134	48	2
Decrease in reinsurance accounts payable	(132,701)	(4,042)	(63,850)	(2,103)
Increase in other payable	10,657,381	324,623	9,367,223	308,538
(Decrease) increase in accounts collected in advance	(15,285)	(465)	44,515	1,466
(Decrease) increase in accrued pension liability	(117,284)	(3,572)	19,865	654
Decrease in other liabilities - other	(3,669,061)	(111,759)	(1,728,174)	(56,923)
Net cash provided by operating activities	36,033,172	1,097,569	52,741,655	1,737,209
Cash flows from investing activities				
Increase in policy loans	(3,434,239)	(104,607)	(3,894,054)	(128,263)
(Increase) decrease in secured loans	(23,506,696)	(716,013)	3,895,426	128,308
Increase in available-for-sale financial assets - noncurrent	(21,585,321)	(657,488)	(25,568,125)	(842,165)
Increase in held-to-maturity financial assets - noncurrent	(27,488,623)	(837,302)	(22,403,263)	(737,921)
Increase in financial assets carried at cost - noncurrent	(44,319)	(1,350)	(1,855)	(61)
Increase in investments in debt securities with no active market-noncurrent	(4,520,935)	(137,707)	(2,385,609)	(78,577)
Disinvestment of long-term equity investments	199,662	6,082	74,871	2,466
Disposal of investments in real estate	1,994,110	60,741	152,070	5,009
Acquisition of investments in real estate	(4,791,331)	(145,944)	(712,943)	(23,483)
Decrease in other financial assets-noncurrent	(3,450,000)	(105,087)	(8,562,648)	(282,037)
Disposal of property and equipment	4,571	139	2	-
Acquisition of property and equipment	(150,104)	(4,572)	(144,946)	(4,774)
Acquisition of intangible assets	(68,563)	(2,088)	(202,992)	(6,686)
Decrease (increase) in guarantee deposits paid	119,509	3,640	(803,679)	(26,472)
(Increase) decrease in other overdue receivables	(12,535)	(382)	42,103	1,387
Net cash used in investing activities	(86,734,814)	(2,641,938)	(60,515,642)	(1,993,269)

(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)

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

Cathay life insurance Co., Ltd.
Statements of cash flows - (continued)
For the six months ended June 30, 2007 and 2008
(Expressed in thousands of dollars)

	January 1-June 30, 2007		January 1-June 30, 2008	
	NTS	US\$	NTS	US\$
Cash flows from financing activities				
(Decrease) increase in guarantee deposits received	(28,401)	(865)	19,057	628
Capital increase by cash	-	-	15,000,000	494,071
Cash dividends	(10,962,644)	(333,921)	(18,625,315)	(613,482)
Bonus paid to employees	(11,838)	(361)	(13,058)	(430)
Remuneration paid to directors and supervisors	(8,100)	(247)	(8,100)	(267)
Net cash used in financing activities	(11,010,983)	(335,394)	(3,627,416)	(119,480)
Effects of exchange rate changes	52,852	1,610	47,273	1,557
Decrease in cash and cash equivalents	(61,659,773)	(1,878,153)	(11,354,130)	(373,983)
Cash and cash equivalents at the beginning of the periods	270,353,723	8,234,959	196,913,663	6,485,957
Cash and cash equivalents at the end of the periods	<u>\$208,693,950</u>	<u>6,356,806</u>	<u>\$185,559,533</u>	<u>\$6,111,974</u>
Supplemental disclosure of cash flows information				
Interest paid during the period	\$11,121	\$339	\$25,926	\$854
Interest paid (excluding capitalized interest)	\$11,121	\$339	\$25,926	\$854
Income tax paid	<u>\$599,570</u>	<u>\$18,263</u>	<u>\$608,805</u>	<u>\$20,053</u>

(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)

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

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Cathay Life Insurance Co., Ltd.

Notes to financial statements

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

As of June 30, 2007 and 2008

1. Organizations and business scope

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

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of June 30, 2007 and 2008, the total numbers of employees were 30,959 and 27,918, respectively.

2. Summary of significant accounting policies

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

(1) Current and non-current assets and liabilities

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

(2) Cash and cash equivalents

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

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Note to financial statements-continued

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(3) Recognition of financial assets and liabilities

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

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

A. Financial assets at fair value through profit or loss

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

B. Held-to-maturity financial assets

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

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Note to financial statements-continued

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

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C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

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

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Note to financial statements-continued

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

As of June 30, 2007 and 2008

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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Note to financial statements-continued

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

(6) Derivative financial instruments

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

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

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

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

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

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

Fair value hedges

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

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

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

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment in a foreign operation

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

(7) Allowance for bad and doubtful debts

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

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

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

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

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

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

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

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

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

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

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

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(10) Property and equipment

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

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

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

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

(11) Intangible assets

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

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

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

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

(12) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From January 1, 1993 to June 30, 2008, an aggregate of NT\$3,312,897 (US\$109,120) was appropriated to this fund.

(13) Accounting for assets impairment

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

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

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

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

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

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

(14) Real estate securitization

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

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

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

(15) Guaranteed depository insurance payment

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

(16) Reserve for operations

Reserves for operations are recorded accordance with the Insurance Act, including unearned premium reserve, claim reserve, special reserve, reserve for claims and premium deficiency reserve. Actuaries provide the figures for these reserves.

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

The Company had a surplus of NT\$19,169,006 (US\$631,390) from the “Special Reserve for the Loss Movement” as of June 30, 2008.

(17) Insurance premium income and expenses

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

(18) Pension plan

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

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

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

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

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Note to financial statements-continued

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(19) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries' financial statements

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

(20) Income taxes

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

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

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

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

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

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

(21) Capital expenditure expenses

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

(22) Separate account products

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

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

(23) 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 instead of distribution of earnings.

(24) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of June 30, 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 conversion.

3. Changes in accounting and its effects

The company 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’s net income and earnings per share by NT\$10,000 (US\$329) and NT\$0.002 (US\$-), respectively, for the six months ended June 30, 2008.

4. Cash and cash equivalents

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$307,220	\$9,358	\$296,841	\$9,777
Cash in banks	12,309,822	374,956	15,849,666	522,057
Time deposits	177,322,238	5,401,226	147,762,018	4,866,997
Cash equivalents	18,754,670	571,266	21,651,008	713,143
Total	<u>\$208,693,950</u>	<u>\$6,356,806</u>	<u>\$185,559,533</u>	<u>\$6,111,974</u>

As of June 30, 2007 and 2008, the amounts of time deposits with maturities beyond one year were NT\$123,310 (US\$3,756) and NT\$82,000 (US\$2,701), respectively.

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

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$18,275,007	\$556,656	\$10,642,774	\$350,553
Overseas stocks	1,861,427	56,699	1,547,961	50,987
Beneficiary certificates	29,890,318	910,457	44,804,956	1,475,789
Exchange traded funds	398,915	12,151	169,362	5,578
Overseas bonds	20,793,977	633,383	10,265,224	338,117
Corporate bonds	3,345,367	101,900	4,103,146	135,150
Government bonds	8,434,222	256,906	868,943	28,621
Financial debentures	997,400	30,381	-	-
Derivative financial instruments	170,163	5,183	30,350	1,000
Structured time deposits	2,000,000	60,920	2,000,000	65,876
Subtotal	86,166,796	2,624,636	74,432,716	2,451,671
Add: Adjustment of valuation	23,343,638	711,046	15,277,986	503,227
Total	<u>\$109,510,434</u>	<u>\$3,335,682</u>	<u>\$89,710,702</u>	<u>\$2,954,898</u>

6. Available-for-sale financial assets - current

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$130,448,184	\$3,973,444	\$109,789,093	\$3,616,241
Overseas stocks	20,383,839	620,891	21,137,847	696,240
Beneficiary certificates	12,574,940	383,032	19,120,757	629,801
Collateralized loans obligation and collateralized bonds obligation	-	-	753,248	24,811
Exchange traded funds	4,888,119	148,892	4,142,211	136,436
Real estate investment trust	8,711,176	265,342	8,725,208	287,392
Financial debentures	2,400,000	73,104	7,650,000	251,976
Corporate bonds	3,816,507	116,250	950,000	31,291
Overseas bonds	2,641,072	80,447	1,616,932	53,259
Subtotal	185,863,837	5,661,402	173,885,296	5,727,447
Add (less) : Adjustment of valuation	22,367,890	681,325	(11,262,567)	(370,967)
Total	<u>\$208,231,727</u>	<u>\$6,342,727</u>	<u>\$162,622,729</u>	<u>\$5,356,480</u>

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7. Derivative financial assets for hedging - current

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	193,039	5,880	96,575	3,181
Total	<u>\$193,039</u>	<u>\$5,880</u>	<u>\$96,575</u>	<u>\$3,181</u>

8. Loans

(1) Policy loans

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

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

(2) Secured loans

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Secured loans	\$326,038,397	\$9,931,112	\$338,857,869	\$11,161,327
Secured loans-related parties	4,528,053	137,924	4,617,389	152,088
Less: Allowance for bad debts	(329,158)	(10,026)	(466,753)	(15,374)
Subtotal	<u>330,237,292</u>	<u>10,059,010</u>	<u>343,008,505</u>	<u>11,298,041</u>
Overdue receivables	1,244,788	37,916	1,944,186	64,038
Less: Allowance for bad debts	(871,352)	(26,541)	(1,360,930)	(44,827)
Subtotal	<u>373,436</u>	<u>11,375</u>	<u>583,256</u>	<u>19,211</u>
Total	<u>\$330,610,728</u>	<u>\$10,070,385</u>	<u>\$343,591,761</u>	<u>\$11,317,252</u>

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

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9. Available-for-sale financial assets – noncurrent

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$14,507,474	\$441,897	\$14,991,315	\$493,785
Government bonds	23,112,376	704,001	87,309,485	2,875,807
Financial debentures	77,947,777	2,374,285	120,681,002	3,975,000
Collateralized loans obligation and collateralized bonds obligation	7,767,475	236,597	4,608,294	151,788
Overseas bonds	71,537,481	2,179,028	26,983,620	888,789
Subtotal	194,872,583	5,935,808	254,573,716	8,385,169
Less: Adjustment of valuation	(877,687)	(26,734)	(1,393,457)	(45,898)
Total	<u>\$193,994,896</u>	<u>\$5,909,074</u>	<u>\$253,180,259</u>	<u>\$8,339,271</u>

10. Held-to-maturity financial assets – noncurrent

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$4,266,861	\$129,968	\$3,918,233	\$129,059
Government bonds	26,803,353	816,429	26,526,047	873,717
Financial debentures	10,506,943	320,041	10,080,461	332,031
Collateralized loans obligation and collateralized bonds obligation	20,340,359	619,566	18,760,942	617,950
Overseas bonds	497,856,655	15,164,687	543,276,050	17,894,468
Subtotal	559,774,171	17,050,691	602,561,733	19,847,225
Less: Securities serving as deposits paid – bonds	(8,074,952)	(245,963)	(8,009,691)	(263,824)
Total	<u>\$551,699,219</u>	<u>\$16,804,728</u>	<u>\$594,552,042</u>	<u>\$19,583,401</u>

11. Financial assets carried at cost – noncurrent

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Stocks	\$20,773,833	\$632,770	\$20,018,686	\$659,377
Beneficiary certificates	-	-	240,617	7,925
Subtotal	20,773,833	632,770	20,259,303	667,302
Less: Accumulated impairment	(1,107,878)	(33,746)	(1,204,105)	(39,661)
Total	<u>\$19,665,955</u>	<u>\$599,024</u>	<u>\$19,055,198</u>	<u>\$627,641</u>

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12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$81,914,809 (US\$2,495,121) and NT\$92,261,870 (US\$3,038,929) as of June 30, 2007 and 2008, respectively. The details of structured notes are listed below:

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

Item	June 30, 2008					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value	\$664,941	\$21,902	\$(91,195)	\$(3,004)	\$573,746	\$18,898
through profit or loss - current						
Available-for-sale financial assets	10,978,496	361,611	99,284	3,270	11,077,780	364,881
Held-to-maturity financial assets	79,699,724	2,625,156	-	-	79,699,724	2,625,156
Investments in debt securities						
with no active market - current	910,620	29,994	-	-	910,620	29,994
Total	<u>\$92,253,781</u>	<u>\$3,038,663</u>	<u>\$8,089</u>	<u>\$266</u>	<u>\$92,261,870</u>	<u>\$3,038,929</u>

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

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

Investee	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$461,157	\$14,047	\$354,152	\$11,665
Vista Technology Venture Capital Corp.	39,583	1,206	39,561	1,303
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
IBT Venture Capital Corp.	425,912	12,973	272,988	8,992
Cathay Insurance (Bermuda) Co., Ltd.	80,615	2,455	84,741	2,791
Symphox Information Co., Ltd.	265,134	8,076	291,878	9,614
Cathay Securities Investment Trust Co., Ltd.	262,001	7,980	306,357	10,091
Cathay Venture Capital Corp.	430,734	13,120	401,231	13,216
Cathay Securities Investment Consulting Co., Ltd.	121,800	3,710	135,529	4,464
Cathay Life Insurance Ltd. (Shanghai)	1,601,520	48,782	1,246,362	41,053
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	1,775,592	58,484
Total	<u>\$4,139,018</u>	<u>\$126,074</u>	<u>\$5,226,620</u>	<u>\$172,155</u>

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

	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$4,290,720	\$130,695	\$6,254,217	\$206,002
Add (less) :				
Gains on long-term equity investments	171,139	5,213	141,863	4,673
Cumulative conversion adjustments	45,276	1,379	(209,864)	(6,913)
Unrealized gain or loss on financial instruments	108,532	3,306	(510,680)	(16,821)
Cash dividends	(276,987)	(8,437)	(374,045)	(12,320)
Disinvestment of long-term investments	(199,662)	(6,082)	(74,871)	(2,466)
Balance as of June 30	<u>\$4,139,018</u>	<u>\$126,074</u>	<u>\$5,226,620</u>	<u>\$172,155</u>

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- (3) The recognized equity investment gains for the six months ended June 30, 2007 and 2008 are listed below:

Investee	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
WK Technology Fund VI Co., Ltd.	\$7,723	\$235	\$(5,907)	\$(195)
Vista Technology Venture Capital Corp.	(307)	(9)	(15)	-
Omnitek Venture Capital Corp.	19,218	585	3,623	119
Wa Tech Venture Capital Co., Ltd.	10,925	333	(723)	(24)
IBT Venture Capital Corp.	9,516	290	14,636	482
Cathay Insurance (Bermuda) Co., Ltd.	6,627	202	2,128	70
Symphox Information Co., Ltd.	2,171	66	20,319	669
Cathay Securities Investment Trust Co., Ltd.	65,899	2,007	91,820	3,024
Cathay Venture Capital Corp.	4,517	138	12,567	414
Cathay Securities Investment Consulting Co., Ltd.	24,721	753	50,870	1,676
Cathay Life Insurance Ltd. (Shanghai)	20,129	613	(75,248)	(2,478)
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	27,793	916
Total	\$171,139	\$5,213	\$141,863	\$4,673

- A. The equity investment gains (losses) were recognized based on their respective financial statements for the six months ended June 30, 2007 and 2008. The financial statements of WK Technology Fund VI Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the six months ended June 30, 2007 and 2008, were audited by other auditors with the unqualified audit report except the Cathay Venture Capital Corp., which had a modified unqualified audit report.
- B. Effective from January 1, 2005, the Company adopted SFAS No. 7 "Consolidated Financial Statements" which was revised on December 9, 2004. The adoption of SFAS No. 7 resulted in superseding the requirement of the total assets and operating revenues which was under 10% of parent company may not need to prepare consolidated financial statements and restate its prior period consolidated financial statements. The consolidated financial statements of the Company as of and for the six months ended June 30, 2006 and 2007 excluded Cathay Insurance (Bermuda) Co., Ltd., and Cathay Securities Investment Co., Ltd. because their total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.

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14. Investments in real estate

June 30, 2007										
Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$118,948,065	\$3,623,151	\$4,632	\$141	\$(14,609,141)	\$(444,993)	\$(195,923)	\$(5,968)	\$104,147,633	\$3,172,331
Construction	1,119,751	34,108	-	-	-	-	-	-	1,119,751	34,108
Total	<u>\$120,067,816</u>	<u>\$3,657,259</u>	<u>\$4,632</u>	<u>\$141</u>	<u>\$(14,609,141)</u>	<u>\$(444,993)</u>	<u>\$(195,923)</u>	<u>\$(5,968)</u>	<u>\$105,267,384</u>	<u>\$3,206,439</u>

June 30, 2008										
Item	Cost		Revaluation increments		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, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.
- (4) The Company had established a real estate asset trust by transferring several floors of Cathay Dun Nan Commercial Building in the first half year of 2007. The accounting treatment of the transactions was in compliance with (93) Article 141 and (95) Article 023 of Accounting Research and Development Foundation, "Accounting Treatment of Real Estate Securitization" and "Interpretation of the Accounting Treatment of Real Estate Securitization", respectively. The gain on disposal of real estates on this transaction was NT\$1,195,081 (US\$36,402) for the six months ended June 30, 2007.

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15. Property and equipment

Item	June 30, 2007									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,734,936	\$144,226	\$1,054	\$32	\$-	\$-	\$(51,331)	\$(1,564)	\$4,684,659	\$142,694
Buildings and construction	10,092,275	307,410	-	-	(3,325,822)	(101,304)	(34,188)	(1,041)	6,732,265	205,065
Computer equipment	1,664,071	50,688	-	-	(1,253,039)	(38,168)	-	-	411,032	12,520
Communication and transportation equipment	18,619	567	-	-	(14,501)	(442)	-	-	4,118	125
Other equipment	2,945,805	89,729	-	-	(1,969,578)	(59,993)	-	-	976,227	29,736
Subtotal	19,455,706	592,620	1,054	32	(6,562,940)	(199,907)	(85,519)	(2,605)	12,808,301	390,140
Construction in progress and prepayment for equipment	6,948	212	-	-	-	-	-	-	6,968	212
Total	\$19,462,674	\$592,832	\$1,054	\$32	\$(6,562,940)	\$(199,907)	\$(85,519)	\$(2,605)	\$12,815,269	\$390,352

Item	June 30, 2008									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,723,189	\$155,573	\$1,317	\$44	\$-	\$-	\$(51,331)	\$(1,691)	\$4,673,175	\$153,926
Buildings and construction	9,917,187	326,653	-	-	(3,397,497)	(111,907)	(34,188)	(1,126)	6,485,502	213,620
Computer equipment	1,792,556	59,043	-	-	(1,405,448)	(46,293)	-	-	387,108	12,750
Communication and transportation equipment	15,415	508	-	-	(13,010)	(428)	-	-	2,405	80
Other equipment	2,971,067	97,861	-	-	(2,149,661)	(70,806)	-	-	821,406	27,055
Subtotal	19,419,414	639,638	1,317	44	(6,965,616)	(229,434)	(85,519)	(2,817)	12,369,596	407,431
Construction in progress and prepayment for equipment	229,650	7,564	-	-	-	-	-	-	229,650	7,564
Total	\$19,649,064	\$647,202	\$1,317	\$44	\$(6,965,616)	\$(229,434)	\$(85,519)	\$(2,817)	\$12,599,246	\$414,995

No properties or plants and equipments were pledged as collaterals as of June 30, 2007 and 2008.

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16. Intangible assets

Item	January 1, 2007		Increase		Decrease		June 30, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$471,850	\$14,373	\$68,563	\$2,088	\$-	\$-	\$540,413	\$16,461
Amortized and impairment:								
Amortized	(141,861)	(4,321)	(62,754)	(1,912)	-	-	(204,615)	(6,233)
Book value	<u>\$329,989</u>	<u>\$10,052</u>	<u>\$5,809</u>	<u>\$176</u>	<u>\$-</u>	<u>\$-</u>	<u>\$335,798</u>	<u>\$10,228</u>

Item	January 1, 2008		Increase		Decrease		June 30, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired Cost:								
Computer software	\$750,860	\$24,732	\$202,992	\$6,686	\$-	\$-	\$953,852	\$31,418
Amortized and impairment:								
Amortized	(279,937)	(9,220)	(90,891)	(2,994)	-	-	(370,828)	(12,214)
Book value	<u>\$470,923</u>	<u>\$15,512</u>	<u>\$112,101</u>	<u>\$3,692</u>	<u>\$-</u>	<u>\$-</u>	<u>\$583,024</u>	<u>\$19,204</u>

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

17. Other overdue receivables

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$126,431	\$3,851	\$98,730	\$3,252
Less: Allowance for bad and doubtful debts	(99,601)	(3,034)	(84,572)	(2,786)
Total	<u>\$26,830</u>	<u>\$817</u>	<u>\$14,158</u>	<u>\$466</u>

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

Item	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$19,472	\$593	\$-	\$-
Add: Adjustment of valuation	15,742,384	479,512	13,160,212	433,472
Total	<u>\$15,761,856</u>	<u>\$480,105</u>	<u>\$13,160,212</u>	<u>\$433,472</u>

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19. Derivative financial liabilities for hedging - current

Item	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	107,267	3,268	528,906	17,421
Total	<u>\$107,267</u>	<u>\$3,268</u>	<u>\$528,906</u>	<u>\$17,421</u>

20. Common stock

The Company has issued 200,000 thousand shares with par value of NT\$10 (US\$0.33) which was resolved by the Company's Board of Directors on June 3, 2008 and approved by the Insurance Bureau on June 20, 2008. The recapitalization record date was June 27, 2008. As of June 30, 2007 and 2008, the total authorized thousand shares were 5,068,616 and 5,268,616 with par value of NT\$10 each.

21. Retained earnings

(1) Legal reserve

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

(2) Undistributed retained earnings

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

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- B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceeded 100% of the Company's paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.
- C. According to the amended Income Tax Act ("Tax Act") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- D. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized losses of financial instruments expect for the legal reserve since 2007.
- E. The accrual of employee bonus and remuneration of directors in the first half year of 2008 was NT\$10,000(US\$329) based on the average of actual distribution in the past three years and recognized as operating costs or expenses. The difference between actual distribution and estimated amount will be recognized in 2009.
- F. The Company's distribution of 2007 retained earnings of NT\$13,058(US\$430) and NT\$8,100(US\$267) to employee and directors, respectively, has been approved by the board of directors and the stockholders' meeting. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

22. Personnel expense 、 depreciation and amortizations

Item	For the six months ended June 30, 2007 NT\$			For the six months ended June 30, 2007 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$13,004,629	\$1,451,392	\$14,456,021	\$396,120	\$44,210	\$440,330
Labor & health insurance expenses	578,360	75,521	653,881	17,617	2,300	19,917
Pension expenses	222,435	29,045	251,480	6,775	885	7,660
Other expenses	499,943	78,304	578,247	15,228	2,385	17,613
Depreciation	-	1,257,234	1,257,234	-	38,295	38,295
Amortizations	-	62,754	62,754	-	1,912	1,912

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Item	For the six months ended June 30, 2008 NT\$			For the six months ended June 30, 2008 US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
	Personnel expenses					
Salary and wages	\$12,383,860	\$897,860	\$13,281,720	\$407,900	\$29,574	\$437,474
Labor & health insurance expenses	607,728	85,925	693,653	20,018	2,830	22,848
Pension expenses	385,688	54,532	440,220	12,704	1,796	14,500
Other expenses	517,123	118,177	635,300	17,033	3,893	20,926
Depreciation	-	988,413	988,413	-	32,557	32,557
Amortizations	-	90,891	90,891	-	2,994	2,994

23. Estimated income taxes

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

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	\$4,291,584	\$130,721	\$13,398,342	\$441,316
Total deferred tax liabilities	\$1,751,318	\$53,345	\$938,688	\$30,919
Allowance for deferred assets	\$-	\$-	\$257,861	\$8,493
Temporary differences:				
Pension expense	\$1,565,898	\$47,697	\$1,370,798	\$45,151
Unrealized exchange losses (gains)	(3,363,194)	(102,443)	43,608,826	1,436,391
Losses (gains) from valuation on financial assets and liabilities	(3,642,077)	(110,938)	(3,754,751)	(123,674)
Impairment loss	157,012	4,783	263,963	8,694
Other	23,043	702	32,599	1,074
Total	\$(5,259,318)	\$(160,199)	\$41,521,435	\$1,367,636
Tax effect under integrated income tax system	\$3,855,096	\$117,426	\$1,821,434	\$59,995

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	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Deferred tax assets - current	\$3,860,780	\$117,599	\$12,989,524	\$427,850
Allowance for deferred tax assets - current	-	-	(257,861)	(8,493)
Net deferred tax assets - current	2,109,462	64,254	12,731,663	419,357
Deferred tax liabilities - current	(1,751,318)	(53,345)	(938,688)	(30,919)
Net offset balance of deferred tax assets - current	\$2,109,462	\$64,254	\$11,792,975	\$388,438
Deferred tax assets - noncurrent	\$430,804	\$13,122	\$408,818	\$13,466
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	\$430,804	\$13,122	\$408,818	\$13,466

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

	For the six months ended June 30			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Tax expense for pre-tax income	\$(2,258,714)	\$(68,800)	\$818,860	\$26,972
Add (less): Tax effects under integrated income tax systems	202,172	6,158	-	-
Amortization of deferred tax assets	-	-	257,861	8,493
Deferred income tax (benefit) expense from unrealized foreign exchange loss(gain)	748,301	22,793	(10,545,426)	(347,346)
Deferred income tax (benefit) expense from unrealized financial instruments valuation loss(gain)	1,237,761	37,702	2,167,566	71,396
Deferred income tax (benefit) expense from unrealized pension expense	29,321	893	(4,966)	(164)
Others	(99)	(3)	21	1
Add: Separation tax	226,926	6,912	113,589	3,741
Additional tax assessed by the tax authority	5,938	181	-	-
Prior year adjustment	12,890	392	88,725	2,922
Overseas investments tax	4,759	145	-	-
Less: Income tax credit	(5,564)	(169)	(5,603)	(184)
Tax effects under income basic tax systems	389,319	11,859	711,428	23,433
Total income tax (benefit) expense	\$593,010	\$18,063	\$(6,397,945)	\$(210,736)

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

(4) Information related to imputation

	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$72,984	\$2,223	\$61,734	\$2,033

	June 30,	
	2007	2008
Imputation credit account ratio - actual (May 15, 2007)	7.96%	-
Imputation credit account ratio – actual (May 15, 2008)	-	5.62%

(5) Related information on undistributed earnings

Year	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
After 1998	\$-	\$-	\$-	\$-

Undistributed earnings after 1998 did not include the net income from January 1 to June 30, 2007 and 2008.

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

Regulation	Deductible items	Amount of deductible				Expiry Year
		income tax		Remaining balance		
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$22,006	\$725	\$16,403	\$540	2011

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24. Earnings per share

	For the six months ended June 30, 2007			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net income (a)	<u>\$16,761,656</u>	<u>\$510,559</u>	<u>\$16,168,646</u>	<u>\$492,496</u>
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Net income	<u>\$3.31</u>	<u>\$0.10</u>	<u>\$3.19</u>	<u>\$0.10</u>
	For the six months ended June 30, 2008			
	Before tax		After tax	
	NT\$	US\$	NT\$	US\$
Net loss (a)	<u>\$(11,683,044)</u>	<u>\$(384,817)</u>	<u>\$(5,285,099)</u>	<u>\$(174,081)</u>
Outstanding number of thousand shares at end of periods (b)	5,268,616	5,268,616	5,268,616	5,268,616
Weighted average outstanding number of thousand shares (c)	5,073,011	5,073,011	5,073,011	5,073,011
Earnings per share (a) / (c) (dollars)				
Net loss	<u>\$(2.30)</u>	<u>\$(0.08)</u>	<u>\$(1.04)</u>	<u>\$(0.03)</u>

25. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay United Bank	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Century Insurance Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Securities Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holding Co., Ltd.
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holding Co., Ltd.

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<u>Name</u>	<u>Relationship</u>
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of the Company
Indovina Bank Limited	Subsidiary of Cathay United Bank
Cathay Life Insurance Agent Co., Ltd.	Subsidiary of Cathay United Bank
Cathay Property Insurance Agent Co., Ltd.	Subsidiary of Cathay United Bank
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Cathay Pacific Partners Co., Ltd.	Subsidiary of Cathay Capital Management Inc.
Cathay Securities Investment Trust Co., Ltd.	An equity method investee
Cathay General Hospital	Their chairman is the Company's chairman
Lin Yuan Investment Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Taiwan Asset Management Corporation	Their chairman is Cathay United Bank
Cathay Real Estate Development Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Lin Yuan Property Management Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Seaward Leasing Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
San Ching Engineering Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Other related parties	The directors supervisors, managers spouses and second relatives are included

(2) Significant transactions with related parties

Transactions with related parties than NT\$3,000 (US\$98) will no longer be listed since first quarter of 2008.

A. Property transactions

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

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(A) Significant transactions with related parties for the six months ended June 30, 2007 and 2008 are listed below:

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

Name	Item	For the six months ended June 30, 2008	
		NT\$	US\$
Lin Yuan Property Management Co., Ltd.	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 the Company and San Ching Engineering Co., Ltd. were NT\$22,567 (US\$687) and NT\$176,453 (US\$5,812), respectively.

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

Name	Rental income			
	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$7,954	\$242	\$10,264	\$338
Cathay Real Estate Development Co., Ltd.	8,366	255	8,733	288
Cathay United Bank	136,276	4,151	147,082	4,845
Cathay Century Insurance Co., Ltd.	32,893	1,002	41,376	1,363
Cathay General Hospital	79,401	2,418	85,174	2,805
San Ching Engineering Co., Ltd.	3,953	120	4,265	140
Symphox Information Co., Ltd.	7,916	241	8,731	287
Cathay Securities Investment Trust Co., Ltd.	6,520	199	8,892	293
Cathay Securities Investment Consulting Co., Ltd.	1,764	54	-	-
Cathay Securities Co., Ltd.	8,123	247	10,254	338
Cathay Capital Management Inc.	1,075	33	-	-
Seaward Leasing Co., Ltd.	633	19	-	-
Taiwan Asset Management Corporation	7,315	223	-	-
Cathay Futures Co., Ltd.	355	11	-	-
Total	<u>\$302,544</u>	<u>\$9,215</u>	<u>\$324,771</u>	<u>\$10,697</u>

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Name	Guarantee deposits received			
	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$3,645	\$111	\$4,886	\$161
Cathay United Bank	63,668	1,939	67,224	2,214
Cathay Century Insurance Co., Ltd.	17,144	522	19,421	640
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	140
Cathay Securities Investment Consulting Co., Ltd.	877	27	-	-
Cathay Securities Co., Ltd.	3,785	115	4,710	155
Cathay Capital Management Inc.	479	15	-	-
Seaward Leasing Co., Ltd.	346	11	-	-
Taiwan Asset Management Corporation	3,477	106	-	-
Cathay Financial Holding Co., Ltd.	4,598	140	4,885	161
Symphox Information Co., Ltd.	84	3	3,874	127
Total	<u>\$111,005</u>	<u>\$3,381</u>	<u>\$120,225</u>	<u>\$3,960</u>

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

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

Name	Rental expense			
	For the six months ended June 30,			
	2007		2008	
NT\$	US\$	NT\$	US\$	
Cathay Real Estate Development Co., Ltd.	\$15,277	\$465	\$15,240	\$502
Lin Yuan Investment Co., Ltd.	1,256	38	-	-
Cathay United Bank	3,377	103	5,431	179
Total	<u>\$19,910</u>	<u>\$606</u>	<u>\$20,671</u>	<u>\$681</u>

Name	Guarantee deposits paid			
	June 30, 2007		June 30, 2008	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,926	\$272	\$8,779	\$289
Lin Yuan Investment Co., Ltd.	628	19	-	-
Cathay United Bank	1,744	53	-	-
Total	<u>\$11,298</u>	<u>\$344</u>	<u>\$8,779</u>	<u>\$289</u>

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

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B. Cash in banks

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

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

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

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

C. Other financial assets

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

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

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

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

D. Secured loans

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

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

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

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

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

Name		June 30,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Market value	\$7,630,959	\$232,439	\$6,856,163	\$225,829
Investment Trust Co., Ltd.	Cost	\$6,863,072	\$209,049	\$6,655,776	\$219,228

F. Other accounts receivable

Name	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$260,490	\$7,935	\$158,223	\$5,212
Cathay Insurance (Bermuda) Co., Ltd.	11,199	341	16,566	546
Cathay Financial Holding Co., Ltd.	737,751	22,472	541,486	17,836
Cathay Securities Investment Co., Ltd.	23,008	701	-	-

G. Prepayments

Name	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$30,281	\$922	\$31,933	\$1,052
Lin Yuan Investment Co., Ltd.	419	13	-	-

H. Other assets-other

Name	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)	\$298,343	\$9,088	\$265,211	\$8,735
Cathay Life Insurance (Vietnam) Co., Ltd.	-	-	57,428	1,892
	\$298,343	\$9,088	\$322,639	\$10,627

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I. Guarantee deposits paid

Name	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$345,322	\$10,518	\$624,819	\$20,580

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

J. Other payable

Name	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$1,565	\$48	\$-	\$-
Symphox Information Co., Ltd.	55,147	1,680	25,192	830
Lin Yuan Property Management Co., Ltd.	16,413	500	36,848	1,214
Cathay Real Estate Development Co., Ltd.	1,200	37	-	-
San Ching Engineering Co., Ltd.	-	-	5,056	167
Seaward Leasing Co., Ltd.	-	-	11,017	363
Cathay Financial Holding Co., Ltd. (Note)	-	-	1,010,644	33,289
Cathay Securities Investment Consulting Co., Ltd.	13,125	400	5,670	187

Note : Payables due to consolidated income tax

K. Accounts collected in advance

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

L. Guarantee deposits received

Name	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$236	\$7	\$-	\$-

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M. Premiums income

Name	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$222,268	\$6,770	\$267,006	\$8,794
Cathay General Hospital	14,830	452	12,984	428
Cathay Securities Investment Trust Co., Ltd.	541	17	-	-
San Ching Engineering Co., Ltd.	625	19	-	-
Cathay Century Insurance Co., Ltd.	4,016	122	4,348	143
Cathay Securities Co., Ltd.	881	27	-	-
Symphox Information Co., Ltd	665	20	-	-
Cathay Financial Holding Co., Ltd.	453	14	-	-
Other related parties	324,719	9,891	241,449	7,953
Total	<u>\$568,998</u>	<u>\$17,332</u>	<u>\$525,787</u>	<u>\$17,318</u>

N. Insurance expense

Name	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$84,459</u>	<u>\$2,573</u>	<u>\$40,332</u>	<u>\$1,328</u>

The insurance expenses were insurance expenses for fixed assets, cash, public accident and etc. Amounts of NT\$5,002 (US\$152) and NT\$4,486 (US\$148) paid by the Company on behalf the employees for fidelity bond insurance were included in insurance expenses for the six months ended June 30, 2007 and 2008.

O. Reinsurance income

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

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

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P. Reinsurance handing fee income

Name	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$1,805	\$55	\$-	\$-

Q. Reinsurance service expenses

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

R. Reinsurance claims payment

Name	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$6,025	\$184	\$60,569	\$1,995

S. Reinsurance commission expense

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

T. Miscellaneous income

Name	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$282,913	\$8,617	\$472,773	\$15,572
Cathay United Bank	62,466	1,903	39,760	1,310
Cathay securities Investment Trust Co., Ltd.	3,185	97	30,320	999
Cathay General Hospital	2,416	74	-	-
Cathay Securities Co., Ltd.	1,303	40	-	-
Symphox Information Co., Ltd.	668	20	-	-
Cathay Real Estate Development Co., Ltd.	755	23	-	-
Cathay Financial Holding Co., Ltd.	508	15	-	-
Taiwan Asset Management Corporation	586	18	-	-
Total	\$354,800	\$10,807	\$542,853	\$17,881

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

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U. Commissions expenses

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

V. Operating expenses

Name	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$114,063	\$3,474	\$124,733	\$4,109
Cathay General Hospital	2,676	82	-	-
Lin Yuan Property Management Co., Ltd.	302,562	9,216	308,391	10,158
Cathay Securities Investment Consulting Co., Ltd.	26,250	800	18,795	619
San Ching Engineering Co., Ltd.	2,018	61	-	-
Cathay Real Estate Development Co., Ltd.	2,445	75	-	-
Cathay Capital Management Inc.	13,720	418	11,410	376
Seaward Leasing Co., Ltd.	3,855	117	5,475	180
Cathay United Bank	136,121	4,146	508,478	16,748
Cathay Securities Co., Ltd.	46,039	1,402	-	-
Seaward Card Cold Co., Ltd.	1,964	60	22,984	757
Cathay Futures Co., Ltd.	1,596	49	-	-
Total	\$653,309	\$19,900	\$1,000,266	\$32,947

W. Cost of disposal real estate

Name	For the six months ended June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	\$21,115	\$643	\$-	\$-

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X. Other

(A) As of June 30, 2007 and 2008, the nominal amount of the 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 (USD6,092)	NTD198,413 (USD6,535)

(B) During the six months ended June 30, 2007 and 2008, the Company had entered a credit assignment agreement with Cathay United Bank in amounts of NT\$344,050 (US\$10,480) and NT\$2,480,000 (US\$81,686), respectively.

26. Pledged assets

As of June 30, 2007 and 2008, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Act, the Company is required to deposit long-term investment in government bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	June 30,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$8,074,952	\$245,963	\$8,009,691	\$263,824
Time deposits	216,060	6,581	158,950	5,235
Total	<u>\$8,291,012</u>	<u>\$252,544</u>	<u>\$8,168,641</u>	<u>\$269,059</u>

Pledged assets are based on the carrying amounts.

27. Other important matters and contingent liabilities

None.

28. Serious damages

None.

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As of June 30, 2007 and 2008

29. Subsequent events

None.

30. Others

(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) Separate account insurance products related information

① Separate account insurance products-assets and liabilities

Assets			Liabilities		
Item	June 30,2007		Item	June 30,2007	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$797	\$24	Other payable	\$4,282,602	\$130,448
Financial assets at fair value through profit or loss	203,354,498	6,194,167	Reserve for separate account	207,155,980	6,309,960
Interests receivable	7,478	228			
Other receivable	8,075,809	245,989			
Total	\$211,438,582	\$6,440,408	Total	\$211,438,582	\$6,440,408

Assets			Liabilities		
Item	June 30,2008		Item	June 30,2008	
	NT\$	US\$		NT\$	US\$
Cash in bank	\$6,475	\$213	Other payable	\$2,507,976	\$82,608
Financial assets at fair value through profit or loss	277,634,897	9,144,759	Reserve for separate account	276,460,867	9,106,089
Interests receivable	23,027	759	Adjustments	60	2
Other receivable	1,304,504	42,968			
Total	\$278,968,903	\$9,188,699	Total	\$278,968,903	\$9,188,699

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② Separate account insurance products-revenues and expenses

Expenses			Revenues		
Item	January 1-June 30,2007		Item	January 1-June 30,2007	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$564,859	\$17,206	Premiums income	\$66,784,428	\$2,034,250
Cash surrender value	32,648,718	994,478	Recovered separate		
Dividends	3,057	93	account reserve	33,133,963	1,009,259
Provision for separate			Interest income	11,033	336
account reserve	83,198,207	2,534,213	Gains from valuation		
Losses on disposal of			on financial assets	11,966,342	364,494
investments	84,049	2,560	Gains on foreign		
Administrative expenses	1,374,825	41,877	exchange	5,977,808	182,084
			Adjustments	141	4
Total	\$117,873,715	\$3,590,427	Total	\$117,873,715	\$3,590,427

Expenses			Revenues		
Item	January 1-June 30,2008		Item	January 1-June 30,2008	
	NT\$	US\$		NT\$	US\$
Insurance claims payment	\$439,229	\$14,467	Premiums income	\$77,264,694	\$2,544,950
Cash surrender value	24,418,216	804,289	Recovered separate		
Dividends	2,151	71	account reserve	50,553,815	1,665,145
Provision for separate			Interest income	274,107	9,029
account reserve	74,038,906	2,438,699	Adjustments	47	2
Losses from valuation on					
financial assets	13,202,921	434,879			
Losses on disposal of					
investments	1,584,308	52,184			
Losses on foreign exchange	12,017,357	395,829			
Administrative expenses	2,389,575	78,708			
Total	\$128,092,663	\$4,219,126	Total	\$128,092,663	\$4,219,126

③ The commission earned for the sales of separate account insurance products from counterparties for the six months ended June 30, 2007 and 2008 were NT\$423,614 (US\$12,903) and NT\$4,303,364 (US\$141,745), respectively.

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(3) Discretionary account management

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

Item	June 30, 2008			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$9,246,719	\$304,569	\$9,246,719	\$304,569
Repurchase bonds	9,650,201	317,859	9,650,201	317,859
Cash in banks	715,491	23,567	715,491	23,567
Total	<u>\$19,612,411</u>	<u>\$645,995</u>	<u>\$19,612,411</u>	<u>\$645,995</u>

As of June 30, 2007 and 2008, the Company had discretionary account management contracts in the amount of NT\$22,450,000 (US\$683,826) and NT\$17,450,000 (US\$574,769), respectively.

(4) The allocation of revenue and expenses of the transactions, promotions and information sharing between the Company and its affiliates are based on the attribution of the transactions.

(5) Financial risk management objectives and policies

The Company'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.

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

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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, the Company also establishes risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitoring and managing the Company's risks.

Market Risk

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

Credit Risk

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

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

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.

Operational Risk

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

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Liquidity Risk

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

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 located country.

The Company categorizes and manages the investment risk based on country or region and minimizes the country risk by monitoring the concentration of country risk regularly.

(6) Financial instruments related information

A. Fair value

Item	June 30, 2007			
	NT\$		US\$	
	Carrying Amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$208,693,950	\$208,693,950	\$6,356,806	\$6,356,806
Notes 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
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

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Item	June 30, 2007			
	NT\$		US\$	
	Carrying Amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</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>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
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 - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
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
Item	June 30, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</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

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Item	June 30, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liabilities - non-derivative</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>Assets - derivative</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
<u>Liabilities - derivative</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

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

- ① The fair value of the Company's cash, cash equivalents, receivables and payables is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- ③ Quoted market price, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

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- ④ The fair value of the Company's financial instruments was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.
- ⑤ If no quoted market prices exist for the Company's financial assets, long-term investments in stocks under the equity method is based on the carrying amount. As no permanent market value decline exists, the carrying amount is reasonably deemed as the fair value.
- ⑥ The following table summarizes the fair value information of the Company's financial assets and liabilities at June 30, 2007 and 2008:

Financial instruments	June 30, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</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
Held-to-maturity financial assets - noncurrent	95,081,910	2,896,190	434,810,210	13,244,295
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 - non-derivative</u>				
Notes and accounts payable	-	-	25,748,621	784,302
<u>Assets - derivative</u>				
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

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Financial instruments	June 30, 2007			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Liabilities - derivative</u>				
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
Financial instruments	June 30, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Assets - non-derivative</u>				
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
Held-to-maturity financial assets - noncurrent	251,927,084	8,297,994	1,253,175	41,277
Investment in debt securities with no active market - noncurrent	76,351,878	2,514,884	499,260,979	16,444,696
Long-term investments in stocks under the equity method	-	-	53,656,291	1,767,335
Other financial assets - noncurrent	-	-	5,226,620	172,155
Other financial assets - noncurrent	-	-	27,954,287	920,760
<u>Liabilities - non-derivative</u>				
Notes and accounts payable	-	-	16,539,599	544,783
<u>Assets - derivative</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

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Financial instruments	June 30, 2008			
	Based on the quoted market price		Based on valuation techniques	
	NT\$	US\$	NT\$	US\$
<u>Liabilities - derivative</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

B. Risk of interest rate

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

① June 30, 2007

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$626,126	\$19,072	\$1,483,269	\$45,180	\$100,208	\$3,052	\$1,055,891	\$32,162
Available-for-sale financial assets	3,615,879	110,140	1,866,197	56,844	458,017	13,951	5,937,351	180,851
Held-to-maturity financial assets	7,995,953	243,556	1,643,055	50,047	12,340,042	375,877	13,545,281	412,589
Investments in debt securities with no active market	334,091	10,176	878,745	26,767	1,291,906	39,351	1,108,287	33,758
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value through profit or loss	\$3,283,131	\$100,004	\$21,605,108	\$658,091	\$28,153,733	\$857,561		
Available-for-sale financial assets	8,558,632	260,695	92,168,014	2,807,433	112,604,090	3,429,914		
Held-to-maturity financial assets	9,973,898	303,805	432,552,170	13,175,515	478,050,399	14,561,389		
Investments in debt securities with no active market	1,199,427	36,535	34,864,379	1,061,967	39,676,835	1,208,554		

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As of June 30, 2007 and 2008

Non-derivative financial instruments of float interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$7,750,073	\$236,067	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	90,270,613	2,749,638	-	-	-	-	-	-
Held-to-maturity financial assets	82,578,100	2,515,324	-	-	-	-	-	-
Investments in debt securities with no active market	13,411,198	408,505	-	-	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value through profit or loss	\$-	\$-	\$-	\$-	\$7,750,073	\$236,067		
Available-for-sale financial assets	-	-	-	-	90,270,613	2,749,638		
Held-to-maturity financial assets	-	-	-	-	82,578,100	2,515,324		
Investments in debt securities with no active market	-	-	-	-	13,411,198	408,505		

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$796	\$24	\$-	\$-	\$3,246	\$99	\$27,977	\$852
Derivative financial assets for hedging	2,280	69	18,966	578	-	-	124,984	3,807
Financial liabilities at fair value through profit or loss	2,960	90	19,771	602	36,182	1,102	21,888	667
Derivative financial liabilities for hedging	985	30	23,102	704	25,217	768	15,584	475
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value through profit or loss	\$10,054	\$306	\$217,975	\$6,640	\$260,048	\$7,921		
Derivative financial assets for hedging	37,564	1,144	9,245	282	193,039	5,880		
Financial liabilities at fair value through profit or loss	17	1	27,160	827	107,978	3,289		
Derivative financial liabilities for hedging	-	-	42,379	1,291	107,267	3,268		

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② June 30, 2008

Non-derivative financial instruments of fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$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	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value through profit or loss	\$1,262,087	\$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	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit or loss	\$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	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Financial assets at fair value through profit or loss	\$-	\$-	\$-	\$-	\$3,049,033	\$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		

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Derivative financial instruments

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

C. Credit risk

The Company's exposure to credit risk is minimal.

D. Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at June 30, 2007 and 2008:

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Cash flow hedges – IRS

① 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

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
200,000	6,092	5.85%-6ml	Half year	2009/1/13
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

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② 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

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Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
300,000	9,881	5.37%-6ml	Yearly	2011/3/15
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
-	24,000	6ml	Half year	2014/3/24

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

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The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains (losses) on financial instruments were recognized in equity by NT\$220,700 (US\$6,723) and NT\$(371,300) (US\$(12,230)) as of June 30, 2007 and 2008.

(7) Presentation of financial statements

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

31. Information regarding investment in Mainland China

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

On October 17, 2007, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$26,390 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 the Company to increase the remittances from US\$26,390 to US\$28,960. As of June 30, 2008, the Company's remittances to this general insurance company totaled approximately US\$28,144.

32. Segment Information

None.