

**Cathay Century Insurance Co., Ltd.**  
**Financial Statements**  
**As of December 31, 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 “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”, “Business Entity Accounting Act” and “Regulation in Business Entity Accounting Handling” with respect to financial accounting standards. 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.

**Name of the company: Cathay Century Insurance Co., Ltd.**  
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**English Translation of Independent Auditors' Report Originally Issued in Chinese**  
**Independent Auditors' Report**

Board of Directors  
Cathay Century Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") as of December 31, 2007 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audited.

We conducted our audits in accordance with generally accepted auditing standards in the Republic of China. 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 audit provides 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 Cathay Century Insurance Co., Ltd. as of December 31, 2007 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with 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 Property and Casualty Insurance and accounting principles generally accepted in the Republic of China.

ERNST & YOUNG  
Taipei, Taiwan  
Republic of China  
February 16, 2009

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.**

**Balance sheets**

**As of December 31, 2007 and 2008**

**(Expressed in thousands of dollars)**

Assets	Notes	December 31,2007		December 31,2008	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4	\$2,396,187	\$73,888	\$3,567,735	\$108,905
Financial assets at fair value through profit or loss - current	2,5	717,280	22,118	218,766	6,678
Available-for-sale financial assets - current	2,6	3,154,483	97,271	2,983,818	91,081
Held-to-maturity financial assets - current	2,7	220,400	6,796	310,080	9,465
Derivative financial assets for hedging - current	2,8	374	12	41,005	1,252
Financial assets carried at cost - current	2,9	24,000	740	-	-
Investments in debt securities with no active market - current	2,10	125,889	3,882	100,131	3,057
Notes receivable		244,050	7,525	242,889	7,414
Premiums receivable	2,11	1,812,712	55,896	1,921,451	58,652
Prepaid reinsurance premiums		1,225,482	37,788	1,409,385	43,021
Claims recoverable from reinsurers		1,264,391	38,988	1,245,730	38,026
Due from reinsurers and ceding companies		53,653	1,654	207,042	6,320
Accounts receivable - reinsurance		41,628	1,284	26,554	811
Other accounts receivable		73,964	2,281	85,494	2,610
Prepayments		4,110	127	4,929	150
Deferred income tax assets - current		51,409	1,585	43,869	1,339
Subtotal		<u>11,410,012</u>	<u>351,835</u>	<u>12,408,878</u>	<u>378,781</u>
<b>Loans</b>					
Secured loans	2,12	2,241,869	69,129	1,499,614	45,776
Subtotal		<u>2,241,869</u>	<u>69,129</u>	<u>1,499,614</u>	<u>45,776</u>
<b>Funds and investments</b>					
Held-to-maturity financial assets - noncurrent	2,13	4,022,649	124,041	3,261,547	99,559
Financial assets carried at cost - noncurrent	2,14	36,000	1,110	25,500	778
Investments in debt securities with no active market - noncurrent	2,15	101,733	3,137	-	-
Long-term investments under equity method	2,16	432,192	13,327	1,285,997	39,255
Subtotal		<u>4,592,574</u>	<u>141,615</u>	<u>4,573,044</u>	<u>139,592</u>
<b>Property and equipment</b>					
Communication and transportation equipments	2,17	9,995	308	2,230	68
Other equipments		236,132	7,281	264,859	8,085
Subtotal		<u>246,127</u>	<u>7,589</u>	<u>267,089</u>	<u>8,153</u>
Less: Accumulated depreciation		(180,977)	(5,580)	(184,407)	(5,629)
Prepayments for equipments		11,994	370	34,621	1,057
Subtotal		<u>77,144</u>	<u>2,379</u>	<u>117,303</u>	<u>3,581</u>
<b>Intangible assets</b>					
Computer software cost	2,18	9,365	289	12,867	393
Deferred pension cost		6,382	197	5,802	177
Subtotal		<u>15,747</u>	<u>486</u>	<u>18,669</u>	<u>570</u>
<b>Other assets</b>					
Guarantee deposits paid	2	442,551	13,646	570,993	17,430
Overdue receivables		176,218	5,434	233,840	7,138
Other assets - others		23,665	730	81,184	2,478
Subtotal		<u>642,434</u>	<u>19,810</u>	<u>886,017</u>	<u>27,046</u>
<b>Total assets</b>		<u><u>\$18,979,780</u></u>	<u><u>\$585,254</u></u>	<u><u>\$19,503,525</u></u>	<u><u>\$595,346</u></u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Century Insurance Co., Ltd.**

**Balance sheets - (Continued)**

**As of December 31, 2007 and 2008**

**(Expressed in thousands of dollars)**

Liabilities & stockholders' equity	Notes	December 31, 2007		December 31, 2008	
		NT\$	US\$	NT\$	US\$
<b>Current liabilities</b>					
Financial liabilities at fair value through profit or loss - current	2,19	\$41,437	\$1,278	\$66,908	\$2,042
Commissions payable		8,051	248	6,207	190
Claims outstanding		1,909	59	15,209	464
Due to reinsurers and ceding companies		377,353	11,636	458,211	13,987
Accounts payable - reinsurance		870,741	26,850	838,615	25,599
Other payables		664,798	20,499	697,001	21,276
Subtotal		1,964,289	60,570	2,082,151	63,558
<b>Long-term liabilities</b>					
Accrued pension liabilities		14,706	453	17,867	545
Subtotal		14,706	453	17,867	545
<b>Operating and liability reserve</b>					
	2,20				
Unearned premiums reserve		6,474,812	199,655	6,755,977	206,227
Special reserve		4,070,391	125,513	4,714,560	143,912
Claims reserve		2,528,361	77,964	2,686,035	81,991
Premiums deficiency reserve		-	-	21,360	652
Subtotal		13,073,564	403,132	14,177,932	432,782
<b>Other liabilities</b>					
Other liabilities - others		57,321	1,768	129,136	3,942
Subtotal		57,321	1,768	129,136	3,942
<b>Total liabilities</b>		<b>15,109,880</b>	<b>465,923</b>	<b>16,407,086</b>	<b>500,827</b>
<b>Stockholders' equity</b>					
<b>Capital stock</b>					
Common stock	21	2,317,006	71,447	2,317,006	70,726
Capital surplus		1,929	60	1,929	59
<b>Retained earnings</b>					
	22				
Legal reserve		416,834	12,853	521,467	15,918
Unappropriated retained earnings		1,046,331	32,264	478,484	14,606
<b>Equity adjustment</b>					
Unrealized gains or losses on financial instruments		90,908	2,803	(295,628)	(9,024)
Cumulative translation adjustments		-	-	79,564	2,429
Net loss not recognized as net pension cost		(3,108)	(96)	(6,383)	(195)
<b>Total stockholders' equity</b>		<b>3,869,900</b>	<b>119,331</b>	<b>3,096,439</b>	<b>94,519</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$18,979,780</b>	<b>\$585,254</b>	<b>\$19,503,525</b>	<b>\$595,346</b>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of income

For the years ended December 31, 2007 and 2008

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

Items	Notes	January 1-December 31, 2007		January 1-December 31, 2008	
		NT\$	US\$	NT\$	US\$
Operating revenues	2				
Premiums income		\$11,153,742	\$343,933	\$11,829,560	\$361,098
Reinsurance commission earned		288,261	8,889	336,089	10,259
Claims recovered from reinsurers		1,163,571	35,880	1,301,867	39,740
Recovered unearned premiums reserve		4,955,218	152,797	5,249,330	160,236
Recovered special claim reserve		82,494	2,544	236,471	7,218
Recovered claims reserve		268,728	8,286	326,957	9,980
Handling fee earned		110	3	314	10
Interest revenues		396,158	12,216	390,967	11,934
Gains on investments recognized under the equity method	2,16	28,570	881	-	-
Exchange gains		-	-	9,434	288
Gains on disposal of investments		221,642	6,834	-	-
Subtotal		18,558,494	572,263	19,680,989	600,763
Operating costs	2				
Reinsurance premiums ceded		(3,460,628)	(106,711)	(3,771,483)	(115,125)
Commissions expenses		(176,358)	(5,438)	(191,468)	(5,844)
Insurance claims payment		(4,460,072)	(137,529)	(4,990,589)	(152,338)
Provision for unearned premiums reserve		(5,249,330)	(161,866)	(5,346,592)	(163,205)
Provision for special claim reserve		(966,605)	(29,806)	(880,640)	(26,882)
Contribution to the stabilization funds		(21,310)	(657)	(22,339)	(682)
Provision for claims reserve		(401,620)	(12,384)	(406,514)	(12,409)
Provision for premiums insufficient reserve		-	-	(21,360)	(652)
Handling fee paid		(260,808)	(8,042)	(290,830)	(8,878)
Losses on valuation of financial assets		(2,905)	(90)	(90,513)	(2,763)
Losses on valuation of financial liabilities		(41,437)	(1,278)	(25,471)	(777)
Losses on investments recognized under the equity method		-	-	(40,712)	(1,243)
Exchange losses		(15,748)	(486)	-	-
Losses on disposal of investments		-	-	(409,073)	(12,487)
Other operating costs		(5,959)	(184)	(8,294)	(253)
Subtotal		(15,062,780)	(464,471)	(16,495,878)	(503,538)
Operating gross profit		3,495,714	107,792	3,185,111	97,225
Operating expenses	2				
Marketing expenses		(1,869,748)	(57,655)	(2,068,859)	(63,152)
Management and general affairs expenses		(332,014)	(10,238)	(425,004)	(12,973)
Operating income		1,293,952	39,899	691,248	21,100
Non-operating revenues					
Gains on disposal of property and equipment		1,116	34	2,656	81
Other non-operating revenues		16,233	501	8,019	245
Subtotal		17,349	535	10,675	326
Non-operating expenses					
Losses on disposal of property and equipment		(9)	-	(1,665)	(51)
Impairment loss		-	-	(10,500)	(320)
Miscellaneous expenses		(67)	(2)	(58)	(2)
Subtotal		(76)	(2)	(12,223)	(373)
Income from continuing operations before income taxes		1,311,225	40,432	689,700	21,053
Income taxes	2,24	(264,894)	(8,168)	(211,216)	(6,447)
Income from continuing operations after income taxes		1,046,331	32,264	478,484	14,606
Net income		\$1,046,331	\$32,264	\$478,484	\$14,606
Earning per share (In dollars)	25				
Income before income taxes		\$5.66	\$0.17	\$2.98	\$0.09
Net income		\$4.52	\$0.14	\$2.07	\$0.06

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of changes in stockholders' equity

For the years ended December 31, 2007 and 2008

(Expressed in thousands of dollars)

Summary	Capital stock		Capital surplus		Retained earnings				Equity adjustment				Total			
	Common stock				Legal reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative conversion adjustments		Net loss not recognized as net pension cost			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2007	\$2,317,006	\$71,447	\$1,929	\$60	\$343,857	\$10,603	\$729,766	\$22,503	\$179,028	\$5,520	\$-	\$-	\$-	\$-	\$3,571,586	\$110,133
Appropriations and distributions for 2007																
Legal reserve	-	-	-	-	72,977	2,250	(72,977)	(2,250)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(650,605)	(20,062)	-	-	-	-	-	-	(650,605)	(20,062)
Bonus paid to employees	-	-	-	-	-	-	(6,184)	(191)	-	-	-	-	-	-	(6,184)	(191)
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	(88,120)	(2,717)	-	-	-	-	(88,120)	(2,717)
Net loss not recognized as net pension cost	-	-	-	-	-	-	-	-	-	-	-	-	(3,108)	(96)	(3,108)	(96)
Net Income for the year ended December 31, 2007	-	-	-	-	-	-	1,046,331	32,264	-	-	-	-	-	-	1,046,331	32,264
Balance on December 31, 2007	\$2,317,006	\$71,447	\$1,929	\$60	\$416,834	\$12,853	\$1,046,331	\$32,264	\$90,908	\$2,803	\$-	\$-	\$(3,108)	\$(96)	\$3,869,900	\$119,331
Balance on January 1, 2008	\$2,317,006	\$70,726	\$1,929	\$59	\$416,834	\$12,724	\$1,046,331	\$31,939	\$90,908	\$2,775	\$-	\$-	\$(3,108)	\$(95)	\$3,869,900	\$118,128
Appropriations and distributions for 2008																
Legal reserve	-	-	-	-	104,633	3,194	(104,633)	(3,194)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	(939,083)	(28,665)	-	-	-	-	-	-	(939,083)	(28,665)
Bonus paid to employees	-	-	-	-	-	-	(2,615)	(80)	-	-	-	-	-	-	(2,615)	(80)
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	(386,536)	(11,799)	-	-	-	-	(386,536)	(11,799)
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	-	79,564	2,429	-	-	79,564	2,429
Net loss not recognized as net pension cost	-	-	-	-	-	-	-	-	-	-	-	-	(3,275)	(100)	(3,275)	(100)
Net Income for the year ended December 31, 2008	-	-	-	-	-	-	478,484	14,606	-	-	-	-	-	-	478,484	14,606
Balance on December 31, 2008	\$2,317,006	\$70,726	\$1,929	\$59	\$521,467	\$15,918	\$478,484	\$14,606	\$(295,628)	\$(9,024)	\$79,564	\$2,429	\$(6,383)	\$(195)	\$3,096,439	\$94,519

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows

For the years ended December 31, 2007 and 2008

(Expressed in thousands of dollars)

Items	Notes	January 1-December 31,2007		January 1-December 31,2008	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income		\$1,046,331	\$32,264	\$478,484	\$14,606
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		5,864	181	4,899	150
Depreciation		18,797	580	27,287	833
Provision for reserve for operations		6,617,556	204,057	6,655,106	203,148
Recovered unearned premiums reserve		(4,955,218)	(152,797)	(5,249,330)	(160,236)
Recovered special claim reserve		(82,494)	(2,544)	(236,471)	(7,218)
Recovered claims reserve		(268,728)	(8,286)	(326,957)	(9,980)
Gains on disposal of property and equipment		(1,116)	(34)	(2,656)	(81)
Losses on disposal of property and equipment		9	-	1,665	51
Gains on reclassification of property and equipment		-	-	(25)	(1)
Gains on valuation on financial assets		2,905	89	90,513	2,763
Gains on valuation on financial liabilities		41,437	1,278	25,471	777
Impairment loss		-	-	10,500	320
Gain on investments recognized under the equity method		(4,570)	(141)	53,462	1,632
Effects of exchange rate changes		15,749	486	(9,434)	(288)
(Increase) decrease in financial assets at fair value through profit or loss - current		(208,502)	(6,429)	408,001	12,454
Increase in financial liabilities at fair value through profit or loss - current		(61,846)	(1,907)	-	-
(Increase) decrease in notes receivable		(25,910)	(799)	1,161	35
Increase in premiums receivable		(315,065)	(9,715)	(108,739)	(3,319)
Increase in prepaid reinsurance premiums		(116,147)	(3,582)	(183,903)	(5,614)
Decrease in claims recoverable from reinsurers		101,910	3,142	18,661	570
Decrease (increase) in due from reinsurers and ceding companies		22,912	707	(153,389)	(4,682)
(Increase) decrease in reinsurance accounts receivable		(17,727)	(547)	15,074	460
Decrease (increase) in other accounts receivable		151,251	4,664	(11,530)	(352)
Increase in prepayments		(1,302)	(40)	(819)	(25)
Decrease in deferred income tax assets-current		2,158	67	7,540	230
Increase in overdue receivables		(39,004)	(1,203)	(57,622)	(1,759)
Increase in other assets-others		(6,699)	(207)	(57,519)	(1,756)
Increase (decrease) in commissions payable		5,130	158	(1,844)	(56)
(Decrease) increase in claims outstanding		(17,640)	(544)	13,299	406
Increase in due to reinsurers and ceding companies		116,770	3,601	80,858	2,468
(Decrease) increase in reinsurance accounts payable		53,452	1,648	(32,126)	(981)
Increase in other payables		82,578	2,546	35,621	1,087
Increase in accrued pension liabilities		1,811	56	466	14
(Decrease) increase in other liabilities-others		(2,479)	(76)	76,365	2,331
Increase in claims reserve		163,784	5,050	262,019	7,998
Net cash provided by operating activities		2,325,957	71,723	1,834,088	55,985

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2007 and 2008 were NT\$32.43 and NT\$32.76 to US\$1.00)

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English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows-(Continued)

For the years ended December 31, 2007 and 2008

(Expressed in thousands of dollars)

Items	Notes	January 1-December 31,2007		January 1-December 31,2008	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
Increase in available-for-sale financial assets - current		(673,045)	(20,754)	(160,280)	(4,893)
Decrease in held-to-maturity financial assets - current		-	-	671,423	20,495
Decrease in financial assets carried at cost - current		-	-	24,000	733
Decrease in investments in debt securities with no active market - current		76,981	2,374	127,491	3,892
(Increase) decrease in secured loans		(146,601)	(4,520)	742,256	22,658
(Increase) in held-to-maturity financial assets - noncurrent		(493,702)	(15,223)	-	-
Increase in derivative financial assets for hedging - current		(374)	(12)	(40,631)	(1,240)
Decrease in investments in debt securities with no active market - noncurrent		1,598	49	-	-
Increase in long-term investments in stocks under equity method		-	-	(883,294)	(26,963)
Disposal of property and equipment		1,987	61	3,541	108
Acquisition of property and equipment		(56,578)	(1,744)	(83,920)	(2,562)
Acquisition of intangible assets		(5,991)	(185)	(2,419)	(74)
Decrease (Increase) in guarantee deposits paid		67,026	2,067	(128,443)	(3,921)
Decrease in funds held by ceding companies		8	-	-	-
Net cash provided by (used in) investing activities		(1,228,691)	(37,887)	269,724	8,233
Cash flows from financing activities					
Decrease in fund held for reinsurers		(185)	(6)	-	-
Bonus paid to employees		(6,184)	(191)	(2,615)	(80)
Cash dividends		(650,605)	(20,062)	(939,083)	(28,665)
Net cash used in financing activities		(656,974)	(20,259)	(941,698)	(28,745)
Effects of exchange rate changes		(15,749)	(486)	9,434	288
Increase in cash and cash equivalents		424,543	13,091	1,171,548	35,761
Cash and cash equivalents at the beginning of periods		1,971,644	60,797	2,396,187	73,144
Cash and cash equivalents at the end of periods		\$2,396,187	\$73,888	\$3,567,735	\$108,905
Supplemental disclosure of cash flows information					
Income tax paid		\$165,139	5,092	\$261,552	\$7,984

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**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Century Insurance Co., Ltd.**  
**Notes to financial statements**  
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**1. Organization and business scope**

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

As of December 31, 2007 and 2008, the total numbers of employees were 1,013 and 1,093, respectively.

**2. Summary of significant accounting policies**

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

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

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

(2) Cash and cash equivalents

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

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(3) Financial assets and financial liabilities

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

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

A. Financial assets at fair value through profit or loss

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

Apart from derivatives and financial instruments designated as at fair value through profit or loss, financial instruments may be reclassified out of the fair value through profit or loss category if the financial instruments are no longer held for the purpose of selling or repurchasing them in the near term, and the following requirements are met:

- a. Financial asset that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- b. Financial instruments that would not have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss category only in rare circumstances.

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The financial instrument shall be reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss shall not be reversed. The fair value of the financial instrument on the date of reclassification becomes its new cost or amortized cost, as applicable.

Financial instrument shall not be reclassified into the fair value through profit or loss category after initial recognition.

**B. Held-to-maturity financial assets**

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

**C. Investments in debt securities with no active market**

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

**D. Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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Available-for-sale financial asset that would have met the definition of loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. Upon reclassification, the fair value on the date of reclassification becomes its new cost or amortized cost, as applicable. Any previous gain or loss on the asset that has been recognized in stockholders' equity shall be amortized over the remaining life of the asset.

**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 depository receipt is the closing price as of the balance sheet date. The fair value of an open-end fund is the net asset value of the fund as of the balance sheet date.

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

**(4) Allowance for bad debts**

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

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(5) Long - term investments under equity method

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

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

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

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

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

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(6) Fixed assets

Fixed assets are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed when occurred. Upon the sale or disposal of fixed assets, the related cost and accumulated depreciation and accumulated depletion are eliminated. Gain or loss resulting from such sale or disposal is recorded as non-operating gain or loss. Depreciation on depreciable assets is calculated on the straight-line method over the estimated service lives prescribed by the “Estimated Useful Life of Fixed Assets Table” published by the ROC Executive Yuan (the “Executive Yuan Depreciation Table”). Fixed assets that are still in use after their useful lives are depreciated based on their residual values and the newly estimated remaining useful lives.

(7) Intangible assets

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

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

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

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

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(8) Accounting for asset impairment

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

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

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

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

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



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(9) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

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C. Available-for-sale financial assets

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

(10) Operating and liability reserves

Operating and liability reserves are recorded in accordance with the Insurance Law, including unearned premiums reserve, claims reserve, special reserve, and premiums deficiency reserve. The actuary provides the figures of such reserves in the financial statements.

(11) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

**(12) Premiums income**

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

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

**(13) Contribution to the stabilization funds**

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

**(14) Pension plan**

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

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

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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 as of the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligations and the fair value of the plan assets.

(15) 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.

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(16) Income Taxes

The Company adopted SFAS No. 22, “ Accounting for Income Taxes”, which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year’s loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if needed. The prior year’s income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

In accordance with Article 49 of Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns with 10% surcharge on its undistributed retained earnings under the Integrated Income Tax System. If there is any tax effects due to adopt forgoing 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.

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

The Company adopted SFAS No. 12, “Accounting for Income Tax Credits” for income tax credits. The income tax credits resulting from the expenditures on the purchases of equipments, R & D, education trainings, and investments in equity shall be recognized at the current period.

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

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

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(17) Capital expenditure expenses

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

(18) Derivative financial instruments

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

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

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

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

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

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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.

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.

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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.

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.



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Hedges of a net investment in a foreign operation

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

(19) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2007 and 2008 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$32.43 and NT\$32.76 provided by Federal Reserve Bank of New York of December 31, 2007 and 2008 are used for the conversion.

(20) Employee bonus and remuneration of directors

Pursuant to Article No.52 issued by Accounting Research and Development Foundation in March 2007, employee bonus and remuneration of directors are rewarded as expenses instead of distribution of earnings.

**3. Changes in accounting and their effects**

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

The above changes in accounting principals does not affect Company’s net income and earnings per share for the year ended December 31, 2008.

- (2) On July, 2008, the company adopted second revision ROC SFAS No.34 “Accounting for financial instrument”.

The above change in accounting principles had no effect on the net income and earnings per share of the Company as of December 31, 2008.

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**4. Cash and cash equivalents**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Petty cash	\$659	\$20	\$346	\$11
Cash on hand	6,833	211	5,870	179
Cash in banks	575,992	17,761	773,244	23,603
Time deposits	1,349,090	41,600	2,010,200	61,361
Cash equivalents	463,613	14,296	778,075	23,751
Total	<u>\$2,396,187</u>	<u>\$73,888</u>	<u>\$3,567,735</u>	<u>\$108,905</u>

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

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Common stock	\$310,955	\$9,588	\$112,372	\$3,430
Beneficiary certificates	247,505	7,632	40,562	1,238
Corporate bonds	132,724	4,093	123,378	3,766
Derivative financial instruments	93	3	-	-
Subtotal	691,277	21,316	276,312	8,434
Add: Valuation adjustment	26,003	802	(57,546)	(1,756)
Total	<u>\$717,280</u>	<u>\$22,118</u>	<u>\$218,766</u>	<u>\$6,678</u>

**6. Available-for-sale financial assets-current**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Common stock	\$1,152,241	\$35,530	\$506,971	\$15,475
Beneficiary certificates	828,491	25,547	879,569	26,849
Corporate bonds	200,000	6,167	799,838	24,415
Financial debentures	901,052	27,785	1,100,784	33,602
Subtotal	3,081,784	95,029	3,287,162	100,341
Add: Valuation adjustment	72,699	2,242	(303,344)	(9,260)
Total	<u>\$3,154,483</u>	<u>\$97,271</u>	<u>\$2,983,818</u>	<u>\$91,081</u>

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**7. Held-to-maturity financial assets-current**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$220,400	\$6,796	\$310,080	\$9,465

**8. Derivative financial assets for hedging - current**

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Valuation adjustment	374	12	41,005	1,252
Total	\$374	\$12	\$41,005	\$1,252

**9. Financial assets carried at cost - current**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Tong Lung Metal Industry Co., Ltd. - preferred stock	\$24,000	\$740	\$-	\$-

**10. Investments in debt securities with no active market - current**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Financial debentures	\$125,889	\$3,882	\$100,131	\$3,057

**11. Premiums receivable**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$1,831,022	\$56,461	\$1,940,860	\$59,245
Less: Allowance for bad debts	(18,310)	(565)	(19,409)	(593)
Net	\$1,812,712	\$55,896	\$1,921,451	\$58,652

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**12. Loans**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Secured loans	\$2,332,534	\$71,925	\$1,572,846	\$48,011
Less: Allowance for bad debts	(90,665)	(2,796)	(73,232)	(2,235)
Net	<u>\$2,241,869</u>	<u>\$69,129</u>	<u>\$1,499,614</u>	<u>\$45,776</u>

Secured loans are secured by real estate.

**13. Held-to-maturity financial assets - noncurrent**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$4,243,049	\$130,837	\$3,571,627	\$109,024
Less: Overseas bonds by payable within one year	(220,400)	(6,796)	(310,080)	(9,465)
Total	<u>\$4,022,649</u>	<u>\$124,041</u>	<u>\$3,261,547</u>	<u>\$99,559</u>

**14. Financial assets carried at cost - noncurrent**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
KGEX. Com Co., Ltd.	<u>\$36,000</u>	<u>\$1,110</u>	<u>\$25,500</u>	<u>\$778</u>

**15. Investments in debt securities with no active market - noncurrent**

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Financial debentures	\$227,622	\$7,019	\$100,131	\$3,057
Less: Financial debentures by payable within one year	(125,889)	(3,882)	(100,131)	(3,057)
Total	<u>\$101,733</u>	<u>\$3,137</u>	<u>\$-</u>	<u>\$-</u>

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**16. Long-term investments under equity method**

Investee	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$424,281	\$13,083	\$362,294	\$11,059
Vista Technology Venture Capital Corp.	7,911	244	6,399	195
Cathay Insurance Company Limited. (Shanghai)	-	-	917,304	28,001
<b>Total</b>	<b>\$432,192</b>	<b>\$13,327</b>	<b>\$1,285,997</b>	<b>\$39,255</b>

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

	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$449,041	\$13,846	\$432,192	\$13,193
Add (less):				
Investment income recognized under the equity method	28,570	881	(40,712)	(1,243)
Cash dividends	(24,000)	(740)	(12,750)	(389)
Increase in investments	-	-	883,294	26,962
Cumulative conversion adjustments	-	-	79,564	2,429
Unrealized gains or losses on financial instruments recognized under the equity investment	(21,419)	(660)	(55,591)	(1,697)
<b>Balance on December 31</b>	<b>\$432,192</b>	<b>\$13,327</b>	<b>\$1,285,997</b>	<b>\$39,255</b>

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B. The investment income (losses) recognized under equity method for the year ended December 31, 2007 and 2008 are listed below:

Investee	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$28,642	\$883	\$6,338	\$193
Vista Technology Venture Capital Corp.	(72)	(2)	(1,497)	(46)
Cathay Insurance Company Limited. (Shanghai)	-	-	(45,553)	(1,390)
Total	\$28,570	\$881	\$(40,712)	\$(1,243)

C. Equity method was applied for the investees whose common stocks was jointly held by the Company and its related parties in an amount over 20%. The investment gains of Vista Technology Venture Capital Corp. for the year ended December 31, 2007 and 2008 were recognized under the equity method based on the respective audited financial statements.

D. The investment gains of Cathay Venture Capital Corp. for the year ended December 31, 2007 and 2008 were recognized under the equity method based on the respective audited financial statements of Cathay Venture Capital Corp.

E. The investment gains of Cathay Insurance Company Limited. for the year ended December 31, 2008 were recognized under the equity method based on the respective audited financial statements of Cathay Insurance Company Limited.

## 17. Property and equipment

Item	December 31, 2007					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$9,995	\$308	\$7,908	\$244	\$2,087	\$64
Other equipments	236,132	7,281	173,069	5,336	63,063	1,945
Subtotal	246,127	7,589	180,977	5,580	65,150	2,009
Prepayments for equipments	11,994	370	-	-	11,994	370
Total	\$258,121	\$7,959	\$180,977	\$5,580	\$77,144	\$2,379

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Item	December 31, 2008					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$2,230	\$68	\$1,741	\$53	\$489	\$15
Other equipments	264,859	8,085	182,666	5,576	82,193	2,509
Subtotal	267,089	8,153	184,407	5,629	82,682	2,524
Prepayments for equipments	34,621	1,057	-	-	34,621	1,057
Total	<u>\$301,710</u>	<u>\$9,210</u>	<u>\$184,407</u>	<u>\$5,629</u>	<u>\$117,303</u>	<u>\$3,581</u>

No equipments of the Company were pledged as of December 31, 2007 and 2008.

**18. Intangible assets - Computer software cost**

Item	January 1,2007		Increase		Decrease		December 31, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software cost	\$43,241	\$1,333	\$8,144	\$252	\$-	\$-	\$51,385	\$1,585
Amortization and impairment								
Amortization	(36,156)	(1,115)	(5,864)	(181)	-	-	(42,020)	(1,296)
Book value	<u>\$7,085</u>	<u>\$218</u>					<u>\$9,365</u>	<u>\$289</u>
Item	January 1,2008		Increase		Decrease		December 31, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software cost	\$51,385	\$1,569	\$8,401	\$256	\$-	\$-	\$59,786	\$1,825
Amortization and impairment								
Amortization	(42,020)	(1,283)	(4,899)	(149)	-	-	(46,919)	(1,432)
Book value	<u>\$9,365</u>	<u>\$286</u>					<u>\$12,867</u>	<u>\$393</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.

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

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Valuation adjustment	41,437	1,278	66,908	2,042
Total	<u>\$41,437</u>	<u>\$1,278</u>	<u>\$66,908</u>	<u>\$2,042</u>

**20. Operating and liability reserve**

	January 1, 2007		Provision		Recovered		December 31, 2007	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$6,064,552	\$187,004	\$6,474,812	\$199,655	\$6,064,552	\$187,004	\$6,474,812	\$199,655
Special reserve	3,186,280	98,251	966,605	29,806	82,494	2,544	4,070,391	125,513
Claims reserve	2,347,833	72,397	2,528,361	77,964	2,347,833	72,397	2,528,361	77,964
Total	<u>\$11,598,665</u>	<u>\$357,652</u>	<u>\$9,969,778</u>	<u>\$307,425</u>	<u>\$8,494,879</u>	<u>\$261,945</u>	<u>\$13,073,564</u>	<u>\$403,132</u>

	January 1, 2008		Provision		Recovered		December 31, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$6,474,812	\$197,644	\$6,755,977	\$206,227	\$6,474,812	\$197,644	\$6,755,977	\$206,227
Special reserve	4,070,391	124,249	880,640	26,881	236,471	7,218	4,714,560	143,912
Claims reserve	2,528,361	77,178	2,686,035	81,991	2,528,361	77,178	2,686,035	81,991
Premiums insufficient								
reserve	-	-	21,360	652	-	-	21,360	652
Total	<u>\$13,073,564</u>	<u>\$399,071</u>	<u>\$10,344,012</u>	<u>\$315,751</u>	<u>\$9,239,644</u>	<u>\$282,040</u>	<u>\$14,177,932</u>	<u>\$432,782</u>

The net unearned premium reserve for the year of 2008 was the insurance and reinsurance business assumed of NT\$6,755,977 (US\$206,227) offsetting by reinsurance business ceded of NT\$1,409,385 (US\$43,022). The net unearned premium reserve for the year of 2007 was the insurance and reinsurance business assumed of NT\$6,474,812 (US\$199,655) offsetting by reinsurance business ceded of NT\$1,225,482 (US\$37,789).



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The claims reserves above represent outstanding claims of NT\$2,126,741 (US\$65,580) and IBNR (Incurred But Not Reported) of NT\$401,620 (US\$12,384) of December 31, 2007. Balances of outstanding claims and IBNR as of December 31, 2008 were NT\$2,279,521 (US\$69,582) and NT\$406,514 (US\$12,409), respectively.

Reserves for operations included the following reserves:

Unearned premium reserve, special reserve, and claims reserve are provided based on the “Regulations on Calculation of Various Insurance Reserves” by Article 0910751651, 0920751929 and 09602505761 of Ministry of Finance :

(1) Unearned premium reserve

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

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

(2) Special reserve

A. Catastrophe reserve :

- a. Addition: Catastrophe reserve should be accrued based on respective reserve rates of various insurance product categories.
- b. Reduction: The amount of assumed claims of catastrophe in excess of NT\$30 million should be deducted from the catastrophe reserve. In addition, the deducted amount is required to be reported to authorities.
- c. Recovery: The catastrophe reserve over 15 years the unearned premium reserve should be reversed and then accrued is required to be reported to authorities.

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B. Contingency reserve: reserve provided for unusual fluctuations of claims or loss ratios.

a. Addition: Thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve.

Provision contingency reserve was thirty and fifteen percentage before and after January, 2008, respectively.

b. Reduction: The amount of actual claims paid for each insurance product categories in excess of the respective catastrophe reserve and expected loss should be deducted from the catastrophe reserve. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.

c. Recovery: Once the accumulated contingency reserve of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income. When the accumulated accidental insurance contingency reserve exceeds 30% of the retained earned premium for the year, the excess amount should be recorded as income. However, authorities can assign or limit the use of the amount based on the development need of the insurance industry.

C. The special reserve for the compulsory liability insurance of motor vehicle is in compliance with the “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.

D. The special reserve of the nuclear hazard insurance is in compliance with the “Accrual of Nuclear Hazard Insurance Reserve”.

E. The residential earthquake insurance product is in compliance of “Regulations for Method of insurance and Contingency allocation on Residential Earthquake”.

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(3) Claims reserve:

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

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

(4) Premiums deficiency reserve :

Effective from January 1, 2008, unexpired insurance contract and to end off assumed risk should be reserved premiums insufficient reserve.

## 21. Common stock

As of December 31, 2007 and 2008, the authorized and issued thousand shares were 231,701 with par value of NT\$10 each.

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**22. Retained earnings**

(1) Legal reserve

Pursuant to the ROC Insurance Act, 20% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued capital stock. This legal reserve can only be used to offset deficit but not for cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if it approves by the Board of Directors.

(2) Undistributed retained earnings

A. According to the Company Act and the Company's articles of incorporations, 20% of the Company's annual earnings, after paying taxes and offsetting deficits, if any, shall be appropriated as legal reserve. In addition to distributing dividend to stockholder and 2% as a bonus for employees, the remainder must be appropriated in accordance with the resolutions approved at the stockholders' meeting.

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

(3) According to the regulations issued by SFC, the Company should assume that dividends for year 2007 would be appropriated to the employee, directors and supervisors, and pro forma earnings per share for the current year.

	For the year ended December 31, 2007	
	NT\$	US\$
A Distribution		
Bonus paid to employees - Cash	\$2,615	\$81
Bonus paid to employees - Stock	-	-
Remuneration paid to directors and supervisors	-	-
B. Earnings per share after income taxes (expressed in dollars)	4.52	0.14
Pro forma earnings per share (expressed in dollars)	4.50	0.14

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

- (4) According to the revised Income Tax Act in 1998, the Company has to pay an extra 10% income tax in the forthcoming tax year for undistributed earnings.
- (5) Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments, since 2007.
- (6) The accrual of employee bonus was based on a certain percentage of net income seated in the article of corporation after considering the legal reserve. The employee bonus was recorded as operating cost and expense at current year. Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2009.

**23. Personnel, depreciation, depletion and amortization expenses**

Item	For the year ended December 31, 2007 (NT\$)			For the year ended December 31, 2008 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$926,922	\$926,922	\$-	\$1,022,200	\$1,022,200
Labor & health insurance expenses	-	46,904	46,904	-	51,565	51,565
Pension expenses	-	41,225	41,225	-	49,197	49,197
Other expenses	-	32,087	32,087	-	35,000	35,000
Depreciation	-	18,797	18,797	-	27,286	27,286
Depletion	-	-	-	-	-	-
Amortization	-	5,864	5,864	-	4,899	4,899

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Item	For the year ended December 31, 2007 (US\$)			For the year ended December 31, 2008 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$28,582	\$28,582	\$-	\$31,203	\$31,203
Labor & health insurance expenses	-	1,446	1,446	-	1,574	1,574
Pension expenses	-	1,271	1,271	-	1,502	1,502
Other expenses	-	989	989	-	1,068	1,068
Depreciation	-	580	580	-	833	833
Depletion	-	-	-	-	-	-
Amortization	-	181	181	-	150	150

**24. Estimated income taxes**

(1) Income tax expenses include the following:

Item	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Income tax calculates on accounting	\$1,311,225	\$40,432	\$689,700	\$21,053
Adjustments:				
Interest income of tax on a separate basis	(26,532)	(818)	(41,116)	(1,255)
Gains (losses) from valuation on financial assets (liabilities)	(16,094)	(496)	72,868	2,224
Gains derived from investment	(26,138)	(806)	(44,891)	(1,370)
Bad debts recovery	(6,684)	(206)	1,413	43
Gains derived from securities transactions	(223,994)	(6,907)	181,452	5,539
Investment (gains) losses recognized by the equity method	(28,570)	(881)	40,712	1,243
Unrealized gains (losses) on foreign exchanges	19,849	612	(9,045)	(276)
Realized losses on foreign exchanges	(19,477)	(601)	(19,849)	(606)

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Item	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Unrealized impairment loss	-	-	10,500	320
Unrealized pension expenses	1,811	56	466	14
Others	1,461	45	1,584	49
Taxable Income	986,857	30,430	883,794	26,978
Multiply by : tax rate	25%	25%	25%	25%
Subtotal	246,714	7,608	(220,949)	6,745
Tax effects under integrated income tax systems	15,631	482	(18,145)	(554)
Subtotal	262,345	8,090	202,804	6,191
Taxed separately	2,456	76	5,320	162
Adjustments of prior year's income tax	(2,066)	(64)	(4,448)	(136)
Deferred income tax expenses (benefits)	2,159	66	7,540	230
Total income tax expenses	\$264,894	\$8,168	\$211,216	\$6,447

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

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$51,409	\$1,585	\$46,130	\$1,408
Total deferred income tax liabilities	\$-	\$-	\$2,261	\$69
B. Temporary differences:				
Bad debts exceeding legal limitation	\$124,271	\$3,832	\$125,684	\$3,837
Unrealized losses on foreign exchanges	19,849	612	-	-
Unrealized gain on foreign exchanges	-	-	(9,045)	(276)
Unrealized losses from valuation on financial assets	1,679	52	-	-
Unrealized losses from valuation on financial liabilities	41,437	1,277	25,471	777
Others	5,216	161	5,682	173
Total	\$192,452	\$5,934	\$147,792	\$4,511

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	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
C. Investment tax credit	\$3,296	\$102	\$6,921	\$211

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
D. Deferred income tax assets-current	\$51,409	\$1,585	\$46,130	\$1,408
Deferred income tax liabilities-current	-	-	(2,261)	(69)
Net balance deferred income tax assets				
-current	\$51,409	\$1,585	\$43,869	\$1,339

- (3) The Company's income tax returns have been examined by the tax authority through year 2003, however, the Company has requested the recheck on the tax return of year 2003. The results of the recheck of the tax authority were received and disputes on the bond premiums tax issue were filed by the Company. The Company appealed income tax return of year 1999, 2001 and 2002 is pending at the supreme court.
- (4) Please refer to the following columns regarding law of investment tax credits, the credits items and amount of investment tax credits, the remaining balance and the expiry year:

Law of Investment tax credit	The credits items	The amount of investment tax credit		The remaining balance		Expiry year
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Personnel training	\$3,296	\$100	\$3,296	\$100	2011
		3,625	111	3,625	111	2012
Total		\$6,921	\$211	\$6,921	\$211	

- (5) Information related to imputation:

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$11,141	\$344	\$6,631	\$202



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	December 31, 2007	December 31, 2008
	(Actual)	(Estimated)
Imputation creditable ratio	1.61%	1.39%
	1.61%	1.39%

(6) Information relating of undistributed earnings:

	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Year				
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	1,046,331	32,264	478,484	14,606
Total	\$1,046,331	\$32,264	\$478,484	\$14,606

Net income after tax for the year ended December 31, 2007 and 2008 are not included in the undistributed earnings after 1998 expressed above.

**25. Earnings per share**

	For the year ended		For the year ended	
	December 31, 2007		December 31, 2008	
	NT\$	US\$	NT\$	US\$
Net income (A)	\$1,046,331	\$32,264	\$478,484	\$14,606
Outstanding number of shares (in thousands shares)(B)	231,701	231,701	231,701	231,701
Weighted average outstanding number of shares (in thousands shares) (C)	231,701	231,701	231,701	231,701
Earnings per shares (in dollars)(A)/(C)	\$4.52	\$0.14	\$2.07	\$0.06

**26. Related party transactions**

(1) Related parties

Name	Relationship
Cathay Financial Holdings Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay United Bank Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Securities Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Pacific Venture Capital Co., Ltd.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Capital Management Inc.	Subsidiary of Cathay Financial Holdings Co., Ltd.

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Name	Relationship
Cathay II Venture Capital Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Cathay Venture Capital Corp.	Subsidiary of Cathay Financial Holdings Co., Ltd.
Vista Technology venture capital Corp.	An equity method investee
Cathay Insurance Company Limited. (Shanghai)	Subsidiary of the Company.
Symphox Information Co., Ltd	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Consulting Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance Co., Ltd. (Shanghai)	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Life Insurance (Vietnam) Co., Ltd.	Subsidiary of Cathay Life Insurance Co., Ltd.
Cathay Securities Investment Trust Co., Ltd.	The investee is accounted for using the equity
Cathay Bank Property Agency of Association	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Bank Life Insurance Agency of Association	Subsidiary of Cathay United Bank Co, Ltd.
Seaward Card Co., Ltd.	Subsidiary of Cathay United Bank Co, Ltd.
Indovina Bank Limited.	Subsidiary of Cathay United Bank Co, Ltd.
Cathay Futures Co., Ltd.	Subsidiary of Cathay Securities Co., Ltd.
Cathay Pacific Partners	Subsidiary of Cathay Capital Management Inc. (2008.12.31 liquidation)
Seaward Leasing Ltd.	Related Party disclosed according to Accounting Standard No. 6
Cathay Real Estate Development Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Cathay General Hospital	Related Party disclosed according to Accounting Standard No. 6
Lin Yuan Property Management Co., Ltd.	Related Party disclosed according to Accounting Standard No. 6
Peng Yi-Miao	Assistant manager of the Company
Fan Shi-Kai	Manager of the Company
Que Ming-Huang	Manager of the Company
Chang Zhao-Yang	Manager of the Company
Ming Yi-Ching	Manager of the Company
Jian Jie	Manager of the Company

(2) Significant transactions with related parties

Transactions with related parties than NT\$3,000 (US\$92) will no longer be listed since first quarter of 2008.

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A. Premiums income

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$130,679	\$4,030	\$49,272	\$1,504
Cathay United Bank	152,728	4,709	153,980	4,700
Cathay General Hospital	2,425	75	6,878	210
Seaward Leasing Ltd.	10,958	338	9,759	298
Cathay Securities Corp.	442	13	-	-
Cathay Real Estate Development Co., Ltd.	1,806	56	-	-
Lin Yuan Property Management Co., Ltd.	1,628	50	-	-
Total	<u>\$300,666</u>	<u>\$9,271</u>	<u>\$219,889</u>	<u>\$6,712</u>

B. Premiums receivable

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$42,825	\$1,321	\$-	\$-
Cathay United Bank	50,606	1,560	5,696	174
Cathay General Hospital	-	-	-	-
Seaward Leasing Ltd.	417	13	-	-
Cathay Real Estate Development Co., Ltd.	679	21	-	-
Lin Yuan Property Management Co., Ltd.	1,443	44	-	-
Total	<u>\$95,970</u>	<u>\$2,959</u>	<u>\$5,696</u>	<u>\$174</u>

C. Insurance claims payment

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$1,287	\$39	\$17,784	\$543
Cathay Life Insurance Co., Ltd.	11,989	370	6,535	199
Total	<u>\$13,276</u>	<u>\$409</u>	<u>\$24,319</u>	<u>\$742</u>

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D. Cash in banks

Name	Type	For the year ended December 31, 2007		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$420,729	0.10%	\$221
	Time deposits	\$488,650	2.16%~2.49%	\$10,052

Name	Type	For the year ended December 31, 2007		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$12,973	0.10%	\$7
	Time deposits	\$15,068	2.16%~2.49%	\$310

Name	Type	For the year ended December 31, 2008		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$743,190	0.10%	\$-
	Time deposits	\$736,372	2.18%~2.685%	\$11,772

Name	Type	For the year ended December 31, 2008		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$22,686	0.10%	\$-
	Time deposits	\$22,478	2.18%~2.685%	\$359

E. Loans

Name	For the year ended December 31, 2007			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Que Ming-Huang	\$5,800	\$5,249	2.73%	\$139
Chang Zhao-Yang	\$3,475	\$3,365	2.73%	\$87
Fan Shi-Kai	\$10,600	\$10,280	2.73%	\$171
Peng Yi-Miao	\$5,000	\$4,904	2.73%	\$66
Jian Jie	\$1,461	\$1,361	2.73%	\$36

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Name	For the year ended December 31, 2007			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$179	\$162	2.37%	\$4
Chang Zhao-Yang	\$107	\$104	2.37%	\$3
Fan Shi-Kai	\$327	\$317	2.37%	\$5
Peng Yi-Miao	\$154	\$151	2.37%	\$2
Jian Jie	\$45	\$42	2.37%	\$1

Name	For the year ended December 31, 2008			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Que Ming-Huang	\$3,852	\$3,836	2.95%	\$-
Chang Zhao-Yang	\$3,266	\$3,257	2.95%	\$-
Ming Yi-Ching	\$5,936	\$5,915	2.95%	\$-
Fan Shi-Kai	\$9,425	\$9,392	2.95%	\$-

Name	For the year ended December 31, 2008			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$118	\$117	2.95%	\$-
Chang Zhao-Yang	\$100	\$99	2.95%	\$-
Ming Yi- Ching	\$181	\$181	2.95%	\$-
Fan Shi-Kai	\$288	\$287	2.95%	\$-

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

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$155,324	\$4,789	\$-	\$-

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G. Available-for-sale financial assets-current

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$84,757	\$2,614	\$92,032	\$2,809

H. Guarantee deposits paid

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$18,994	\$586	\$20,571	\$628
Cathay Futures Corp.	7,092	218	4,854	148
Total	\$26,086	\$804	\$25,425	\$776

I. Other asset - other

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Insurance Company Limited. (Shanghai)	\$-	\$-	\$55,475	\$1,693

J. Other payable

Name	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$251,961	\$7,770	\$194,136	\$5,926
Cathay Life Insurance Co., Ltd.	77,960	2,404	153,614	4,689
Symphox Information Co., Ltd.	594	18	-	-
Total	\$330,515	\$10,192	\$347,750	\$10,615

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**K. Operating costs**

Name	Summary	For the years ended			
		December 31,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Handing fee paid	\$3,906	\$120	\$3,618	\$110
Cathay Bank Property Agency of Association	Commission expenses	840	26	-	-
Cathay United Bank	Handing fee paid	-	-	26,553	811
<b>Total</b>		<b>\$4,746</b>	<b>\$146</b>	<b>\$30,171</b>	<b>\$921</b>

**L. Operating expenses**

Name	Summary	For the years ended			
		December 31,			
		2007		2008	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Rental expenses	\$72,040	\$2,221	\$84,615	\$2,583
	Marketing expenses	748,367	23,076	877,557	26,788
	Party premium expenses	8,199	253	8,004	244
	Training expense	1,927	60	-	-
	Administrative expenses	4,701	145	6,650	203
Cathay United Bank	Marketing expenses	44,475	1,371	55,488	1,694
Seaward Leasing Ltd.	Rental expenses	2,921	90	4,107	125
<b>Total</b>		<b>\$882,630</b>	<b>\$27,216</b>	<b>\$1,036,421</b>	<b>\$31,637</b>

**M. Other expenses**

Name	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$15,570	\$480	\$17,063	\$521
Seaward Card Co., Ltd.	1,535	47	3,121	95
Cathy Lin Yuan Security Co., Ltd.	803	25	-	-
Lin Yuan Property Management Co., Ltd.	2,332	72	-	-
<b>Total</b>	<b>\$20,240</b>	<b>\$624</b>	<b>\$20,184</b>	<b>\$616</b>

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N. Other

As of December 31, 2007 and 2008 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	December 31,	
	2007	2008
Forward foreign exchange contracts	US\$21,660	US\$10,841
CS contracts	US\$34,550	US\$24,550
IRS	NT\$200,000	NT\$600,000
	(US\$6,167)	(US\$18,315)

O. Key management personnel compensation in total:

Item	For the year ended December 31, 2007		For the year ended December 31, 2008	
	NT\$	US\$	NT\$	US\$
	Wages, awards, Special, Service execution expense, bonus	\$26,198	\$808	\$29,837

The management of the Company includes directors, supervisors, vice general managers and the above. Please refer to the report for annual stockholders' meeting for details of total remunerations paid to above management.

**27. Pledged assets**

Item	December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
Government bonds	\$350,272	\$10,801	\$459,847	\$14,037

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



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**28. Commitment and contingent liabilities**

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

B. As of December 31, 2008, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	Amount (NT\$)	Amount (US\$)
January 1, 2008 ~ December 31, 2009	\$91,585	\$2,796
January 1, 2009 ~ December 31, 2010	94,118	2,873
January 1, 2010 ~ December 31, 2011	96,727	2,952
January 1, 2011 ~ December 31, 2012	99,414	3,035
January 1, 2012 ~ December 31, 2013	102,181	3,119
Total	\$484,025	\$14,775

**29. Significant disaster losses:** None.

**30. Subsequent events:** None.

**31. Others**

(1) Pension related information

A. Pension funded status:

	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
(1) Vested benefit obligation	\$(68,764)	\$(2,120)	\$(73,114)	\$(2,232)
(2) Non-vested benefit obligation	(173,844)	(5,361)	(189,275)	(5,778)
(3) Accumulated benefit obligation	(242,608)	(7,481)	(262,389)	(8,010)

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	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
(4) Additional benefits based on future salaries	(78,864)	(2,432)	(85,573)	(2,612)
(5) Projected benefit obligation	(321,472)	(9,913)	(347,962)	(10,622)
(6) Fair value of plan assets	227,903	7,028	244,522	7,464
(7) Vested benefit	218,057	6,724	224,251	6,845
(8) Funded status=(5)+(6)	(93,569)	(2,885)	(103,440)	(3,158)
(9) Unrecognized transitional net benefit obligation (net assets)	6,382	197	5,802	177
(10) Unrecognized prior service cost	-	-	-	-
(11) Unrecognized pension gain and loss	81,970	2,528	91,956	2,807
(12) Adjustment to minimum liability accrued pension liability	(9,489)	(293)	(12,185)	(371)
(13) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12)	<u>\$ (14,706)</u>	<u>\$ (453)</u>	<u>\$ (17,867)</u>	<u>\$ (545)</u>

**B. Net periodic pension cost:**

	For the years ended December 31,			
	2007		2008	
	NT\$	US\$	NT\$	US\$
(1) Service cost	\$17,937	\$553	\$21,565	\$658
(2) Interest cost	9,507	293	9,823	300
(3) Projected return on plan assets	(7,631)	(235)	(7,263)	(222)
(4) Amortization of unrealized transit on obligation (asset)	580	18	580	18
(5) Amortization prior service cost	-	-	-	-
(6) Amortization pension gain or loss	1,340	41	2,622	80
(7) Net periodic pension cost	<u>\$21,733</u>	<u>\$670</u>	<u>\$27,327</u>	<u>\$834</u>

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C. Actuarial assumptions

	For the years ended December 31,	
	2007	2008
(1) Discount rate	3.25%	3.00%
(2) Rate of increase in compensation (internal)	2.00%	2.00%
(3) Rate of increase in compensation (external)	1.08%~8.69%	1.08%~8.69%
(4) Expected return on pension plan assets	3.25%	3.00%

(2) Risk management policies and hedge strategies

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

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

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk.

Market Risk

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

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

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

Credit risk

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

Operational Risk

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

Liquidity risk

The company's exposure to liquidity risk is minimal.

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(3) Financial instruments related information:

Assets	December 31, 2007			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$2,396,187	\$2,396,187	\$73,888	\$73,888
Financial assets at fair value through profit or loss - current	717,239	717,239	22,117	22,117
Available-for-sale financial assets - current	3,154,483	3,154,483	97,271	97,271
Held-to-maturity financial assets-current	220,400	220,400	6,796	6,796
Financial assets carried at cost-current	24,000	24,000	740	740
Investments in debt securities with no active market-current	125,889	125,889	3,882	3,882
Receivables	2,056,762	2,056,762	63,421	63,421
Prepaid reinsurance premiums ceded	1,225,482	1,225,482	37,788	37,788
Claims recoverable from reinsurers	1,264,391	1,264,391	38,988	38,988
Due from reinsurers and ceding companies	53,653	53,653	1,654	1,654
Account receivable-reinsurance	41,628	41,628	1,284	1,284
Secured loans	2,241,869	2,241,869	69,129	69,129
Held-to-maturity financial assets- noncurrent	4,022,649	4,022,649	124,041	124,041
Financial assets carried at cost-noncurrent	36,000	36,000	1,110	1,110
Investments in debt securities with no active market – noncurrent	101,733	101,733	3,137	3,137
Long-term investments under equity method	432,192	432,192	13,327	13,327
Guarantee deposits paid	442,551	442,551	13,646	13,646
Derivative financial instruments:				
Financial assets at fair value through profit or loss – current				
Options Contract	41	41	1	1
Derivative financial assets for hedging				
IRS	374	374	12	12
Liabilities				
Non-derivative financial instrument:				
Claims outstanding	1,909	1,909	59	59
Due to reinsurers and ceding companies	377,353	377,353	11,636	11,636
Account payable-reinsurance	870,741	870,741	26,850	26,850
Operating and liabilities reserve	13,073,564	13,073,564	403,132	403,132
Derivative financial instruments:				
Financial liabilities at fair value through Profit or loss-current				
Foreign exchange SWAP	41,437	41,437	1,278	1,278

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Assets	December 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$3,567,735	\$3,567,735	\$108,905	\$108,905
Financial assets at fair value through profit or loss - current	218,766	218,766	6,678	6,678
Available-for-sale financial assets - current	2,983,818	2,983,818	91,081	91,081
Held-to-maturity financial assets - current	310,080	310,080	9,465	9,465
Investments in debt securities with no active market - current	100,131	100,131	3,057	3,057
Receivables	2,164,340	2,164,340	66,066	66,066
Prepaid reinsurance premiums ceded	1,409,385	1,409,385	43,021	43,021
Claims recoverable from reinsurers	1,245,730	1,245,730	38,026	38,026
Due from reinsurers and ceding companies	207,042	207,042	6,320	6,320
Account receivable - reinsurance	26,554	26,554	811	811
Secured loans	1,499,614	1,499,614	45,776	45,776
Held-to-maturity financial assets - noncurrent	3,261,547	3,261,547	99,559	99,559
Financial assets carried at cost-noncurrent	25,500	25,500	778	778
Long-term investments under equity method	1,285,997	1,285,997	39,255	39,255
Guarantee deposits paid	570,993	570,993	17,430	17,430
Derivative financial instruments:				
Derivative financial assets for hedging				
IRS	41,005	41,005	1,252	1,252
<b>Liabilities</b>				
Non - derivative financial instrument:				
Claims outstanding	15,209	15,209	464	464
Due to reinsurers and ceding companies	458,211	458,211	13,987	13,987
Account payable - reinsurance	838,615	838,615	25,599	25,599
Operating and liabilities reserve	14,177,932	14,177,932	432,782	432,782
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss - current				
Foreign exchange SWAP	66,908	66,908	2,042	2,042

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

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

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⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at December 31, 2007 and 2008:

Financial Instruments	December 31,			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	2007	2008	2007	2008
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit or				
loss - current	\$717,239	\$218,766	\$-	\$-
Available-for-sale financial assets - current	3,154,483	2,983,818	-	-
Held-to-maturity financial asset - current	-	-	220,400	310,080
Financial asset carried at cost - current	-	-	24,000	-
Investment in debt securities with no active				
market-current	-	-	125,889	100,131
Held-to-maturity financial assets - noncurrent	-	-	4,022,649	3,261,547
Financial assets carried at cost - noncurrent	-	-	36,000	25,500
Investment in debt securities with no active				
market - noncurrent	-	-	101,733	-
Long-term investments under equity method	-	-	432,192	1,285,997
<u>Assets- derivative</u>				
Financial assets at fair value through profit				
and loss – current				
Option	41	-	-	-
Derivative financial assets for hedging-current				
IRS	374	41,005	-	-
<u>Liability-derivative</u>				
Financial liability at fair value through profit				
and loss - current				
Foreign exchange SWAP	41,437	66,908	-	-



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Financial Instruments	December 31,			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	2007	2008	2007	2008
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit or loss - current	\$22,117	\$6,678	\$-	\$-
Available-for-sale financial assets - current	97,271	91,081	-	-
Held-to-maturity financial asset - current	-	-	6,796	9,465
Financial asset carried at cost - current	-	-	740	-
Investment in debt securities with no active market - current	-	-	3,882	3,057
Held-to-maturity financial assets - noncurrent	-	-	124,041	99,559
Financial assets carried at cost - noncurrent	-	-	1,110	778
Investment in debt securities with no active market - noncurrent	-	-	3,137	-
Long-term investments under the equity method	-	-	13,327	39,255
<u>Assets-derivative</u>				
Financial assets at fair value through profit or loss-current				
Option	1	-	-	-
Derivative financial liabilities for hedging - current				
IRS	12	1,252	-	-
<u>Liability- derivative</u>				
Financial liability at fair value through profit or loss-current				
Foreign exchange SWAP	1,278	2,042	-	-

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at December 31, 2007 and 2008:

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Fixed interest rate:

① December 31, 2007

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$220,400	\$6,796	\$846,449	\$26,101	\$-	\$-	\$-	\$-
Investments in debt securities								
with no active market	125,889	3,882	101,733	3,137	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Held-to-maturity financial assets	\$618,948	\$19,086	\$2,557,252	\$78,854	\$4,243,049	\$130,837		
Investments in debt securities								
with no active market	-	-	-	-	227,622	7,019		

② December 31, 2008

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$310,080	\$9,465	\$-	\$-	\$-	\$-	\$361,346	\$11,030
Investments in debt securities								
with no active market	100,131	3,057	-	-	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Held-to-maturity financial assets	\$239,536	\$7,312	\$2,660,665	\$81,217	\$3,571,627	\$109,024		
Investments in debt securities								
with no active market	-	-	-	-	100,131	3,057		

(5) Credit risk

The Company's exposure to credit risk is minimal.

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(6) Fair value hedges

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		December 31, 2007		December 31, 2008	
		NT\$	US\$	NT\$	US\$
Overseas bonds	Foreign exchange SWAP	<u>\$(41,437)</u>	<u>\$(1,278)</u>	<u>\$(66,908)</u>	<u>\$(2,042)</u>

(7) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at December 31, 2008:

Cash flow hedges-IRS

① December 31, 2008

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$6,105	2.65%	Each quarter	2014/12/31
200,000	6,105	2.40%	Each quarter	2012/9/28
200,000	6,105	2.785%	Each quarter	2015/4/30

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized loss on financial instruments were recognized in equity by NT\$374 (US\$12) as of December 31, 2007. Unrealized gains on financial instruments were recognized in equity by NT\$41,005 (US\$1,252) as of December 31, 2008.

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(8) Discretionary account management

Item	December 31, 2007			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$264,389	\$8,152	\$264,389	\$8,152
Short-term notes	70,534	2,175	70,534	2,175
Cash in banks	163,270	5,035	163,270	5,035
Net other assets less liabilities	14,962	461	14,962	461
Total	\$513,155	\$15,823	\$513,155	\$15,823

  

Item	December 31, 2008			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$69,124	\$2,110	\$69,124	\$2,110
Short - term notes	241,251	7,364	241,251	7,364
Cash in banks	240,434	7,339	240,434	7,339
Net other assets less liabilities	849	26	849	26
Total	\$551,658	\$16,839	\$551,658	\$16,839

As of December 31, 2007 and 2008, the Company had discretionary account management contracts in the amount of NT\$400,000 (US\$12,334) and NT\$600,000 (US\$18,315), respectively.

(9) 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.

(10) Material Contract: None.

(11) Presentation of Financial Statements:

Certain accounts in financial statements for the year ended December 31, 2007 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2008.

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**32. Information for investment in Mainland China**

On June 30, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$28,960 as the registered capital to establish a China-based general insurance subsidiary (in form of joint venture with Cathay Life Insurance). The Company has received approved from the China Insurance Regulatory Commission on October 8, 2007 to form a joint venture general insurance company. The Company and Cathay Life Insurance subsidiary, Cathay Insurance Company Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on August 26, 2008. As of December 31, 2008, the Company's remittances to this company totaled approximately US\$27,820.

**33. Segment information:** None.