

**Cathay Century Insurance Co., Ltd.**  
**Unaudited Financial Statements**  
**Together with**  
**Review report of independent auditors**  
**As of March 31, 2008 and 2009**

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 Review Report Originally Issued in Chinese**  
**Review Report of Independent Auditors**

Board of Directors  
Cathay Century Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the “Company”) as of March 31, 2008 and 2009, and the related statements of income, changes in stockholders’ equity, and cash flows for the three-month periods then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to issue a review report based on our reviewed.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the three-month periods ended March 31, 2008 and 2009 in order for them to be 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 generally accepted accounting principles in the Republic of China.

ERNST & YOUNG  
Taipei, Taiwan  
Republic of China  
April 15, 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.

## Cathay Century Insurance Co., Ltd.

## Unaudited statements of income

For the three months ended March 31, 2008 and 2009

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

Items	Notes	January 1-March 31, 2008		January 1-March 31, 2009	
		NTS	US\$	NTS	US\$
Operating revenues	2				
Premiums income		\$2,896,546	\$95,375	\$2,939,724	\$86,794
Reinsurance commission earned		114,791	3,780	87,251	2,576
Claims recovered from reinsurers		336,503	11,080	391,789	11,567
Recovered unearned premiums reserve		5,249,330	172,846	5,346,592	157,856
Recovered special claim reserve		107,237	3,531	77,626	2,292
Recovered claims reserve		79,957	2,633	104,241	3,078
Recovered premiums insufficient reserve		-	-	21,360	631
Handling fee earned		82	3	22	1
Interest revenues		92,545	3,047	81,547	2,408
Gains from valuation on financial assets		-	-	26,689	788
Gains from valuation on financial liabilities		41,134	1,354	4,912	145
Gains on investments recognized under the equity method	2,15	5,476	180	-	-
Exchanges gains		-	-	125,102	3,693
Gains on disposal of investments		164,007	5,400	-	-
Subtotal		9,087,608	299,229	9,206,855	271,829
Operating costs	2				
Reinsurance premiums ceded		(1,013,358)	(33,367)	(880,246)	(25,989)
Commissions expenses		(40,471)	(1,333)	(23,087)	(682)
Insurance claims payment		(1,341,468)	(44,171)	(1,454,409)	(42,941)
Provision for unearned premiums reserve		(5,253,973)	(172,999)	(5,351,039)	(157,988)
Provision for special claim reserve		(160,573)	(5,287)	(223,058)	(6,586)
Contribution to the stabilization funds		(5,571)	(183)	(5,630)	(166)
Provision for claims reserve		(104,241)	(3,432)	(105,679)	(3,120)
Provision for premiums insufficient reserve		(6,113)	(201)	(26,800)	(791)
Handling fee paid		(67,622)	(2,227)	(72,986)	(2,155)
Losses from valuation on financial assets		(46,510)	(1,531)	-	-
Losses on recognized under the equity method investments		-	-	(8,063)	(238)
Exchanges losses		(270,155)	(8,896)	-	-
Losses on disposal of investments		-	-	(183,924)	(5,430)
Other operating costs		(2,074)	(68)	(1,059)	(31)
Subtotal		(8,312,129)	(273,695)	(8,335,980)	(246,117)
Operating gross profit		775,479	25,534	870,875	25,712
Operating expenses	2				
Marketing expenses		(504,530)	(16,613)	(519,870)	(15,349)
Management and general affairs expenses		(91,283)	(3,005)	(96,962)	(2,862)
Operating income		179,666	5,916	254,043	7,501
Non-operating revenues					
Gains on disposal of property and equipment		355	12	-	-
Other non-operating revenues		28	1	-	-
Subtotal		383	13	-	-
Non-operating expenses					
Losses on disposal of property and equipment		(1,664)	(55)	(6)	-
Miscellaneous expenses		(27)	(1)	(26)	(1)
Subtotal		(1,691)	(56)	(32)	(1)
Income from continuing operations before income taxes		178,358	5,873	254,011	7,500
Income taxes	2,24	(13,322)	(439)	(75,832)	(2,239)
Income from continuing operations after income taxes		165,036	5,434	178,179	5,261
Net income		\$165,036	\$5,434	\$178,179	\$5,261
Earning per share (In dollars)	25				
Income before income taxes		\$0.77	\$0.03	\$1.10	\$0.03
Net income		\$0.71	\$0.02	\$0.77	\$0.02

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

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

**Unaudited statements of changes in stockholders' equity**

**For the three months ended March 31, 2008 and 2009**

**(Expressed in thousands of dollars)**

Summary	Common stock		Capital surplus		Retained earnings				Equity adjustments				Total			
					Legal reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative conversion adjustments		Net loss not yet 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, 2008	\$2,317,006	\$76,293	\$1,929	\$64	\$416,834	\$13,725	\$1,046,331	\$34,453	\$90,908	\$2,994	\$-	\$-	\$(3,108)	\$(102)	\$3,869,900	\$127,427
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	(53,138)	(1,750)	-	-	-	-	(53,138)	(1,750)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	(49,580)	(1,633)	-	-	(49,580)	(1,633)
Net Income for the three months ended March 31, 2008	-	-	-	-	-	-	165,036	5,434	-	-	-	-	-	-	165,036	5,434
Balance on March 31, 2008	<u>\$2,317,006</u>	<u>\$76,293</u>	<u>\$1,929</u>	<u>\$64</u>	<u>\$416,834</u>	<u>\$13,725</u>	<u>\$1,211,367</u>	<u>\$39,887</u>	<u>\$37,770</u>	<u>\$1,244</u>	<u>\$(49,580)</u>	<u>\$(1,633)</u>	<u>\$(3,108)</u>	<u>\$(102)</u>	<u>\$3,932,218</u>	<u>\$129,478</u>
Balance on January 1, 2009	\$2,317,006	\$68,409	\$1,929	\$57	\$521,467	\$15,396	\$478,484	\$14,127	\$(295,628)	\$(8,728)	\$79,564	\$2,349	\$(6,383)	\$(189)	\$3,096,439	\$91,421
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	135,720	4,007	-	-	-	-	135,720	4,007
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	27,760	820	-	-	27,760	820
Net Income for the three months ended March 31, 2009	-	-	-	-	-	-	178,179	5,261	-	-	-	-	-	-	178,179	5,261
Balance on March 31, 2009	<u>\$2,317,006</u>	<u>\$68,409</u>	<u>\$1,929</u>	<u>\$57</u>	<u>\$521,467</u>	<u>\$15,396</u>	<u>\$656,663</u>	<u>\$19,388</u>	<u>\$(159,908)</u>	<u>\$(4,721)</u>	<u>\$107,324</u>	<u>\$3,169</u>	<u>\$(6,383)</u>	<u>\$(189)</u>	<u>\$3,438,098</u>	<u>\$101,509</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

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

**Unaudited statements of cash flows**

**For the three months ended March 31, 2008 and 2009**

**(Expressed in thousands of dollars)**

Items	Notes	January 1-March 31,2008		January 1-March 31,2009	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income		\$165,036	\$5,434	\$178,179	\$5,261
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		2,581	85	1,486	44
Depreciation		5,596	184	6,425	190
Provision for reserve for operations		5,524,900	181,920	5,706,576	168,485
Recovered unearned premiums reserve		(5,249,330)	(172,846)	(5,346,592)	(157,856)
Recovered special claim reserve		(107,237)	(3,531)	(77,626)	(2,292)
Recovered claims reserve		(79,957)	(2,633)	(104,241)	(3,078)
Recovered premiums insufficient reserve		-	-	(21,360)	(631)
Gains on disposal of property and equipment		(355)	(12)	-	-
Losses on disposal of property and equipment		1,664	55	6	-
(Gains) losses from valuation on financial assets		46,510	1,532	(26,689)	(788)
Gains from valuation on financial liabilities		(41,134)	(1,354)	(4,912)	(145)
Gain on investments recognized under the equity method		(5,476)	(180)	8,063	238
Effects of exchange rate changes		270,155	8,896	(125,102)	(3,693)
Decrease (increase) in financial assets at fair value through profit or loss - current		74,293	2,446	(172,774)	(5,101)
(Increase) decrease in notes receivable		(10,232)	(337)	34,412	1,016
Decrease in premiums receivable		144,730	4,766	158,883	4,691
Increase in claims recoverable from reinsurers		(96,336)	(3,172)	(12,103)	(357)
(Increase) decrease in prepaid reinsurance premiums		(19,522)	(643)	20,143	594
Increase in due from reinsurers and ceding companies		(16,646)	(548)	(20,638)	(609)
Decrease (increase) in accounts receivable-reinsurance		9,744	321	(8,003)	(236)
Dncrease in other accounts receivable		27,581	908	27,641	816
Decrease in prepayments		346	11	420	12
(Increase) decrease in deferred income tax assets-current		(41,205)	(1,357)	36,776	1,086
Increase in overdue receivables		(178,478)	(5,877)	(110,827)	(3,272)
Increase in other assets-others		(27,814)	(916)	(4,619)	(136)
(Decrease) increase in commissions payable		(58)	(2)	754	22
Increase in claims outstanding		7,110	234	7,309	216
Increase in due to reinsurers and ceding companies		858	28	3,710	109
Decrease in accounts payable-reinsurance		(25,322)	(834)	(88,018)	(2,599)
Decrease in other payables		(97,204)	(3,201)	(126,405)	(3,732)
Increase decrease in accrued pension liabilities		466	16	(106)	(3)
Increase in other liabilities-others		188,603	6,210	72,876	2,151
Increase in claims reserve		234,210	7,712	50,321	1,485
Net cash provided by operating activities		<u>708,077</u>	<u>23,315</u>	<u>63,965</u>	<u>1,888</u>

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Unaudited statements of cash flows-(Continued)

For the three months ended March 31, 2008 and 2009

(Expressed in thousands of dollars)

Items	Notes	January 1-March 31,2008		January 1-March 31,2009	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
(Increase) decrease in available-for-sale financial assets - current		(1,961)	(65)	97,489	2,878
Decrease in held-to-maturity financial assets - current		-	-	202,229	5,971
Decrease in investments in debt securities with no active market - current		316	10	-	-
Decrease in secured loans		364,217	11,993	23,507	694
Decrease in held-to-maturity financial assets - noncurrent		545,226	17,953	-	-
Decrease in investments in debt securities with no active market - noncurrent		398	13	100,131	2,956
Increase in other financial assets - noncurrent		(883,294)	(29,084)	-	-
Disposal of property and equipment		564	19	-	-
Acquisition property and equipment		(39,912)	(1,314)	(2,813)	(83)
Acquisition of intangible assets		(141)	(5)	(40)	(1)
(Increase) decrease in guarantee deposits paid		(16,241)	(535)	64,920	1,917
Net cash provided by (used in) investing activities		(30,828)	(1,015)	485,423	14,332
Effects of exchange rate changes		(270,155)	(8,896)	125,102	3,694
Increase in cash and cash equivalents		407,094	13,404	674,490	19,914
Cash and cash equivalents at the beginning of periods		2,396,187	78,900	3,567,735	105,336
Cash and cash equivalents at the end of periods		\$2,803,281	\$92,304	\$4,242,225	\$125,250
Supplemental disclosure of cash flows information					
Income tax paid		\$2,496	\$82	\$2,546	\$75

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2008 and 2009 were NT\$30.37 and NT\$33.87 to US\$1.00)

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**Cathay Century Insurance Co., Ltd.**  
**Notes to unaudited financial statements**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**  
**As of March 31, 2008 and 2009**

**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 March 31, 2008 and 2009, the total numbers of employees were 1,052 and 1,103, 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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**Notes to unaudited financial statements (continued)**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**  
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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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**Cathay Century Insurance Co., Ltd.**

**Notes to unaudited financial statements (continued)**

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

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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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**Notes to unaudited financial statements (continued)**  
**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**  
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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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**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**  
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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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**(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)**  
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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.

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

(15) Foreign currency transactions

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 March 31, 2008 and 2009 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$30.37 and NT\$33.87 provided by Federal Reserve Bank of New York of March 31, 2008 and 2009 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**

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 three months ended March 31, 2008.

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**4. Cash and cash equivalents**

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Petty cash				
Cash on hand	\$10,467	\$344	\$11,458	\$338
Cash in banks	514,431	16,939	649,238	19,169
Time deposits	1,447,400	47,659	1,964,300	57,995
Cash equivalents	830,983	27,362	1,617,229	47,748
Total	<u>\$2,803,281</u>	<u>\$92,304</u>	<u>\$4,242,225</u>	<u>\$125,250</u>

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

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Common stock	\$353,027	\$11,624	\$179,686	\$5,305
Beneficiary certificates	144,615	4,762	200,562	5,922
Corporate bonds	127,525	4,199	68,600	2,025
Derivative financial instruments	1,576	52	-	-
Subtotal	626,743	20,637	448,848	13,252
Add: Valuation adjustment	(20,456)	(674)	(30,620)	(904)
Total	<u>\$606,287</u>	<u>\$19,963</u>	<u>\$418,228</u>	<u>\$12,348</u>

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

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Common stock	\$851,379	\$28,034	\$465,026	\$13,730
Beneficiary certificates	883,828	29,102	833,166	24,599
Corporate bonds	200,000	6,585	799,847	23,615
Financial debentures	900,985	29,667	1,100,718	32,498
Government bonds	247,553	8,151	-	-
Subtotal	3,083,745	101,539	3,198,757	94,442
Add: Valuation adjustment	30,804	1,015	(180,100)	(5,317)
Total	<u>\$3,114,549</u>	<u>\$102,554</u>	<u>\$3,018,657</u>	<u>\$89,125</u>



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

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$709,937	\$23,376	\$160,931	\$4,752

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

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Valuation adjustment	786	26	33,834	999
Total	\$786	\$26	\$33,834	\$999

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

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Tong Lung Metal Industry Co., Ltd. - preferred stock	\$24,000	\$790	\$-	\$-

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

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Financial debentures	\$226,908	\$7,471	\$-	\$-

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**11. Premiums receivable**

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$1,684,830	\$55,477	\$1,780,372	\$52,565
Less: Allowance for bad debts	(16,848)	(555)	(17,804)	(526)
Net	<u>\$1,667,982</u>	<u>\$54,922</u>	<u>\$1,762,568</u>	<u>\$52,039</u>

**12. Loans**

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Secured loans	\$1,942,014	\$63,945	\$1,533,959	\$45,289
Less: Allowance for bad debts	(64,362)	(2,119)	(57,853)	(1,708)
Net	<u>\$1,877,652</u>	<u>\$61,826</u>	<u>\$1,476,106</u>	<u>\$43,581</u>

Secured loans are secured by real estate.

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

Item	March 31,			
	2008		2008	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$3,697,823	\$121,759	\$3,369,396	\$99,480
Less: Overseas bonds by payable within one year	(709,937)	(23,376)	(160,931)	(4,751)
Securities serving as				
Total	<u>\$2,987,886</u>	<u>\$98,383</u>	<u>\$3,208,465</u>	<u>\$94,729</u>

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

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
KGEX. Com Co., Ltd.	<u>\$36,000</u>	<u>\$1,185</u>	<u>%25,500</u>	<u>%753</u>

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

Investee	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$418,103	\$13,767	\$369,925	\$10,922
Vista Technology Venture Capital Corp.	7,910	261	6,399	189
Cathay Insurance Company Limited. (Shanghai)	-	-	939,934	27,751
<b>Total</b>	<b>\$426,103</b>	<b>\$14,028</b>	<b>\$1,316,258</b>	<b>\$38,862</b>

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

	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$432,192	\$14,231	\$1,285,997	\$37,969
Add (less):				
Investment income (loss) recognized under the equity method	5,476	180	(8,063)	(238)
Cumulative conversion adjustments	-	-	27,760	819
Unrealized gains or losses on financial instruments recognized under the equity investment	(11,655)	(383)	10,564	312
<b>Balance on March 31</b>	<b>\$426,013</b>	<b>\$14,028</b>	<b>\$1,316,258</b>	<b>\$38,862</b>

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B. The investment income (losses) recognized under equity method for the three months periods ended March 31, 2008 and 2009 are listed below:

Investee	For the three months March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$5,479	\$181	\$(2,933)	\$(87)
Vista Technology Venture Capital Corp.	(3)	-	-	-
Cathay Insurance Company Limited. (Shanghai)	-	-	(5,130)	(151)
Total	\$5,476	\$181	\$(8,063)	\$(238)

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 three months periods ended March 31, 2008 and 2009 were recognized under the equity method based on the respective reviewed financial statements.

D. The investment gains of Cathay Venture Capital Corp. for the three months periods ended March 31, 2008 and 2009 were recognized under the equity method based on the respective reviewed financial statements of Cathay Venture Capital Corp.

E. The investment gains of Cathay Insurance Company Limited. for the three months periods ended March 31, 2009 were recognized under the equity method based on the reviewed financial statements of Cathay Insurance Company Limited.

**16. Other financial assets-noncurrent**

Investee	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Other financial assets-noncurrent	\$833,714	\$27,452	\$-	\$-

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**17. Property and equipment**

Item	March 31, 2008					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$8,601	\$283	\$6,957	\$229	\$1,644	\$54
Other equipments	254,315	8,374	166,301	5,476	88,014	2,898
Subtotal	262,916	8,657	173,258	5,705	89,658	2,952
Prepayments for equipments	14,947	492	-	-	14,947	492
Total	<u>\$277,863</u>	<u>\$9,149</u>	<u>\$173,258</u>	<u>\$5,705</u>	<u>\$104,605</u>	<u>\$3,444</u>

Item	March 31, 2009					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$2,230	\$66	\$1,829	\$54	\$401	\$12
Other equipments	230,166	6,795	151,783	4,481	78,383	2,314
Subtotal	232,396	6,861	153,612	4,535	78,784	2,326
Prepayments for equipments	34,310	1,013	-	-	34,310	1,013
Total	<u>\$266,706</u>	<u>\$7,874</u>	<u>\$153,612</u>	<u>\$4,535</u>	<u>\$113,094</u>	<u>\$3,339</u>

No equipments of the Company were pledged as of March 31, 2008 and 2009.

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

Item	January 1, 2008		Increase		Decrease		March 31, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software cost	\$51,385	\$1,692	\$2,701	\$89	\$-	\$-	\$54,086	\$1,781
Amortization and impairment								
Amortization	(42,020)	(1,384)	(2,581)	(85)	-	-	(44,601)	(1,469)
Book value	<u>\$9,365</u>	<u>\$308</u>					<u>\$9,485</u>	<u>\$312</u>

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Item	January 1, 2009		Increase		Decrease		March 31, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software cost	\$59,786	\$1,765	\$352	\$11	\$-	\$-	\$60,138	\$1,776
Amortization and impairment								
Amortization	(46,919)	(1,385)	(1,486)	(44)	-	-	(48,405)	(1,429)
Book value	<u>\$12,867</u>	<u>\$380</u>					<u>\$11,733</u>	<u>\$347</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.

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

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Valuation adjustment	303	10	61,996	1,830
Total	<u>\$303</u>	<u>\$10</u>	<u>\$61,996</u>	<u>\$1,830</u>

**20. Operating and liability reserve**

	January 1, 2008		Provision		Recovered		March 31, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$6,474,812	\$213,197	\$6,575,91	\$216,523	\$6,474,81	\$213,198	\$6,575,791	\$216,523
Special reserve	4,070,391	134,027	160,573	5,287	107,237	3,531	4,123,726	135,783
Claims reserve	2,528,361	83,282	2,443,519	80,458	2,281,361	75,119	2,690,519	88,591
Premiums								
insufficient reserve	-	-	6,112	201	-	-	6,112	201
Total	<u>\$13,073,564</u>	<u>\$430,476</u>	<u>\$9,185,995</u>	<u>\$302,469</u>	<u>\$8,863,410</u>	<u>\$291,848</u>	<u>\$13,396,148</u>	<u>\$441,098</u>

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	January 1, 2009		Provision		Recovered		March 31, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$6,755,977	\$199,468	\$6,772,527	\$199,957	\$6,755,977	\$199,468	\$6,772,527	\$199,957
Special reserve	4,714,560	139,196	223,058	6,586	77,626	2,292	4,859,992	143,490
Claims reserve	2,686,035	79,304	2,423,418	71,550	2,383,762	70,379	2,725,691	80,475
Premiums insufficient								
reserve	21,360	631	26,800	791	21,360	631	26,800	791
Total	<u>\$14,177,932</u>	<u>\$418,599</u>	<u>\$9,445,803</u>	<u>\$278,884</u>	<u>\$9,238,725</u>	<u>\$272,771</u>	<u>\$14,385,010</u>	<u>\$424,713</u>

The net unearned premium reserve for the three months of 2009 was the insurance and reinsurance business assumed of NT\$6,772,527 (US\$199,957) offsetting by reinsurance business ceded of NT\$1,421,488 (US\$41,969). The net unearned premium reserve for the three months of 2008 was the insurance and reinsurance business assumed of NT\$6,575,791 (US\$216,523) offsetting by reinsurance business ceded of NT\$1,321,818 (US\$43,524).

The claims reserves above represent outstanding claims of NT\$2,317,739 (US\$76,317) and IBNR (Incurred But Not Reported) of NT\$105,679 (US\$3,480) of March 31, 2009. Balances of outstanding claims and IBNR as of March 31, 2008 were NT\$2,339,278 (US\$77,026) and NT\$104,241 (US\$3,432), 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.

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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.

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.



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- 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”.
- (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.

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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 March 31, 2008 and 2009, the authorized and issued thousand shares were 231,701 with par value of NT\$10 each.

**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.

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- 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 revised Income Tax Act in 1998, the Company has to pay an extra 10% income tax in the forthcoming tax year for undistributed earnings.
- (4) 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.
- (5) The accrual of employee bonus of \$777 for the first quarter of 2008 was based on a certain percentage of net income seated in the article of corporation after considering the legal reserve. The employee bonus was reorded 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.
- (6) The accrual of employee bonus was based on a dertain was based on a certain percentage of net income seated in the article of corporation after considering the legal reserve. The employee bonus was reorded 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 2010.
- (7) The earning distribution of 2008 has been resolved by the board of directors but still awaiting for the approval of stockholders' meeting. Please refer to the Market Observation Post System for detail information.
- (8) The company not distribution employee bonus of 2008 has been resolved by the board of directors but still awaiting for the approval of stockholder's meeting.

Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2009.

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

Item	For the three months ended March 31, 2008 (NT\$)			For the three months ended March 31, 2009 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$255,052	\$255,052	\$-	\$258,928	\$258,928
Labor & health insurance expenses	-	12,215	12,215	-	14,131	14,131
Pension expenses	-	12,378	12,378	-	15,017	15,017
Other expenses	-	6,174	6,174	-	6,468	6,468
Depreciation	-	5,596	5,596	-	6,425	6,425
Depletion	-	-	-	-	-	-
Amortization	-	1,118	1,118	-	1,486	1,486

Item	For the three months ended March 31, 2008 (US\$)			For the three months ended March 31, 2009 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$8,398	\$8,398	\$-	\$7,645	\$7,645
Labor & health insurance expenses	-	402	402	-	417	417
Pension expenses	-	408	408	-	443	443
Other expenses	-	203	203	-	191	191
Depreciation	-	184	184	-	190	190
Depletion	-	-	-	-	-	-
Amortization	-	37	37	-	44	44

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**24. Estimated income taxes**

(1) Income tax expenses include the following:

Item	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Income tax calculates on accounting	\$178,358	\$5,873	\$254,011	\$7,500
Adjustments:				
Interest income of tax on a separate basis	(3,549)	(117)	(874)	(26)
Gains (losses) from valuation on financial assets (liabilities)	(37,740)	(1,243)	(57,072)	(1,685)
Bad debts recovery	(1,100)	(36)	985	29
(Gains) losses derived from securities transactions	(161,483)	(5,317)	68,691	2,028
Investment (gains) losses recognized by the equity method	(5,476)	(180)	8,063	238
Unrealized losses (gains) on foreign exchanges	265,261	8,734	(127,287)	(3,758)
Realized (losses) gains on foreign exchanges	(19,849)	(654)	9,045	267
Unrealized pension expenses	466	16	(106)	(3)
Others	251	8	308	9
Taxable Income	215,139	7,084	155,764	4,599
Multiply by : tax rate	25%	25%	25%	25%
Subtotal	53,785	1,771	38,941	1,150
Tax effects under integrated income tax systems	-	-	-	-
Subtotal	53,785	1,771	38,941	1,150
Taxed separately	742	24	115	3
Deferred income tax expenses (benefits)	(41,205)	(1,356)	36,776	1,086
Total income tax expenses	\$13,322	\$439	\$75,832	\$2,239

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

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$102,898	\$3,388	\$40,143	\$1,185
Total deferred income tax liabilities	\$10,283	\$338	\$33,050	\$976
B. Temporary differences:				
Bad debts exceeding legal limitation	\$123,171	\$4,056	\$126,668	\$3,740
Unrealized losses on foreign exchanges	265,261	8,734	-	-
Unrealized gains on foreign exchanges	-	-	(127,287)	(3,758)
Unrealized losses form valuation on financial assets	3,525	116	-	-
Unrealized gains form valuation on financial liabilities	(41,134)	(1,354)	-	-
Unrealized losses form valuation on financial liabilities	-	-	(4,913)	(145)
Others	5,682	187	5,577	164
Total	\$356,505	\$11,739	\$45	\$1

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
C. Investment tax credit	\$3,488	\$115	\$7,082	\$209

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
D. Deferred income tax assets-current	\$102,897	\$3,388	\$40,143	\$1,185
Deferred income tax liabilities-current	(10,283)	(338)	(33,050)	(976)
Net balance deferred income tax assets-current	\$92,614	\$3,050	\$7,093	\$209

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- (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	Occurs the year	The amount of investment tax credit		The remaining balance		Expiry year
			NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Personnel training	2007	\$3,296	\$97	\$3,296	\$97	2011
		2008	3,625	107	3,625	107	2012
		2009	16	5	161	5	2013
Total			<u>\$7,082</u>	<u>\$209</u>	<u>\$7,082</u>	<u>\$209</u>	

- (5) Information related to imputation:

	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$11,847</u>	<u>\$390</u>	<u>\$6,964</u>	<u>\$206</u>
Imputation creditable ratio	<u>March 31, 2008 (Actual)</u>		<u>March 31, 2009 (Estimated)</u>	
	1.61%		1.46%	

- (6) Information relating of undistributed earnings:

Year	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	1,046,331	34,453	478,484	14,127
Total	<u>\$1,046,331</u>	<u>\$34,453</u>	<u>\$478,484</u>	<u>\$14,127</u>

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Net income after tax for the three months ended March 31, 2008 and 2009 are not included in the undistributed earnings after 1998 expressed above.

**25. Earnings per share**

	For the three months ended March 31, 2008		For the three months ended March 31, 2009	
	NT\$	US\$	NT\$	US\$
Net income (A)	\$165,036	\$5,434	\$178,179	\$5,261
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)	\$0.71	\$0.02	\$0.77	\$0.02

**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.
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.



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Name	Relationship
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.
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

(2) Significant transactions with related parties

A. Premiums income

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$39,023	\$1,285	\$81,569	\$2,409
Cathay United Bank	33,159	1,092	22,226	656
Total	<u>\$72,182</u>	<u>\$2,377</u>	<u>\$103,795</u>	<u>\$3,065</u>

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B. Premiums receivable

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$14,588	\$480	\$10,765	\$318

C. Insurance claims payment

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$6,480	\$213	\$-	\$-

D. Cash in banks

Name	Type	For the three months ended March 31, 2008		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$428,032	0.10%	\$82
	Time deposits	\$439,150	2.21%-2.57%	\$2,763

Name	Type	For the three months ended March 31, 2008		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$14,094	0.10%	\$3
	Time deposits	\$14,460	2.21%-2.57%	\$91

Name	Type	For the three months ended March 31, 2009		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$494,686	0.10%	\$155
	Time deposits	\$770,822	0.525%-2.72%	\$4,020

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Name	Type	For the three months ended March 31, 2009		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$14,606	0.10%	\$5
	Time deposits	\$22,758	0.525%-2.72%	\$119

E. Loans

Name	For the three months ended March 31, 2008			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Que Ming-Huang	\$4,711	\$4,692	2.84%	\$35
Chang Zhao-Yang	\$3,347	\$3,338	2.84%	\$24
Fan Shi-Kai	\$9,714	\$9,682	2.84%	\$69
Peng Yi-Miao	\$3,876	\$3,863	2.84%	\$31
Ming Yi-Ching	\$6,000	\$6,000	2.84%	\$42

Name	For the three months ended March 31, 2008			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$155	\$154	2.84%	\$1
Chang Zhao-Yang	\$110	\$110	2.84%	\$1
Fan Shi-Kai	\$319	\$318	2.84%	\$2
Peng Yi-Miao	\$128	\$127	2.84%	\$1
Ming Yi-Ching	\$198	\$198	2.84%	\$2

Name	For the three months ended March 31, 2009			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Que Ming-Huang	\$3,305	\$3,289	1.66%	\$19
Chang Zhao-Yang	\$3,238	\$3,227	1.66%	\$17
Fan Shi-Kai	\$9,015	\$8,980	1.66%	\$47
Ming Yi-Ching	\$5,870	\$5,846	1.66%	\$31

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Name	For the three months ended March 31, 2009			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$98	\$97	1.66%	\$1
Chang Zhao-Yang	\$96	\$95	1.66%	\$1
Fan Shi-Kai	\$266	\$265	1.66%	\$1
Ming Yi-Ching	\$173	\$173	1.66%	\$1

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

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$45,480	\$1,498	\$195,652	\$5,777

G. Available-for-sale financial assets-current

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$114,933	\$3,784	\$61,574	\$1,818

H. Guarantee deposits paid

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$19,379	\$638	\$20,633	\$609
Cathay Futures Corp.	5,065	167	11,348	335
Total	\$24,444	\$805	\$31,981	\$944

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I. Other asset – other

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance Company Limited. (Shanghai)	\$-	\$-	\$55,475	\$1,638

J. Other payable

Name	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$251,961	\$8,296	\$230,530	\$6,806
Cathay Life Insurance Co., Ltd.	95,076	3,131	164,958	4,871
Symphox Information Co., Ltd.	3,268	108	-	-
Total	\$350,305	\$11,535	\$395,488	\$11,677

K. Operating costs

Name	Summary	For the three months ended March 31,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay United Bank	Handing fee paid	\$-	\$-	\$5,158	\$152

L. Operating expenses

Name	Summary	For the three months ended March 31,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Rental expenses	\$20,774	\$684	\$22,277	\$657
	Marketing expenses	274,876	9,051	304,212	8,982
Cathay United Bank	Marketing expenses	19,153	631	14,693	434
Total		\$314,803	\$10,366	\$341,182	\$10,073

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M. Other expenses

Name	For the three months ended March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$-	\$-	\$3,246	\$96

N. Other

As of March 31, 2008 and 2009 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	March 31,	
	2008	2009
Forward foreign exchange contracts	US\$22,150	US\$7,710
CS contracts	US\$26,550	US\$11,050
IRS	NT\$400,000 (US\$13,171)	NT\$600,000 (US\$17,715)

**27. Pledged assets**

Item	March 31,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Government bonds	\$350,155	\$11,530	\$368,159	\$10,870

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.

**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.

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B. As of March 31, 2009, 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\$)
April 1, 2009 ~ March 31, 2010	\$92,003	\$2,716
April 1, 2010 ~ March 31, 2011	94,551	2,792
April 1, 2011 ~ March 31, 2012	97,177	2,869
April 1, 2012 ~ March 31, 2013	99,881	2,949
April 1, 2013 ~ March 31, 2014	102,666	3,031
Total	<u>\$486,278</u>	<u>\$14,357</u>

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

**30. Subsequent events:** None.

**31. Others**

(1) Pension related information

A. Pension funded status:

According to the ROC SFAS No.23 “Interim Financial Reporting and Disclosures”, the interim financial statements are required to follow the principles outlined in the ROC SFAS No.18 “Accounting for Pensions”.

(2) Risk management policies and hedge strategies

The Company’s primary financial instruments other than derivatives consists 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.

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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.

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.



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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.

(3) Financial instruments related information:

Assets	March 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$2,803,281	\$2,803,281	\$92,304	\$92,304
Financial assets at fair value through profit or loss - current	606,232	606,232	19,963	19,963
Available-for-sale financial assets - current	3,114,549	3,114,549	102,554	102,554
Held-to-maturity financial assets-current	709,937	709,937	23,376	23,376
Financial assets carried at cost-current	24,000	24,000	790	790
Investments in debt securities with no active market-current	226,908	226,908	7,471	7,471
Receivables	1,922,263	1,922,263	63,295	63,295
Prepayments reinsurance premiums ceded	1,321,818	1,321,818	43,524	43,524
Claims recoverable from reinsurers	1,283,913	1,283,913	42,276	42,276
Due from reinsurers and ceding companies				
Companies	70,299	70,299	2,315	2,315
Account receivable-reinsurance	31,884	31,884	1,050	1,050
Secured loans	1,877,652	1,877,652	61,826	61,826

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Assets	March 31, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Held-to-maturity financial assets-				
noncurrent	2,987,886	2,987,886	98,383	98,383
Financial assets carried at cost-noncurrent	36,000	36,000	1,185	1,185
Long-term investments under equity				
method	426,013	426,013	14,028	14,028
Other financial assets-noncurrent	833,714	833,714	27,452	27,452
Guarantee deposits paid	448,982	448,982	14,784	14,784
Derivative financial instruments:				
Financial assets at fair value through				
profit or loss - current				
Options Contract	55	55	2	2
IRS	786	786	26	26
Liabilities				
Non-derivative financial instrument:				
Claims outstanding	9,020	9,020	297	297
Due to reinsurers and ceding companies	378,211	378,211	12,453	12,453
Account payable-reinsurance	845,419	845,419	27,837	27,837
Operating and liabilities reserve	13,396,148	13,396,148	441,098	441,098
Derivative financial instruments:				
Financial liabilities at fair value through				
Profit or loss-current				
Foreign exchange SWAP	303	303	10	10

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Assets	March 31, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$4,242,225	\$4,242,225	\$125,250	\$125,250
Financial assets at fair value through profit or loss - current	418,228	418,228	12,348	12,348
Available-for-sale financial assets - current	3,018,657	3,018,657	89,125	89,125
Held-to-maturity financial assets - current	160,931	160,931	4,752	4,752
Receivables	1,971,045	1,971,045	58,194	58,194
Prepaid reinsurance premiums ceded	1,421,488	1,421,488	41,969	41,969
Claims recoverable from reinsurers	1,225,587	1,225,587	36,185	36,185
Due from reinsurers and ceding companies	227,680	227,680	6,722	6,722
Account receivable - reinsurance	34,557	34,557	1,020	1,020
Secured loans	1,476,106	1,476,106	43,581	43,581
Held-to-maturity financial assets - noncurrent	3,208,465	3,208,465	94,729	94,729
Financial assets carried at cost-noncurrent	25,500	25,500	753	753
Long-term investments under equity method	1,316,258	1,316,258	38,862	38,862
Guarantee deposits paid	506,073	506,073	14,942	14,942
Derivative financial instruments:				
Derivative financial assets for hedging				
IRS	33,834	33,834	999	999
<b>Liabilities</b>				
Non - derivative financial instrument:				
Claims outstanding	22,517	22,517	665	665
Due to reinsurers and ceding companies	461,922	461,922	13,638	13,638
Account payable - reinsurance	750,597	750,597	22,161	22,161
Operating and liabilities reserve	14,385,010	14,385,010	424,713	424,713
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss - current				
Foreign exchange SWAP	61,996	61,996	1,830	1,830

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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.
- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at March 31, 2008 and 2009:

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Financial Instruments	March 31,			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	2008	2009	2008	2009
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit or loss - current	\$606,232	\$418,228	\$-	\$-
Available-for-sale financial assets - current	3,114,549	3,018,657	-	-
Held-to-maturity financial asset - current	-	-	709,937	160,931
Financial asset carried at cost - current	-	-	24,000	-
Investment in debt securities with no active market-current	-	-	226,908	-
Held-to-maturity financial assets - noncurrent	-	-	2,987,886	3,208,465
Financial assets carried at cost - noncurrent	-	-	36,000	25,500
Long-term investments under equity method	-	-	426,013	1,316,258
Other financial assets - noncurrent	-	-	833,714	-
<u>Assets- derivative</u>				
Financial assets at fair value through profit and loss – current				
Option	55	-	-	-
Derivative financial assets for hedging-current				
IRS	786	33,834	-	-
<u>Liability-derivative</u>				
Financial liability at fair value through profit and loss - current				
Foreign exchange SWAP	303	61,996	-	-

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Financial Instruments	March 31,			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	2008	2009	2008	2009
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit or loss - current	\$19,963	\$12,348	\$-	\$-
Available-for-sale financial assets - current	102,554	89,125	-	-
Held-to-maturity financial asset - current	-	-	23,376	4,752
Financial asset carried at cost - current	-	-	790	-
Investment in debt securities with no active market - current	-	-	7,471	-
Held-to-maturity financial assets - noncurrent	-	-	98,383	94,729
Financial assets carried at cost - noncurrent	-	-	1,185	753
Long-term investments under the equity method	-	-	14,028	38,862
Other financial assets - noncurrent	-	-	27,452	-
<u>Assets-derivative</u>				
Financial assets at fair value through profit or loss-current				
Option	2	-	-	-
Derivative financial liabilities for hedging - current				
IRS	26	999	-	-
<u>Liability- derivative</u>				
Financial liability at fair value through profit or loss-current				
Foreign exchange SWAP	10	1,830	-	-

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at March 31, 2008 and 2009:

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Fixed interest rate:

① March 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	\$709,937	\$23,376	\$-	\$-	\$-	\$-	\$152,339	\$5,016
Investments in debt securities								
with no active market	226,908	7,471	-	-	-	-	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$421,679	\$13,885	\$2,413,868	\$79,482	\$3,697,823	\$121,759
Investments in debt securities						
with no active market	-	-	-	-	226,908	7,471

② March 31, 2009

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	\$160,931	\$4,752	\$-	\$-	\$-	\$-	\$372,993	\$11,013

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$236,623	\$6,986	\$2,598,849	\$76,730	\$3,369,396	\$99,481

(5) Credit risk

The Company's exposure to credit risk is minimal.

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(6) Fair value hedges

		Designated as hedging instruments			
		Fair value			
		March 31, 2008		March 31, 2009	
Hedged item	Financial instruments of designated as hedging instruments	NT\$	US\$	NT\$	US\$
Overseas bonds	Foreign exchange SWAP	\$(303)	\$(10)	\$(61,996)	\$(1,830)

(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 March 31, 2009:

Cash flow hedges-IRS

① March 31, 2009

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$200,000	\$5,905	2.65%	Each quarter	2014/12/31
200,000	5,905	2.40%	Each quarter	2012/9/28
200,000	5,905	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 gains on financial instruments were recognized in equity by NT\$33,834 (US\$1,014) as of March 31, 2009. Unrealized gains on financial instruments were recognized in equity by NT\$786 (US\$26) as of March 31, 2008.



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(8) Discretionary account management

Item	March 31, 2008			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$278,362	\$9,166	\$278,362	\$9,166
Short-term notes	120,187	3,957	120,187	3,957
Cash in banks	104,519	3,442	104,519	3,442
Net other assets less liabilities	(6,076)	(200)	(6,076)	(200)
Total	\$496,992	\$16,365	\$496,992	\$16,365

Item	March 31, 2009			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$159,514	\$4,710	\$159,514	\$4,710
Short - term notes	180,644	5,333	180,644	5,333
Cash in banks	216,722	6,399	216,722	6,399
Net other assets less liabilities	19,485	575	19,485	575
Total	\$576,365	\$17,017	\$576,365	\$17,017

As of March 31, 2008 and 2009, the Company had discretionary account management contracts in the amount of NT\$400,000 (US\$13,171) and NT\$600,000 (US\$17,715), 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 three months ended March 31, 2008 have been reclassified in order to be comparable with those in the financial statements for the three months ended March 31, 2009.

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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 March 31, 2009, the Company's remittances to this company totaled approximately US\$27,820.

**33. Segment information:** None.