

Cathay Century Insurance Co., Ltd.
Financial Statements
As of June 30, 2008 and 2009
With Independent Auditors' Report

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

Name of the company: Cathay Century Insurance Co., Ltd.
Address: 11F, No.296, Jen Ai Road, Sec. 4, Taipei, Taiwan, ROC
Telephone: 886-2-2755-1299

Index to financial statements

	<u>Page</u>
Independent auditors' report	2
Balance sheets as of June 30, 2008 and 2009	3-4
Statements of income for the six-month periods ended June 30, 2008 and 2009	5
Statements of changes in stockholders' equity for six-month periods ended June 30, 2008 and 2009	6
Statements of cash flows for the six-month periods ended June 30, 2008 and 2009	7-8
Notes to Financial Statements	9-58

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

Board of Directors
Cathay Century Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") as of June 30, 2008 and 2009, and the related statements of income, changes in stockholders' equity, and cash flows for the six-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of June 30, 2008 and 2009, and the results of its operations and its cash flows for the six-month periods ended in conformity with Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance and accounting principles generally accepted in the Republic of China.

In addition, we have also reviewed the consolidated financial statements of the Company for the six-month periods ended June 30, 2009, on which we have expressed an unqualified review report.

ERNST & YOUNG
Taipei, Taiwan
Republic of China
August 5, 2009

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets

As of June 30, 2008 and 2009

(Expressed in thousands of dollars)

Assets	Notes	June 30, 2008		June 30, 2009	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$2,441,823	\$80,429	\$4,823,977	\$147,207
Financial assets at fair value through profit or loss - current	2,5	681,103	22,434	505,683	15,431
Available-for-sale financial assets - current	2,6	2,920,293	96,189	3,069,382	93,664
Held-to-maturity financial assets - current	2,7	551,548	18,167	-	-
Derivative financial assets for hedging - current	2,8	-	-	31,304	955
Financial assets carried at cost - current	2,9	24,000	791	-	-
Investments in debt securities with no active market - current	2,10	226,194	7,450	-	-
Notes receivable		248,998	8,202	231,115	7,053
Premiums receivable	2,11	1,796,930	59,187	1,851,956	56,514
Prepaid reinsurance premiums		1,340,946	44,168	1,361,650	41,552
Claims recoverable from reinsurers		1,244,518	40,992	1,323,769	40,396
Due from reinsurers and ceding companies		80,980	2,667	81,472	2,486
Accounts receivable - reinsurance		29,800	982	27,276	832
Other accounts receivable		79,383	2,615	52,414	1,600
Prepayments		4,282	141	4,818	147
Deferred income tax assets - current	2,25	104,572	3,444	10,193	311
Subtotal		<u>11,775,370</u>	<u>387,858</u>	<u>13,375,009</u>	<u>408,148</u>
Loans					
Secured loans	2,12	1,748,337	57,587	1,326,393	40,476
Subtotal		<u>1,748,337</u>	<u>57,587</u>	<u>1,326,393</u>	<u>40,476</u>
Funds and investments					
Held-to-maturity financial assets - noncurrent	2,13	2,986,795	98,379	3,105,410	94,764
Financial assets carried at cost - noncurrent	2,14	36,000	1,186	25,500	778
Investments in debt securities with no active market - noncurrent	2,15	-	-	300,000	9,155
Long-term investments under equity method	2,16	409,143	13,476	1,181,241	36,046
Other financial assets - noncurrent	2,17	832,315	27,415	-	-
Subtotal		<u>4,264,253</u>	<u>140,456</u>	<u>4,612,151</u>	<u>140,743</u>
Fixed assets					
Communication and transportation equipments	2,18	7,241	239	2,230	68
Other equipments		259,929	8,561	265,119	8,090
Subtotal		<u>267,170</u>	<u>8,800</u>	<u>267,349</u>	<u>8,158</u>
Less: Accumulated depreciation		(179,312)	(5,906)	(160,669)	(4,903)
Prepayments for equipments		65,322	2,152	1,965	60
Subtotal		<u>153,180</u>	<u>5,046</u>	<u>108,645</u>	<u>3,315</u>
Intangible assets					
Computer software cost	2,19	8,801	290	11,487	351
Deferred pension cost		6,383	210	5,802	177
Subtotal		<u>15,184</u>	<u>500</u>	<u>17,289</u>	<u>528</u>
Other assets					
Guarantee deposits paid		446,285	14,700	502,548	15,336
Overdue receivables	2	282,387	9,301	278,965	8,513
Other assets - others		50,957	1,678	93,567	2,855
Subtotal		<u>779,629</u>	<u>25,679</u>	<u>875,080</u>	<u>26,704</u>
Total assets		<u>\$18,735,953</u>	<u>\$617,126</u>	<u>\$20,314,567</u>	<u>\$619,914</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2008 and 2009 were NT\$30.36 and NT\$32.77 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets - (Continued)

As of June 30, 2008 and 2009

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	June 30, 2008		June 30, 2009	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,20	\$34,468	\$1,135	\$-	\$-
Derivative financial liabilities for hedging - current		9,304	306	-	-
Commissions payable		9,775	322	5,073	155
Claims outstanding		11,289	372	25,690	784
Due to reinsurers and ceding companies		340,221	11,206	306,844	9,364
Accounts payable-reinsurance		641,424	21,127	740,387	22,593
Other payables		579,501	19,088	560,122	17,092
Subtotal		<u>1,625,982</u>	<u>53,556</u>	<u>1,638,116</u>	<u>49,988</u>
Long-term liabilities					
Accrued pension liabilities		15,172	500	17,761	542
Subtotal		<u>15,172</u>	<u>500</u>	<u>17,761</u>	<u>542</u>
Operating and liability reserve					
	2,21				
Unearned premiums reserve		6,606,225	217,597	6,729,225	205,347
Special reserve		4,289,424	141,285	4,996,431	152,470
Claims reserve		2,763,196	91,014	2,802,310	85,514
Premiums deficiency reserve		6,399	211	15,718	480
Subtotal		<u>13,665,244</u>	<u>450,107</u>	<u>14,543,684</u>	<u>443,811</u>
Other liabilities					
Guarantee deposits received		-	-	7,415	226
Other liabilities - others		263,004	8,663	234,462	7,155
Subtotal		<u>263,004</u>	<u>8,663</u>	<u>241,877</u>	<u>7,381</u>
Total liabilities		<u>15,569,402</u>	<u>512,826</u>	<u>16,441,438</u>	<u>501,722</u>
Stockholders' equity					
Capital stock					
Common stock	2,22	2,317,006	76,318	2,317,006	70,705
Capital surplus		1,929	63	1,929	59
Retained earnings					
	2,23				
Legal reserve		521,467	17,176	617,164	18,833
Special reserve		-	-	295,628	9,022
Unappropriated retained earnings		457,250	15,061	570,506	17,409
Equity adjustment					
Unrealized gains or losses on financial instruments		(77,014)	(2,537)	(236)	(7)
Cumulative conversion adjustments		(50,979)	(1,679)	77,515	2,366
Net loss not yet recognized as net pension cost		(3,108)	(102)	(6,383)	(195)
Total stockholders' equity		<u>3,166,551</u>	<u>104,300</u>	<u>3,873,129</u>	<u>118,192</u>
Total liabilities and stockholders' equity		<u>\$18,735,953</u>	<u>\$617,126</u>	<u>\$20,314,567</u>	<u>\$619,914</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2008 and 2009 were NT\$30.36 and NT\$32.77 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of income

For the six months ended June 30, 2008 and 2009

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

Items	Notes	January 1-June 30,2008		January 1-June 30,2009	
		NT\$	US\$	NT\$	US\$
Operating revenues	2				
Premiums income		\$5,807,532	\$191,289	\$5,792,186	\$176,753
Reinsurance commission earned		189,750	6,250	179,701	5,484
Claims recovered from reinsurers		609,272	20,068	932,816	28,466
Recovered unearned premiums reserve		5,249,330	172,903	5,346,592	163,155
Recovered special claim reserve		116,210	3,828	98,260	2,998
Recovered claims reserve		161,305	5,313	218,586	6,670
Recovery from premiums deficiency reserve		-	-	21,360	652
Handling fee earned		184	6	14,477	442
Interest revenues		207,242	6,826	182,956	5,583
Gains from valuation on financial assets		-	-	161,977	4,943
Gains from valuation on financial liabilities		6,968	230	-	-
Gains on investments recognized under the equity method	2,16	12,563	414	-	-
Exchanges gains		-	-	13,347	407
Gains on disposal of investments		187,235	6,167	-	-
Subtotal		<u>12,547,591</u>	<u>413,294</u>	<u>12,962,258</u>	<u>395,553</u>
Operating costs	2				
Reinsurance premiums ceded		(1,706,118)	(56,196)	(1,692,082)	(51,635)
Commissions expenses		(90,295)	(2,974)	(51,051)	(1,558)
Insurance claims payment		(2,563,916)	(84,451)	(2,938,179)	(89,661)
Provision for unearned premiums reserve		(5,265,279)	(173,428)	(5,367,575)	(163,795)
Provision for special claim reserve		(335,243)	(11,042)	(380,131)	(11,600)
Contribution to the stabilization funds		(10,872)	(358)	(11,117)	(339)
Provision for claims reserve		(218,586)	(7,200)	(209,701)	(6,399)
Provision for premiums deficiency reserve		(6,399)	(211)	(15,718)	(480)
Handling fee paid		(136,828)	(4,507)	(151,820)	(4,633)
Losses from valuation on financial assets		(114,941)	(3,786)	-	-
Losses on investments recognized under the equity method		-	-	(52,025)	(1,588)
Exchanges losses		(282,471)	(9,304)	-	-
Losses on disposal of investments		-	-	(144,837)	(4,420)
Other operating costs		(3,459)	(114)	(3,262)	(99)
Subtotal		<u>(10,734,407)</u>	<u>(353,571)</u>	<u>(11,017,498)</u>	<u>(336,207)</u>
Operating gross profit		<u>1,813,184</u>	<u>59,723</u>	<u>1,944,760</u>	<u>59,346</u>
Operating expenses	2				
Marketing expenses		(1,026,895)	(33,824)	(1,060,476)	(32,361)
Management and general affairs expenses		(199,543)	(6,573)	(208,727)	(6,370)
Operating income		<u>586,746</u>	<u>19,326</u>	<u>675,557</u>	<u>20,615</u>
Non-operating revenues					
Gains on disposal of fixed assets		807	27	-	-
Other non-operating revenues		5,057	167	54	2
Subtotal		<u>5,864</u>	<u>194</u>	<u>54</u>	<u>2</u>
Non-operating expenses					
Losses on disposal of fixed assets		(1,664)	(55)	(6)	-
Miscellaneous expenses		(41)	(2)	(32)	(1)
Subtotal		<u>(1,705)</u>	<u>(57)</u>	<u>(38)</u>	<u>(1)</u>
Income from continuing operations before income taxes		590,905	19,463	675,573	20,616
Income taxes	2,25	(133,655)	(4,402)	(192,226)	(5,866)
Income from continuing operations after income taxes		457,250	15,061	483,347	14,750
Net income		<u>\$457,250</u>	<u>\$15,061</u>	<u>\$483,347</u>	<u>\$14,750</u>
Earning per share (In dollars)	2,26				
Income before income taxes		<u>\$2.55</u>	<u>\$0.08</u>	<u>\$2.92</u>	<u>\$0.09</u>
Net income		<u>\$1.97</u>	<u>\$0.06</u>	<u>\$2.09</u>	<u>\$0.06</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2008 and 2009 were NT\$30.36 and NT\$32.77 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.
Statements of changes in stockholders' equity
For the six months ended June 30, 2008 and 2009
(Expressed in thousands of dollars)

Summary	Capital stock		Retained earnings						Equity adjustment				Total					
	Common stock		Capital surplus		Legal reserve		Special 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	\$76,318	\$1,929	\$63	\$416,834	\$13,730	\$-	\$-	\$1,046,331	\$34,464	\$90,908	\$2,994	\$-	\$-	\$(3,108)	\$(102)	\$3,869,900	\$127,467
Appropriations and distributions for 2007																		
Legal reserve	-	-	-	-	104,633	3,446	-	-	(104,633)	(3,446)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(939,083)	(30,932)	-	-	-	-	-	-	(939,083)	(30,932)
Bonus paid to employees	-	-	-	-	-	-	-	-	(2,615)	(86)	-	-	-	-	-	-	(2,615)	(86)
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(167,922)	(5,531)	-	-	-	-	(167,922)	(5,531)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(50,979)	(1,679)	-	-	(50,979)	(1,679)
Net Income for the six months ended June 30, 2008	-	-	-	-	-	-	-	-	457,250	15,061	-	-	-	-	-	-	457,250	15,061
Balance on June 30, 2008	<u>\$2,317,006</u>	<u>\$76,318</u>	<u>\$1,929</u>	<u>\$63</u>	<u>\$521,467</u>	<u>\$17,176</u>	<u>\$-</u>	<u>\$-</u>	<u>\$457,250</u>	<u>\$15,061</u>	<u>\$(77,014)</u>	<u>\$(2,537)</u>	<u>\$(50,979)</u>	<u>\$(1,679)</u>	<u>\$(3,108)</u>	<u>\$(102)</u>	<u>\$3,166,551</u>	<u>\$104,300</u>
Balance on January 1, 2009	\$2,317,006	\$70,705	\$1,929	\$59	\$521,467	\$15,913	\$-	\$-	\$478,484	\$14,601	\$(295,628)	\$(9,021)	\$79,564	\$2,428	\$(6,383)	\$(195)	\$3,096,439	\$94,490
Appropriations and distributions for 2008																		
Legal reserve	-	-	-	-	95,697	2,920	-	-	(95,697)	(2,920)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	295,628	9,022	(295,628)	(9,022)	-	-	-	-	-	-	-	-
Changes in unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	295,392	9,014	-	-	-	-	295,392	9,014
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(2,049)	(62)	-	-	(2,049)	(62)
Net Income for the six months ended June 30, 2009	-	-	-	-	-	-	-	-	483,347	14,750	-	-	-	-	-	-	483,347	14,750
Balance on June 30, 2009	<u>\$2,317,006</u>	<u>\$70,705</u>	<u>\$1,929</u>	<u>\$59</u>	<u>\$617,164</u>	<u>\$18,833</u>	<u>\$295,628</u>	<u>\$9,022</u>	<u>\$570,506</u>	<u>\$17,409</u>	<u>\$(236)</u>	<u>\$(7)</u>	<u>\$77,515</u>	<u>\$2,366</u>	<u>\$(6,383)</u>	<u>\$(195)</u>	<u>\$3,873,129</u>	<u>\$118,192</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2008 and 2009 were NT\$30.36 and NT\$32.77 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows

For the six months ended June 30, 2008 and 2009

(Expressed in thousands of dollars)

Items	Notes	January 1-June 30,2008		January 1-June 30,2009	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income		\$457,250	\$15,061	\$483,347	\$14,750
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		2,419	80	2,986	91
Depreciation		12,591	415	13,562	414
Provision for reserve for operations		5,825,507	191,881	5,973,125	182,274
Recovered unearned premiums reserve		(5,249,330)	(172,903)	(5,346,592)	(163,155)
Recovered special claim reserve		(116,210)	(3,828)	(98,260)	(2,998)
Recovered claims reserve		(161,305)	(5,313)	(218,586)	(6,670)
Recovery from premiums deficiency reserve		-	-	(21,360)	(652)
Gains on disposal of fixed assets		(807)	(27)	-	-
Losses on disposal of fixed assets		1,664	55	6	-
Losses (gains) from valuation on financial assets		114,941	3,786	(161,977)	(4,943)
Gains from valuation on financial liabilities		(6,968)	(230)	-	-
Unrealized gain on investments recognized under the equity method less than cash dividends received		187	6	58,025	1,771
Effects of exchange rate changes		282,471	9,304	(13,347)	(407)
Increase in financial assets at fair value through profit or loss - current		(68,955)	(2,271)	(191,848)	(5,855)
(Increase) decrease in notes receivable		(4,948)	(163)	11,773	359
Decrease in premiums receivable		15,782	520	69,496	2,121
(Increase) decrease in prepaid reinsurance premiums		(115,464)	(3,803)	47,734	1,457
Decrease (increase) in claims recoverable from reinsurers		19,873	655	(78,039)	(2,381)
(Increase) decrease in due from reinsurers and ceding companies		(27,327)	(900)	125,571	3,832
Decrease (increase) in reinsurance accounts receivable		11,828	389	(722)	(22)
(Increase) decrease in other accounts receivable		(5,420)	(179)	33,080	1,009
(Increase) decrease in prepayments		(171)	(6)	111	3
(Increase) decrease in deferred income tax assets - current		(53,163)	(1,751)	33,677	1,028
Increase in overdue receivables		(106,168)	(3,497)	(45,124)	(1,377)
Increase in other assets - others		(27,292)	(899)	(12,383)	(378)
Increase (decrease) in commissions payable		1,724	57	(1,134)	(35)
Increase in claims outstanding		9,380	309	10,481	320
Decrease in due to reinsurers and ceding companies		(37,132)	(1,223)	(151,368)	(4,619)
Decrease in accounts payable-reinsurance		(229,317)	(7,553)	(98,228)	(2,998)
Decrease in other payables		(84,028)	(2,768)	(136,413)	(4,163)
Increase (decrease) in accrued pension liabilities		466	15	(106)	(3)
Increase in other liabilities - others		205,683	6,775	105,325	3,214
Increase in claims reserve		293,017	9,652	77,426	2,363
Net cash provided by operating activities		960,778	31,646	470,238	14,350

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2008 and 2009 were NT\$30.36 and NT\$32.77 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows-(Continued)

For the six months ended June 30, 2008 and 2009

(Expressed in thousands of dollars)

Items	Notes	January 1-June 30,2008		January 1-June 30,2009	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
Decrease in available-for-sale financial assets - current		98,809	3,254	185,462	5,659
Decrease in held-to-maturity financial assets - current		704,706	23,212	466,216	14,227
Decrease in investments in debt securities with no active market - current		1,429	47	100,131	3,056
Decrease in secured loans		493,532	16,256	173,220	5,286
Increase in investments in debt securities with no active market - noncurrent		-	-	(300,000)	(9,155)
Investment company share shall return		-	-	78,750	2,403
Increase in other financial assets - noncurrent		(883,294)	(29,094)	-	-
Disposal of fixed assets		1,481	49	-	-
Acquisition of fixed assets		(96,465)	(3,177)	(6,623)	(202)
Acquisition of intangible assets		(241)	(8)	(360)	(11)
(Increase) decrease in guarantee deposits paid		(13,545)	(446)	68,446	2,089
Net cash provided by investing activities		306,412	10,093	765,242	23,352
Cash flows from financing activities					
Increase in funds held for reinsurers		-	-	7,415	226
Cash dividends		(939,083)	(30,932)	-	-
Net cash used in financing activities		(939,083)	(30,932)	7,415	226
Effects of exchange rate changes		(282,471)	(9,304)	13,347	407
Increase in cash and cash equivalents		45,636	1,503	1,256,242	38,335
Cash and cash equivalents at the beginning of periods		2,396,187	78,926	3,567,735	108,872
Cash and cash equivalents at the end of periods		\$2,441,823	\$80,429	\$4,823,977	\$147,207
Supplemental disclosure of cash flows information					
Income tax paid		\$255,607	\$8,419	\$199,698	\$6,094

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2008 and 2009 were NT\$30.36 and NT\$32.77 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 financial statements
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 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 June 30, 2008 and 2009, the total numbers of employees were 1,059 and 1,127, 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

(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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

(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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

(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, 2008. 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

(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).

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

(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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

(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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

(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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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 June 30, 2008 and 2009 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$30.36 and NT\$32.77 provided by Federal Reserve Bank of New York of June 30, 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 decreased Company’s net income and earnings per share by NT\$503 (US\$17) and NT\$0.002 (US\$-), respectively, for the six-month period ended June 30, 2008.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

4. Cash and cash equivalents

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Petty cash and cash on hand	\$12,244	\$403	\$9,346	\$285
Cash in banks	596,707	19,654	523,264	15,968
Time deposits	1,442,600	47,517	2,084,200	63,601
Cash equivalents	390,272	12,855	2,207,167	67,353
Total	<u>\$2,441,823</u>	<u>\$80,429</u>	<u>\$4,823,977</u>	<u>\$147,207</u>

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

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Common stock	\$348,698	\$11,486	\$198,923	\$6,070
Beneficiary certificates	294,167	9,689	200,000	6,103
Corporate bonds	127,125	4,187	68,600	2,094
Subtotal	769,990	25,362	467,523	14,267
Add: Valuation adjustment	(88,887)	(2,928)	38,160	1,164
Total	<u>\$681,103</u>	<u>\$22,434</u>	<u>\$505,683</u>	<u>\$15,431</u>

6. Available-for-sale financial assets-current

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Common stock	\$736,112	\$24,246	\$448,468	\$13,685
Beneficiary certificates	943,202	31,067	760,527	23,208
Corporate bonds	200,000	6,588	799,856	24,408
Financial debentures	1,100,919	36,262	1,100,651	33,587
Subtotal	2,980,233	98,163	3,109,502	94,888
Add: Valuation adjustment	(59,940)	(1,974)	(40,120)	(1,224)
Total	<u>\$2,920,293</u>	<u>\$96,189</u>	<u>\$3,069,382</u>	<u>\$93,664</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

7. Held-to-maturity financial assets-current

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$551,548	\$18,167	\$-	\$-

8. Derivative financial assets for hedging - current

	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Valuation adjustment	-	-	31,304	955
Total	\$-	\$-	\$31,304	\$955

9. Financial assets carried at cost – current

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Tong Lung Metal Industry Co., Ltd. - preferred stock	\$24,000	\$791	\$-	\$-

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

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Financial debentures	\$226,194	\$7,450	\$-	\$-

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

11. Premiums receivable

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$1,815,081	\$59,785	\$1,870,662	\$57,085
Less: Allowance for bad debts	(18,151)	(598)	(18,706)	(571)
Net	<u>\$1,796,930</u>	<u>\$59,187</u>	<u>\$1,851,956</u>	<u>\$56,514</u>

12. Loans

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Secured loans	\$1,830,641	\$60,298	\$1,394,017	\$42,540
Less: Allowance for bad debts	(82,304)	(2,711)	(67,624)	(2,064)
Net	<u>\$1,748,337</u>	<u>\$57,587</u>	<u>\$1,326,393</u>	<u>\$40,476</u>

Secured loans are secured by real estate.

13. Held-to-maturity financial assets – noncurrent

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Overseas bonds	\$3,538,343	\$116,546	\$3,105,410	\$94,764
Less: Overseas bonds by payable within one year	(551,548)	(18,167)	-	-
Total	<u>\$2,986,795</u>	<u>\$98,379</u>	<u>\$3,105,410</u>	<u>\$94,764</u>

14. Financial assets carried at cost – noncurrent

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
KGEX. Com Co., Ltd.	<u>\$36,000</u>	<u>\$1,186</u>	<u>\$25,500</u>	<u>\$778</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

15. Investments in debt securities with no active market – noncurrent

	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Financial debentures	\$101,733	\$3,351	\$-	\$-
Company bonds	-	-	300,000	9,155
Less: Financial debentures by payable within one year	(101,733)	(3,351)	-	-
Total	\$-	\$-	\$300,000	\$9,155

16. Long-term investments under equity method

Investee	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$401,231	\$13,216	\$271,404	\$8,282
Vista Technology Venture Capital Corp.	7,912	260	6,401	195
Cathay Insurance Company Limited. (Shanghai)	-	-	903,436	27,569
Total	\$409,143	\$13,476	\$1,181,241	\$36,046

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

	For the six months ended June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance on January 1	\$432,192	\$14,235	\$1,285,997	\$39,243
Add (less):				
Investment income (loss) recognized under the equity method	12,563	414	(52,025)	(1,588)
Cash dividends	(12,750)	(420)	(6,000)	(183)

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

	For the six months ended June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Investment company share shall return	-	-	(78,750)	(2,403)
Cumulative conversion adjustments	-	-	(2,049)	(62)
Unrealized gains or losses on financial instruments recognized under the equity investment	(22,862)	(753)	34,068	1,039
Balance on June 30	<u>\$409,143</u>	<u>\$13,476</u>	<u>\$1,181,241</u>	<u>\$36,046</u>

B. The investment income (losses) recognized under equity method for the six-month periods ended June 30, 2008 and 2009 are listed below:

Investee	For the six months ended June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$12,567	\$414	\$(40,208)	\$(1,227)
Vista Technology Venture Capital Corp.	(4)	-	2	-
Cathay Insurance Company Limited. (Shanghai)	-	-	(11,819)	(361)
Total	<u>\$12,563</u>	<u>\$414</u>	<u>\$(52,025)</u>	<u>\$(1,588)</u>

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 six-month periods ended June 30, 2008 and 2009 were recognized under the equity method based on the respective audited financial statements.

D. The investment gains of Cathay Venture Capital Corp. for the six-month periods ended June 30, 2008 and 2009 were recognized under the equity method based on the respective audited financial statements of Cathay Venture Capital Corp.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

E. The investment gains of Cathay Insurance Company Limited. for the six-month period ended June 30, 2009 were recognized under the equity method based on the audited financial statements of Cathay Insurance Company Limited.

17. Other financial assets-noncurrent

Investee	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Other financial assets-noncurrent	\$832,315	\$27,415	\$-	\$-

18. Fixed assets

Item	June 30, 2008					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$7,241	\$239	\$6,246	\$206	\$995	\$33
Other equipments	259,929	8,561	173,066	5,700	86,863	2,861
Subtotal	267,170	8,800	179,312	5,906	87,858	2,894
Prepayments for equipments	65,322	2,152	-	-	65,322	2,152
Total	\$332,492	\$10,952	\$179,312	\$5,906	\$153,180	\$5,046

Item	June 30, 2009					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$2,230	\$68	\$1,917	\$59	\$313	\$9
Other equipments	265,119	8,090	158,752	4,844	106,367	3,246
Subtotal	267,349	8,158	160,669	4,903	106,680	3,255
Prepayments for equipments	1,965	60	-	-	1,965	60
Total	\$269,314	\$8,218	\$160,669	\$4,903	\$108,645	\$3,315

No equipments of the Company were pledged as of June 30, 2008 and 2009.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

19. Intangible assets - Computer software cost

Item	January 1, 2008		Increase		Decrease		June 30, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software cost	\$51,385	\$1,693	\$1,855	\$61	\$-	\$-	\$53,240	\$1,754
Amortization and impairment								
Amortization	(42,020)	(1,384)	(2,419)	(80)	-	-	(44,439)	(1,464)
Book value	<u>\$9,365</u>	<u>\$309</u>					<u>\$8,801</u>	<u>\$290</u>

Item	January 1, 2009		Increase		Decrease		June 30, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Acquired cost:								
Computer software cost	\$59,786	\$1,824	\$1,606	\$49	\$-	\$-	\$61,392	\$1,873
Amortization and impairment								
Amortization	(46,919)	(1,431)	(2,986)	(91)	-	-	(49,905)	(1,522)
Book value	<u>\$12,867</u>	<u>\$393</u>					<u>\$11,487</u>	<u>\$351</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.

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

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Valuation adjustment	34,468	1,135	-	-
Total	<u>\$34,468</u>	<u>\$1,135</u>	<u>\$-</u>	<u>\$-</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

21. Operating and liability reserve

	January 1, 2008		Provision		Recovered		June 30, 2008	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$6,474,812	\$213,268	\$6,606,225	\$217,597	\$6,474,812	\$213,268	\$6,606,225	\$217,597
Special reserve	4,070,391	134,071	335,243	11,042	116,210	3,828	4,289,424	141,285
Claims reserve	2,528,361	83,279	2,597,544	85,558	2,362,709	77,823	2,763,196	91,014
Premiums deficiency								
reserve	-	-	6,399	211	-	-	6,399	211
Total	<u>\$13,073,564</u>	<u>\$430,618</u>	<u>\$9,545,411</u>	<u>\$314,408</u>	<u>\$8,953,731</u>	<u>\$294,919</u>	<u>\$13,665,244</u>	<u>\$450,107</u>

	January 1, 2009		Provision		Recovered		June 30, 2009	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$6,755,977	\$206,163	\$6,729,225	\$205,347	\$6,755,977	\$206,163	\$6,729,225	\$205,347
Special reserve	4,714,560	143,868	380,131	11,600	98,260	2,998	4,996,431	152,470
Claims reserve	2,686,035	81,966	2,614,382	79,780	2,498,107	76,232	2,802,310	85,514
Premiums deficiency								
reserve	21,360	652	15,718	480	21,360	652	15,718	480
Total	<u>\$14,177,932</u>	<u>\$432,649</u>	<u>\$9,739,456</u>	<u>\$297,207</u>	<u>\$9,373,704</u>	<u>\$286,045</u>	<u>\$14,543,684</u>	<u>\$443,811</u>

The net unearned premium reserve for the first half year of 2009 was the insurance and reinsurance business assumed of NT\$6,729,225 (US\$205,347) offsetting by reinsurance business ceded of NT\$1,361,650 (US\$41,552). The net unearned premium reserve for the first half year of 2008 was the insurance and reinsurance business assumed of NT\$6,606,225 (US\$217,597) offsetting by reinsurance business ceded of NT\$1,340,946 (US\$44,168).

The claims reserves above represent outstanding claims of NT\$2,404,681 (US\$73,381) and IBNR (Incurred But Not Reported) of NT\$209,701 (US\$6,399) of June 30, 2009. Balances of outstanding claims and IBNR as of June 30, 2008 were NT\$2,378,958 (US\$78,358) and NT\$218,586 (US\$7,200), respectively.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

Reserves for operations included the following reserves:

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

(1) Unearned premium reserve

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

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

(2) Special reserve

A. Catastrophe reserve :

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

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

As of June 30, 2008 and 2009

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

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

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

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

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

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

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

(3) Claims reserve:

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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

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

(4) Premiums deficiency reserve :

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

22. Common stock

As of June 30, 2008 and 2009, the authorized and issued thousand shares were 231,701 with par value of NT\$10 each.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

23. Retained earnings

(1) Legal reserve

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

(2) Undistributed retained earnings

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

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

(3) According to the 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 \$503 (US\$17) for the half year 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 recorded as operating cost and expense at current year. Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2009.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

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

As of June 30, 2008 and 2009

- (6) The accrual of employee bonus of NT\$- (US\$-) for the half year of 2009 was based on a certain percentage of net income seated in the article of corporation after considering the legal reserve. The employee bonus was recorded as operating cost and expense at current year. Any difference exists between the accrual and actual amount resolved by the stockholder's meeting shall be recorded in 2010.

Due to the date of CPA expressing an opinion, the Company's distribution of 2008 retained earning has approved by the board of directors and the shareholders. For related information please refer to the "Market Observation Post System" website of the Taiwan Stock Exchange Corporation.

The company didn't distributed any employee bonus and directors compensation of 2008. Any difference exists between the accrual and actual amount resolved by the financial statements be recorded in 2008.

24. Personnel, depreciation, depletion and amortization expenses

Item	For the six month ended June 30, 2008 (NT\$)			For the six month ended June 30, 2009 (NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$514,258	\$514,258	\$-	\$526,699	\$526,699
Labor & health insurance expenses	-	25,948	25,948	-	28,957	28,957
Pension expenses	-	25,274	25,274	-	28,484	28,484
Other expenses	-	15,117	15,117	-	14,709	14,709
Depreciation	-	12,591	12,591	-	13,562	13,562
Depletion	-	-	-	-	-	-
Amortization	-	2,419	2,419	-	2,986	2,986

Item	For the six month ended June 30, 2008 (US\$)			For the six month ended June 30, 2009 (US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	\$-	\$16,939	\$16,939	\$-	\$16,073	\$16,073
Labor & health insurance expenses	-	855	855	-	884	884
Pension expenses	-	832	832	-	869	869
Other expenses	-	498	498	-	449	449
Depreciation	-	415	415	-	414	414
Depletion	-	-	-	-	-	-
Amortization	-	80	80	-	91	91

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

25. Estimated income taxes

The company adopted income tax rate is 25%. In accordance with Income Tax Act announced on May 27, 2009, the company will adopt income tax rate is 20% on Jan. 1, 2010.

(1) Income tax expenses include the following:

Item	For the six months ended June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Income tax calculates on accounting	\$590,905	\$19,463	\$675,573	\$20,616
Adjustments:				
Interest income of tax on a separate basis	(32,417)	(1,068)	(26,425)	(807)
Gains (losses) from valuation on financial assets (liabilities)	64,857	2,136	(187,448)	(5,720)
(Gains) losses derived from securities transactions	(116,118)	(3,824)	70,712	2,158
Investment (gains) losses recognized by the equity method	(12,563)	(414)	52,025	1,588
Unrealized gains (losses) on foreign exchanges	273,819	9,019	(14,705)	(449)
Realized losses on foreign exchanges	(19,849)	(654)	9,045	276
Others	782	26	870	26
Taxable Income	749,416	24,684	579,647	17,688
Multiply by : tax rate	25%	25%	25%	25%
Subtotal	187,354	6,171	144,912	4,422
Tax effects under integrated income tax systems	-	-	-	-
Subtotal	187,354	6,171	144,912	4,422
Taxed separately	3,912	129	1,730	53
Extra 10% income tax on undistributed retained earning	-	-	8,716	266
Adjustments of prior year's income tax	(4,448)	(147)	3,192	97
Deferred income tax expenses	(53,163)	(1,751)	33,058	1,009
Other	-	-	618	19
Total income tax expenses	\$133,655	\$4,402	\$192,226	\$5,866

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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

	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	\$106,314	\$3,502	\$34,180	\$1,043
Total deferred income tax liabilities	\$1,742	\$58	\$23,987	\$732
B. Temporary differences:				
Bad debts exceeding legal limitation	\$123,981	\$4,084	\$126,721	\$3,867
Unrealized losses on foreign exchanges	273,819	9,019	-	-
Unrealized gains on foreign exchanges	-	-	(14,705)	(449)
Unrealized losses from valuation on financial assets	3,999	132	-	-
Unrealized gains from valuation on financial assets	-	-	(105,230)	(3,211)
Unrealized gains from valuation on financial liabilities	(6,968)	(230)	-	-
Others	5,683	187	5,577	170
Total	\$400,514	\$13,192	\$12,363	\$377

	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
C. Investment tax credit	\$4,443	\$146	\$7,720	\$236

	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
D. Deferred income tax assets-current	\$106,314	\$3,502	\$34,180	\$1,043
Deferred income tax liabilities-current	(1,742)	(58)	(23,987)	(732)
Net balance deferred income tax assets -current	\$104,572	\$3,444	\$10,193	\$311

(3) The Company's income tax returns have been examined by the tax authority through year 2005, however, the Company appealed income tax return of year 2004 and 2005 is pending at the supreme court.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

- (4) Please refer to the following columns regarding law of investment tax credits, the credits items and amount of investment tax credits, the remaining balance and the expiry year:

Law of Investment tax credit	The credits items	The amount of investment tax credit		The remaining balance		Expiry year
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Personnel training	\$3,296	\$101	\$3,296	\$101	2011
		3,625	111	3,625	111	2012
		799	24	799	24	2013
Total		<u>\$7,720</u>	<u>\$236</u>	<u>\$7,720</u>	<u>\$236</u>	

- (5) Information related to imputation:

	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$1,460</u>	<u>\$48</u>	<u>\$10,201</u>	<u>\$311</u>
Imputation creditable ratio	<u>June 30, 2008</u>		<u>June 30, 2009</u>	
	1.61%		2.55%	

- (6) Information relating of undistributed earnings:

Year	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	-	-	87,159	2,660
Total	<u>\$-</u>	<u>\$-</u>	<u>\$87,159</u>	<u>\$2,660</u>

Net income after tax for the six-month periods ended June 30, 2008 and 2009 are not included in the undistributed earnings after 1998 expressed above.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

26. Earnings per share

	For the six month ended June 30, 2008		For the six month ended June 30, 2009	
	NT\$	US\$	NT\$	US\$
Net income (A)	\$457,250	\$15,061	\$483,347	\$14,750
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)	\$1.97	\$0.06	\$2.09	\$0.06

27. 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.
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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

Name	Relationship
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	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 six months ended June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$40,332	\$1,328	\$99,748	\$3,043
Cathay United Bank	60,778	2,002	41,047	1,253
Total	<u>\$101,110</u>	<u>\$3,330</u>	<u>\$140,795</u>	<u>\$4,296</u>

B. Premiums receivable

Name	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$19,221	\$587
Cathay United Bank	8,979	296	8,166	249
Total	<u>\$8,979</u>	<u>\$296</u>	<u>\$27,387</u>	<u>\$836</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

C. Insurance claims payment

Name	For the six months ended June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$8,868	\$292	\$-	\$-
Cathay Life Insurance Co., Ltd.	-	-	5,840	178
Total	\$8,868	\$292	\$5,840	\$178

D. Cash in banks

Name	Type	For the six month ended June 30, 2008		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$488,533	0.10%	\$165
	Time deposits	\$409,450	2.21%~2.62%	\$5,323

Name	Type	For the six month ended June 30, 2008		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$16,091	0.10%	\$5
	Time deposits	\$13,486	2.21%~2.62%	\$175

Name	Type	For the six month ended June 30, 2009		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$441,891	0.10%	\$251
	Time deposits	\$829,722	0.525%~2.72%	\$7,915

Name	Type	For the six month ended June 30, 2009		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$13,485	0.10%	\$8
	Time deposits	\$25,320	0.525%~2.72%	\$242

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

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

As of June 30, 2008 and 2009

E. Loans

For the six month ended June 30, 2008

Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Que Ming-Huang	\$4,655	\$4,637	2.85%	\$69
Chang Zhao-Yang	\$3,320	\$3,311	2.85%	\$47
Fan Shi-Kai	\$9,618	\$9,586	2.85%	\$138
Peng Yi-Miao	\$3,838	\$3,826	2.85%	\$59
Ming Yi-Ching	\$6,000	\$6,000	2.85%	\$85

For the six month ended June 30, 2008

Name	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$153	\$153	2.85%	\$2
Chang Zhao-Yang	\$109	\$109	2.85%	\$2
Fan Shi-Kai	\$317	\$316	2.85%	\$5
Peng Yi-Miao	\$126	\$126	2.85%	\$2
Ming Yi-Ching	\$198	\$198	2.85%	\$3

For the six month ended June 30, 2009

Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Que Ming-Huang	\$3,258	\$3,242	1.66%	\$29
Chang Zhao-Yang	\$3,205	\$3,194	1.66%	\$27
Ming Yi-Ching	\$5,796	\$5,770	1.66%	\$49
Fan Shi-Kai	\$8,944	\$8,868	1.66%	\$75

For the six month ended June 30, 2009

Name	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Que Ming-Huang	\$99	\$99	1.66%	\$1
Chang Zhao-Yang	\$98	\$97	1.66%	\$1
Ming Yi-Ching	\$177	\$176	1.66%	\$1
Fan Shi-Kai	\$273	\$271	1.66%	\$2

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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

Name	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$43,320	\$1,427	\$200,509	\$6,119

G. Available-for-sale financial assets-current

Name	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	\$117,783	\$3,880	\$39,856	\$1,216

H. Guarantee deposits paid

Name	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$19,421	\$640	\$20,633	\$629
Cathay Futures Corp.	5,066	167	10,283	314
Total	\$24,487	\$807	\$30,916	\$943

I. Other asset – other

Name	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Insurance Company Limited. (Shanghai)	\$-	\$-	\$54,628	\$1,667

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

J. Other payable

Name	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$183,222	\$6,035	\$149,024	\$4,548
Cathay Life Insurance Co., Ltd.	158,223	5,212	177,421	5,414
Total	<u>\$341,445</u>	<u>\$11,247</u>	<u>\$326,445</u>	<u>\$9,962</u>

K. Operating costs

Name	Summary	For the six months ended June 30,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay United Bank	Handing fee paid	<u>\$13,669</u>	<u>\$451</u>	<u>\$8,128</u>	<u>\$248</u>

L. Operating expenses

Name	Summary	For the six months ended June 30,			
		2008		2009	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Rental expenses	\$41,376	\$1,363	\$44,510	\$1,358
	Marketing expenses	466,847	15,377	528,528	16,128
	Party premium expenses	4,348	143	4,440	136
	Administrative expenses	3,340	110	3,406	104
Cathay United Bank	Marketing expenses	26,347	868	26,827	819
Total		<u>\$542,258</u>	<u>\$17,861</u>	<u>\$607,711</u>	<u>\$18,545</u>

M. Other expenses

Name	For the six months ended June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	<u>\$-</u>	<u>\$-</u>	<u>\$6,659</u>	<u>\$203</u>

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

N. Other

As of June 30, 2008 and 2009 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	June 30,	
	2008	2009
Forward foreign exchange contracts	US\$22,150	US\$7,710
CS contracts	US\$31,150	US\$11,050
IRS	NT\$600,000 (US\$19,763)	NT\$600,000 (US\$18,309)

28. Pledged assets

Item	June 30,			
	2008		2009	
	NT\$	US\$	NT\$	US\$
Government bonds	\$345,033	\$11,365	\$366,110	\$11,172

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.

29. 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

B. As of June 30, 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\$)
July 1, 2009 ~ June 30, 2010	\$92,003	\$2,808
July 1, 2010 ~ June 30, 2011	94,551	2,885
July 1, 2011 ~ June 30, 2012	97,177	2,965
July 1, 2012 ~ June 30, 2013	99,881	3,048
July 1, 2013 ~ June 30, 2014	102,666	3,133
Total	<u>\$486,278</u>	<u>\$14,839</u>

30. Significant disaster losses: None.

31. Subsequent events: None.

32. Others

(1) Risk management policies and hedge strategies

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

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

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

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.

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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

Liquidity risk

The company's exposure to liquidity risk is minimal.

(2) Financial instruments related information:

Assets	June 30, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$2,441,823	\$2,441,823	\$80,429	\$80,429
Financial assets at fair value through profit or loss - current	681,103	681,103	22,434	22,434
Available-for-sale financial assets - current	2,920,293	2,920,293	96,189	96,189
Held-to-maturity financial assets-current	551,548	551,548	18,167	18,167
Financial assets carried at cost-current	24,000	24,000	791	791
Investments in debt securities with no active market-current	226,194	226,194	7,450	7,450
Receivables	2,125,311	2,125,311	70,004	70,004
Prepaid reinsurance premiums ceded	1,340,946	1,340,946	44,168	44,168
Claims recoverable from reinsurers	1,244,518	1,244,518	40,992	40,992
Due from reinsurers and ceding companies	80,980	80,980	2,667	2,667
Account receivable-reinsurance	29,800	29,800	982	982
Secured loans	1,748,337	1,748,337	57,587	57,587
Held-to-maturity financial assets- noncurrent	2,986,795	2,986,795	98,379	98,379
Financial assets carried at cost-noncurrent	36,000	36,000	1,186	1,186
Long-term investments under equity method	409,143	409,143	13,476	13,476
Guarantee deposits paid	446,285	446,285	14,700	14,700
Other financial assets-noncurrent	832,315	832,315	27,415	27,415

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

Liabilities	June 30, 2008			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instrument:				
Claims outstanding	\$11,289	\$11,289	\$372	\$372
Due to reinsurers and ceding companies	340,221	340,221	11,206	11,206
Account payable-reinsurance	641,424	641,424	21,127	21,127
Operating and liabilities reserve	13,665,244	13,665,244	450,107	450,107
Derivative financial instruments:				
Financial liabilities at fair value through				
Profit or loss-current				
Forward and SWAP	34,468	34,468	1,135	1,135
Derivative financial liabilities for hedging				
IRS	9,304	9,304	306	306
Assets	June 30, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$4,823,977	\$4,823,977	\$147,207	\$147,207
Financial assets at fair value through profit				
or loss - current	467,360	467,360	14,262	14,262
Available-for-sale financial assets - current	3,069,382	3,069,382	93,664	93,664
Receivables	2,135,485	2,135,485	65,167	65,167
Prepaid reinsurance premiums ceded	1,361,650	1,361,650	41,552	41,552
Claims recoverable from reinsurers	1,323,769	1,323,769	40,396	40,396
Due from reinsurers and ceding companies	81,472	81,472	2,486	2,486
Account receivable - reinsurance	27,276	27,276	832	832
Secured loans	1,326,393	1,326,393	40,476	40,476
Held-to-maturity financial assets -				
noncurrent	3,105,410	3,105,410	94,764	94,764
Financial assets carried at cost-noncurrent	25,500	25,500	778	778

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

Assets	June 30, 2009			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Investments in debt securities with no active market-noncurrent	\$300,000	\$300,000	\$9,155	\$9,155
Long-term investments under equity method	1,181,241	1,181,241	36,046	36,046
Guarantee deposits paid	502,548	502,548	15,336	15,336
Derivative financial instruments:				
Financial assets at fair value through profit or loss-current				
Forward and SWAP	38,323	38,323	1,169	1,169
Derivative financial assets for hedging				
IRS	31,304	31,304	955	955
Liabilities				
Non - derivative financial instrument:				
Claims outstanding	25,690	25,690	784	784
Due to reinsurers and ceding companies	306,844	306,844	9,364	9,364
Account payable - reinsurance	740,387	740,387	22,593	22,593
Operating and liabilities reserve	14,543,684	14,543,684	443,811	443,811

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

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

As of June 30, 2008 and 2009

- 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 June 30, 2008 and 2009:

Financial Instruments	June 30,			
	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	\$681,103	\$467,360	\$-	\$-
Available-for-sale financial assets - current	2,920,293	3,069,382	-	-
Held-to-maturity financial asset - current	-	-	551,548	-
Financial asset carried at cost - current	-	-	24,000	-
Investment in debt securities with no active market-current	-	-	226,194	-
Held-to-maturity financial assets - noncurrent	-	-	2,986,795	3,105,410
Financial assets carried at cost - noncurrent	-	-	36,000	25,500
Investment in debt securities with no active market - noncurrent	-	-	-	300,000
Long-term investments under equity method	-	-	409,143	1,181,241
Other financial assets-noncurrent	-	-	832,315	-

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

Financial Instruments	June 30,				
	NT\$				
	Based on the quoted market price		Based on valuation techniques		
	2008	2009	2008	2009	
<u>Assets- derivative</u>					
Financial assets at fair value through profit and loss – current					
Forward and SWAP	\$-	\$-	\$-	\$38,323	
Derivative financial assets for hedging-current					
IRS	-	-	-	31,304	
<u>Liability-derivative</u>					
Financial liability at fair value through profit and loss - current					
Forward and SWAP	-	-	34,468	-	
Derivative financial liabilities for hedging-noncurrent					
IRS	-	-	9,304	-	
June 30,					
US\$					
		Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2008	2009	2008	2009	
<u>Assets-non-derivative</u>					
Financial assets at fair value through profit or loss - current	\$22,434	\$14,262	\$-	\$-	
Available-for-sale financial assets - current	96,189	93,664	-	-	
Held-to-maturity financial asset - current	-	-	18,167	-	
Financial asset carried at cost - current	-	-	791	-	
Investment in debt securities with no active market - current	-	-	7,450	-	
Held-to-maturity financial assets - noncurrent	-	-	98,379	94,764	
Financial assets carried at cost - noncurrent	-	-	1,186	778	
Investment in debt securities with no active market - noncurrent	-	-	-	9,155	
Long-term investments under the equity method	-	-	13,476	36,046	
Other financial assets-noncurrent	-	-	27,415	-	

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

Financial Instruments	June 30,			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	2008	2009	2008	2009
<u>Assets-derivative</u>				
Financial assets at fair value through profit or loss-current				
Forward and SWAP	\$-	\$-	\$-	\$1,169
Derivative financial liabilities for hedging - current				
IRS	-	-	-	955
<u>Liability- derivative</u>				
Financial liability at fair value through profit or loss-current				
Forward contracts	-	-	1,135	-
Derivative financial liabilities for hedging-noncurrent				
IRS	-	-	306	-

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at June 30, 2008 and 2009:

Fixed interest rate:

① June 30, 2008

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$551,548	\$18,167	\$-	\$-	\$-	\$-	\$333,746	\$10,993
Investments in debt securities								
with no active market	226,194	7,450	-	-	-	-	-	-
Item	Due in 4~5 years		Over 5 years		Total			
	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Held-to-maturity financial assets	\$230,868	\$7,604	\$2,422,181	\$79,782	\$3,538,343	\$116,546		
Investments in debt securities								
with no active market	-	-	-	-	226,194	7,450		

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

② June 30, 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	\$-	\$-	\$164,411	\$5,017	\$378,514	\$11,551	\$1,054,543	\$32,180
Investments in debt securities								
with no active market	-	-	-	-	300,000	9,155	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$263,957	\$8,055	\$1,243,985	\$37,961	\$3,105,410	\$94,764
Investments in debt securities						
with no active market	-	-	-	-	300,000	9,155

(5) Credit risk

The Company's exposure to credit risk is minimal.

(6) Fair value hedges

Hedged item	Financial instruments of designated as hedging instruments	Designated as hedging instruments			
		Fair value			
		June 30, 2008		June 30, 2009	
		NT\$	US\$	NT\$	US\$
Overseas bonds	Forward and SWAP	<u>\$(34,468)</u>	<u>\$(1,135)</u>	<u>\$38,323</u>	<u>\$1,169</u>

(7) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company's interest rate swap for bonds hedging at June 30, 2009:

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2008 and 2009

Cash flow hedges-IRS

June 30, 2009

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

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized loss on financial instruments were recognized in equity by NT\$9,304 (US\$306) as of June 30, 2008. Unrealized gains on financial instruments were recognized in equity by NT\$31,304 (US\$955) as of June 30, 2009.

(8) Discretionary account management

Item	June 30, 2008			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$247,646	\$8,157	\$247,646	\$8,157
Short-term notes	190,683	6,280	190,683	6,280
Cash in banks	164,064	5,404	164,064	5,404
Net other assets less liabilities	33,207	1,094	33,207	1,094
Total	<u>\$635,600</u>	<u>\$20,935</u>	<u>\$635,600</u>	<u>\$20,935</u>
Item	June 30, 2009			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$202,846	\$6,190	\$202,846	\$6,190
Short - term notes	190,678	5,819	190,678	5,819
Cash in banks	226,370	6,908	226,370	6,908
Net other assets less liabilities	1,161	35	1,161	35
Total	<u>\$621,055</u>	<u>\$18,952</u>	<u>\$621,055</u>	<u>\$18,952</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Notes to financial statements (continued)

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

As of June 30, 2008 and 2009

As of June 30, 2008 and 2009, the Company had discretionary account management contracts in the amount of NT\$600,000 (US\$19,763) and NT\$600,000 (US\$18,309), 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 six months ended June 30, 2008 have been reclassified in order to be comparable with those in the financial statements For the six months ended June 30, 2009.

33. 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 June 30, 2009, the Company's remittances to this company totaled approximately US\$27,820.

34. Segment information: None.