

Cathay Century Insurance Co., Ltd.
Financial statements
Together with
Independent auditor's report
As of December 31, 2004 and 2005

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

Independent auditor's report

The Board of Directors
Cathay Century Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") as of December 31, 2004 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audited.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of December 31, 2004 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

DIWAN, ERNST & YOUNG
Taipei, Taiwan
Republic of China
January 18, 2006

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 audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets

As of December 31, 2004 and 2005

(Expressed in thousands of dollars)

Assets	Notes	December 31, 2004		December 31, 2005	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents		\$3,783,245	\$119,195	\$2,547,642	\$77,672
Short-term investments		2,448,376	77,139	2,865,999	87,378
Notes receivable		140,884	4,439	196,685	5,996
Interests receivable		20,563	648	21,569	658
Premiums receivable		938,056	29,554	1,177,114	35,888
Claims recoverable from reinsurers		252,969	7,970	215,775	6,578
Due from reinsurers and ceding companies		18,266	575	80,499	2,454
Other accounts receivable		80,851	2,547	32,675	996
Deferred income tax assets - current		39,773	1,253	37,988	1,158
Prepayments		2,816	89	2,970	91
Subtotal		<u>7,725,799</u>	<u>243,409</u>	<u>7,178,916</u>	<u>218,869</u>
Exchange bills negotiated, discounted and loans					
Short-term secured loans		-	-	29,210	891
Medium-term secured loans		397,909	12,537	827,973	25,243
Long-term secured loans		390,441	12,301	464,029	14,147
Subtotal		<u>788,350</u>	<u>24,838</u>	<u>1,321,212</u>	<u>40,281</u>
Funds, long-term investments and receivable					
Long-term investments in stocks					
Under the equity method		218,439	6,882	382,522	11,662
Under the cost method		83,796	2,640	36,000	1,098
Long-term investments in bonds		2,277,541	71,756	3,153,955	96,157
Subtotal		<u>2,579,776</u>	<u>81,278</u>	<u>3,572,477</u>	<u>108,917</u>
Property and equipment					
Communication and transportation equipment		20,960	660	15,743	480
Other equipment		170,616	5,375	180,783	5,512
Subtotal		<u>191,576</u>	<u>6,036</u>	<u>196,526</u>	<u>5,992</u>
Less: Accumulated depreciation		(129,094)	(4,067)	(144,696)	(4,411)
Prepayments for equipment		2,520	79	3,853	117
Subtotal		<u>65,002</u>	<u>2,048</u>	<u>55,683</u>	<u>1,698</u>
Intangible assets					
Computer software cost		15,020	473	13,351	407
Subtotal		<u>15,020</u>	<u>473</u>	<u>13,351</u>	<u>407</u>
Other assets					
Guarantee deposits paid		17,891	564	36,662	1,118
Overdue receivables		94,206	2,968	140,659	4,288
Temporary payments and suspense accounts		7,038	222	14,123	431
Securities serving as deposits paid-bonds		359,937	11,340	356,051	10,855
Funds held by ceding companies		8	-	8	-
Deferred pension cost		6,302	199	3,464	106
Subtotal		<u>485,382</u>	<u>15,293</u>	<u>550,967</u>	<u>16,798</u>
Total assets		<u>\$11,659,329</u>	<u>\$367,339</u>	<u>\$12,692,606</u>	<u>\$386,970</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets - (Continued)

As of December 31, 2004 and 2005

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	December 31, 2004		December 31, 2005	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Collections for others		\$6,158	\$194	\$6,885	\$210
Accrued expenses		268,910	8,472	258,239	7,873
Commissions payable		1,836	58	7,273	222
Dividends payable		7,888	249	4,580	140
Claims outstanding		632	20	628	19
Due to reinsurers and ceding companies		237,938	7,497	224,011	6,829
Other payables		678,583	21,379	789,912	24,083
Subtotal		1,201,945	37,869	1,291,528	39,376
Long-term liabilities					
Accrued pension liabilities		9,209	290	6,869	209
Subtotal		9,209	290	6,869	209
Other liabilities					
Unearned premiums reserve		4,031,204	127,007	4,449,253	135,648
Special reserve		2,570,454	80,985	2,747,793	83,774
Claims reserve		634,173	19,980	927,006	28,262
Temporary receipts and suspense accounts		32,035	1,009	75,756	2,310
Funds held for reinsurers		184	6	184	6
Subtotal		7,268,050	228,987	8,199,992	250,000
Total liabilities		8,479,204	267,146	9,498,389	289,585
Stockholders' equity					
Capital stock					
Common stock		2,317,006	73,000	2,317,006	70,640
Capital surplus		1,909	60	2,021	62
Retained earnings					
Legal reserve		220,741	6,955	284,803	8,683
Unappropriated retained earnings		640,617	20,183	590,545	18,005
Equity adjustment					
Cumulative conversion adjustments		(148)	(5)	(158)	(5)
Total stockholders' equity		3,180,125	100,193	3,194,217	97,385
Total liabilities and stockholders' equity		\$11,659,329	\$367,339	\$12,692,606	\$386,970

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of income

For the years ended December 31, 2004 and 2005

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

Items	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
Operating revenues					
Premiums income		\$8,307,758	\$261,744	\$8,912,225	\$271,714
Reinsurance commission earned		347,864	10,960	401,410	12,238
Claims recovered from reinsurers		1,154,698	36,380	3,182,845	97,038
Recovered unearned premiums reserve		3,601,016	113,453	4,031,204	122,903
Recovered special claim reserve		87,057	2,743	345,774	10,542
Recovered claims reserve		44,553	1,404	51,941	1,583
Handling fee earned		53	2	52	2
Interest income		224,779	7,082	263,419	8,031
Gain on trading bills and securities		124,817	3,932	27,497	838
Gain on long-term equity investment		-	-	12,981	396
Subtotal		<u>13,892,595</u>	<u>437,700</u>	<u>17,229,348</u>	<u>525,285</u>
Operating costs					
Reinsurance premiums ceded		(3,035,237)	(95,628)	(2,988,545)	(91,114)
Commissions expenses		(140,224)	(4,418)	(172,254)	(5,252)
Insurance claims payment		(3,623,241)	(114,154)	(6,281,481)	(191,508)
Provision for unearned premiums reserve		(4,031,204)	(127,007)	(4,449,253)	(135,648)
Provision for special claim reserve		(394,744)	(12,437)	(523,113)	(15,949)
Contribution to the stabilization funds		(15,543)	(489)	(16,654)	(508)
Provision for claims reserve		(51,941)	(1,636)	(60,170)	(1,834)
Handling fee paid		(216,977)	(6,836)	(215,979)	(6,585)
Interest expenses		(93)	(3)	-	-
Loss on long-term equity investment		(16,495)	(520)	-	-
Agent expenses		(4,087)	(129)	(2,704)	(82)
Subtotal		<u>(11,529,786)</u>	<u>(363,257)</u>	<u>(14,710,153)</u>	<u>(448,480)</u>
Operating gross profit		<u>2,362,809</u>	<u>74,443</u>	<u>2,519,195</u>	<u>76,805</u>
Operating expenses					
Marketing expenses		(1,291,930)	(40,704)	(1,464,132)	(44,638)
Administrative and general expenses		(261,348)	(8,234)	(255,671)	(7,795)
Operating income		<u>809,531</u>	<u>25,505</u>	<u>799,392</u>	<u>24,372</u>
Non-operating revenues					
Gain on foreign exchange		1,502	47	3,933	120
Gain on disposal of property and equipment		361	11	905	28
Miscellaneous income		35,603	1,122	11,197	341
Subtotal		<u>37,466</u>	<u>1,180</u>	<u>16,035</u>	<u>489</u>
Non-operating expenses					
Loss on foreign exchange		(27,396)	(863)	(64,083)	(1,954)
Loss on disposal of property and equipment		(18)	(1)	(5)	-
Miscellaneous expenses		-	-	(18)	-
Subtotal		<u>(27,414)</u>	<u>(864)</u>	<u>(64,106)</u>	<u>(1,954)</u>
Income from continuing operations before income taxes		819,583	25,821	751,321	22,907
Income taxes		(178,966)	(5,638)	(160,776)	(4,902)
Net income		<u>\$640,617</u>	<u>\$20,183</u>	<u>\$590,545</u>	<u>\$18,005</u>
Earning per share (In dollars)					
Income before income taxes		<u>\$3.54</u>	<u>\$0.11</u>	<u>\$3.24</u>	<u>\$0.10</u>
Net income		<u>\$2.76</u>	<u>\$0.09</u>	<u>\$2.55</u>	<u>\$0.08</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.
Statements of changes in stockholders' equity
For the years ended December 31, 2004 and 2005
(Expressed in thousands of dollars)

Summary	Capital stock		Capital surplus		Retained earnings				Cumulative conversion adjustments		Total	
	Common stock				Legal reserve		Unappropriated retained earnings					
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2004	\$2,317,006	\$73,000	\$430	\$13	\$161,475	\$5,088	\$592,660	\$18,672	\$1,287	\$40	\$3,072,858	\$96,813
Appropriations and distributions for 2003												
Legal reserve					59,266	1,867	(59,266)	(1,867)			-	-
Cash dividends							(525,506)	(16,556)			(525,506)	(16,556)
Bonus paid to employees							(7,888)	(249)			(7,888)	(249)
Capital surplus- long-term equity investment			1,479	47							1,479	47
Cumulative conversion adjustments									(1,435)	(45)	(1,435)	(45)
Net Income for the year ended December 31, 2004							640,617	20,183			640,617	20,183
Balance on December 31, 2004	\$2,317,006	\$73,000	\$1,909	\$60	\$220,741	\$6,955	\$640,617	\$20,183	(\$148)	(\$5)	\$3,180,125	\$100,193
Balance on January 1, 2005	\$2,317,006	\$70,640	\$1,909	\$59	\$220,741	\$6,730	\$640,617	\$19,531	(\$148)	(\$5)	\$3,180,125	\$96,955
Appropriations and distributions for 2004												
Legal reserve					64,062	1,953	(64,062)	(1,953)			-	-
Cash dividends							(571,975)	(17,438)			(571,975)	(17,438)
Bonus paid to employees							(4,580)	(140)			(4,580)	(140)
Capital surplus- long-term equity investment			112	3							112	3
Cumulative conversion adjustments									(10)	-	(10)	-
Net Income for the year ended December 31, 2005							590,545	18,005			590,545	18,005
Balance on December 31, 2005	\$2,317,006	\$70,640	\$2,021	\$62	\$284,803	\$8,683	\$590,545	\$18,005	(\$158)	(\$5)	\$3,194,217	\$97,385

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows

For the years ended December 31, 2004 and 2005

(Expressed in thousands of dollars)

Items	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income		\$640,617	\$20,183	\$590,545	\$18,005
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		5,083	160	7,247	221
Depreciation		20,949	660	24,403	744
Provision for reserve for operations		4,477,888	141,080	5,032,536	153,431
Recovered unearned premiums reserve		(3,601,016)	(113,454)	(4,031,204)	(122,903)
Recovered special claim reserve		(87,057)	(2,743)	(345,774)	(10,542)
Recovered claims reserve		(44,553)	(1,404)	(51,941)	(1,584)
Loss on disposal of property and equipment		18	1	5	-
Gain on disposal of property and equipment		(361)	(11)	(905)	(28)
Unrealized (gain) loss on long-term investments		16,495	520	(12,981)	(396)
Effects of exchange rate changes		25,894	816	60,150	1,834
Decrease (increase) in short-term investments		(301,289)	(9,492)	(417,623)	(12,732)
(Increase) decrease in notes receivable		47,488	1,496	(56,365)	(1,718)
Decrease in interests receivable		5,735	181	(1,006)	(31)
Increase in premiums receivable		(419,000)	(13,201)	(241,473)	(7,362)
Decrease (increase) in claims recoverable from reinsurers		(43,834)	(1,381)	37,194	1,134
Decrease in due from reinsurers and ceding companies		238,058	7,500	(76,160)	(2,322)
Increase in other accounts receivable		(57,422)	(1,809)	48,176	1,469
Decrease (increase) in prepayments		(252)	(8)	(154)	(5)
(Increase) decrease in deferred income tax assets-current		11,886	375	1,785	55
Decrease in deferred income tax assets-non-current		14	-	-	-
Decrease (increase) in overdue receivables		(118,604)	(3,737)	(56,947)	(1,736)
(Increase) decrease in temporary payments and suspense accounts		7,881	248	(7,085)	(216)
(Decrease) increase in collections for others		1,267	40	727	22
Increase in accrued expenses		33,864	1,067	(10,671)	(325)
Decrease in commissions payable		(2,098)	(66)	5,437	166
Decrease in claims outstanding		(4,105)	(129)	(5)	-
Increase in other payables		247,325	7,792	109,560	3,340
Increase in accrued pension liabilities		382	12	497	15
(Decrease) increase in temporary receipts and suspense accounts		15,202	479	43,721	1,333
Increase in claims reserve		41,477	1,307	284,604	8,677
Net cash provided by (used in) operating activities		1,157,932	36,482	936,293	28,546

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 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 years ended December 31, 2004 and 2005

(Expressed in thousands of dollars)

Items	Notes	2004		2005	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
Decrease in short-term secured loans		-	-	(32,000)	(976)
Decrease in medium-term secured loans		39,240	1,236	(438,654)	(13,373)
Decrease (increase) in long-term secured loans		(4,821)	(152)	(48,735)	(1,486)
Acquisition of long-term investment in stocks		-	-	(151,000)	(4,604)
Realized loss long-term investments		-	-	39,000	1,189
Disposal of long-term investments in stocks		33,600	1,059	8,796	268
Increase in long-term investments in bonds		(441,262)	(13,902)	(876,414)	(26,720)
Disposal of property and equipment		1,396	44	2,608	80
Acquisition of property and equipment		(26,186)	(825)	(15,022)	(458)
Acquisition of intangible assets		(12,843)	(405)	(5,577)	(170)
Increase in guarantee deposits paid		(1,069)	(34)	(18,771)	(572)
Decrease in securities serving as deposits paid-bonds		347	11	3,886	118
Decrease in funds held by ceding companies		99	3	-	-
Net cash provided by (used in) investing activities		(411,499)	(12,965)	(1,531,883)	(46,704)
Cash flows from financing activities					
Decrease in funds held for reinsurers		(98)	(3)	-	-
Bonus to employees		(1,441)	(45)	(7,888)	(241)
Cash dividends		(525,506)	(16,557)	(571,975)	(17,438)
Net cash provided by (used in) financing activities		(527,045)	(16,605)	(579,863)	(17,679)
Effects of exchange rate changes		(25,894)	(816)	(60,150)	(1,834)
(Decrease) increase in cash and cash equivalents		193,494	6,096	(1,235,603)	(37,671)
Cash and cash equivalents at the beginning of period		3,589,751	113,099	3,783,245	115,343
Cash and cash equivalents at the end of period		\$3,783,245	\$119,195	\$2,547,642	\$77,672
Supplemental disclosure of cash flows information					
Interest paid during period		\$93	\$3	\$-	\$-
Interest paid excluding capitalized interest		\$93	\$3	\$-	\$-
Income tax paid		\$123,827	\$3,901	\$134,457	\$4,099
Partial cash investing and financing activities					
Equipment		\$31,499	\$992	\$16,791	\$512
Other payable at the year-began		-	-	5,313	162
Other payable at the year-end		(5,313)	(167)	(7,082)	(216)
Cash paid		\$26,186	\$825	\$15,022	\$458

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NT\$31.74 and NT\$32.80 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 December 31, 2004 and 2005

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 Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”. 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.

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

As of December 31, 2004 and 2005, the total numbers of employees were 880 and 868, respectively.

2. Summary of significant accounting policies

We prepared the financial statement, in accordance with generally accepted accounting principles, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”. Summary of significant accounting policies as 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.

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 December 31, 2004 and 2005

(2) Cash and cash equivalents

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

(3) Short-term investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are not recognized as income, but treated as an increase in the number of shares not as investment income. The cost of marketable equity securities sold is determined by the weighted-average method.

Beneficiary certificates are stated at the lower of cost or market value. The cost of beneficiary certificates sold is determined by the weighted-average cost method.

Short-term notes are stated at the lower of cost or market value on the balance sheet date, if the market value is available. The costs of these notes, interest income, and gain or loss, either due to maturity or resulting from the sales of notes are determined by the specific identification method.

Bonds and convertible bonds are recorded at the lower of cost or market value. The cost of these bonds sold is determined by the specific identification method.

The ROC Statement of Financial Accounting Standards (“SFAS”) No. 30 “Treasury stock” considers parent company stock held by a subsidiary to be treasury stock of the consolidated entity. Parent stock held by subsidiary is stated individually at the lower of aggregate cost or market value.

(4) Allowance for bad and doubtful debts

Allowance for bad debts and doubtful accounts on notes receivable, premiums receivable, overdue accounts and 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 December 31, 2004 and 2005

(5) Long – term investments

A. Long-term investments in stocks

Long-term investments in listed companies for which the Company's ownership interest is less than 20% of the voting stock, and over which the Company lacks significant operational influence are stated at the lower of cost or market value. Unrealized loss thereon is reflected as a reduction of shareholders' equity. Long-term investments in unlisted companies, in which the Company's ownership interest accounted for less than 20% of the common stock, are stated at cost. However, when there is evidence showing that a decline in market value of such investment is not temporary and is already less than cost, the market value becomes the new cost basis and the difference is accounted for as if it were a realized loss, and included in the determination of net income. Stock dividends are not recognized as income but treated as an increase in the number of shares held. Upon sales of long-term investments (accounted for under the cost method), the difference between the weighted-average cost and sales price is used to compute the resulting gain or loss.

Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or more of the voting shares and the Company has significant operational influence. According to the ROC SFAS No.23, "Interim Financial Reporting and Disclosures", to equity method is not required where the Company's first quarter interim financial statements are prepared for a holding interest between 20% and 50% on a consistent basis.

The cost of the disposal of an investment is determined by the weighted-average method.

B. Long-term investments in bonds

Long-term investments in bonds should be accounted for at cost, and any premium or discount should be amortized based on a reasonable and systematic basis.

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(6) Property and equipment

Property and equipment are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed currently. Upon the sale or disposal of property and equipment, the related cost and accumulated depreciation and accumulated depletion are eliminated. Gain or loss resulting from such sale or disposal is classified as non-operating gain or loss. Depreciation on depreciable assets is calculated on a 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”). Property and equipment that are still in use after their useful lives are depreciated based on the residual value and the newly estimated remaining useful lives.

(7) Intangible assets

“Computer software cost” are stated at cost and amortized over three years on the straight-line method.

(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.

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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, to reduce the other assets of the CGU or group of CGUs pro rate to their carrying amount.

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

(9) Reserve for operations

Reserve for operations are organized according to the Insurance Law. These reserves include unearned premiums reserve, claims reserve and special claim reserve. The actuary provides the figures of such reserves in the financial statements.

(10) 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.

(11) Contribution to the stabilization funds

The Company makes a monthly contribution from 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 income statements.

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(12) Pension plan

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

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

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.

(13) Securities serving as deposits paid-bonds

According to Article 141 of the Insurance Law of the ROC, an amount equal to 15% of the Company's capital stock should be deposited in the Central Bank of China as the "Securities serving as deposits paid-bonds". The amount was deposited in the form of a bond.

(14) Foreign currency transactions

Foreign currency transactions should be accounted for at cost and recognized on a straight-line method recorded in NT dollars at the spot rate when the transactions occur. Any gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income. All assets and liabilities stated in foreign currency are converted into New Taiwan Dollars at the exchange rate on the balance sheet date. And any gains or losses resulting from the transactions are recognized as current income.

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(15) 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 and 10% surcharge on its inappropriate 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 additional 10% income tax imposed on undistributed earnings is recognized as expense on the date of the shareholders’ meeting.

The Company adopted SFAS No. 12, “Accounting for Income Tax Credits” for deductible income tax. The deductible income tax resulting from the expenditure on the purchase of equipment, R& D, education training, and investment in equity shall be dealt with under the current recognition method.

(16) Capital expenditure expenses

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

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(17) Derivative financial products transaction

Transactions on forward exchange contracts are converted into NT dollars based on the spot rate at the contract date. The difference between the spot rate and the agreed forward rate is amortized over the contract period. At each period-end, the assets and liabilities of the forward exchange contracts are restated at the prevailing exchange rate, and any gain or loss is credited or charged to current income. The net value of receivables and payables of the forward exchange contracts is represented as an asset or a liability in the balance sheet. The exchange gains or losses resulting from the settlement of forward exchange contracts are credited or charged to current income in the year of settlement.

The premiums of futures transaction are stated at cost. For those hedging the risks of existed assets or liabilities, the unrealized gains/losses are recognized as current gains/losses or as deferred assets/liabilities, stated at income statement when resold. For those hedging the forecast risks of transactions, the unrealized gains/losses of futures transactions are deferred to the actual trading date as adjustments to the transaction value. The premiums of non-hedging transactions are value upon market value on a monthly basis; its unrealized gains/losses are recognized upon current gains/losses.

(18) Convenience conversion into U.S. dollars

The financial statements are stated in NT dollars. Conversion of the December 31, 2004 and 2005, NT dollar amounts into U.S. dollar amounts is included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$31.74 and NT\$32.80 to US\$1.00 effective on December 31, 2004 and 2005, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollar amounts have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects

In accordance with the ROC SFAS No.5, “Long-Term Investments in Equity Securities” revised on December 9, 2004, the Company is required to obtain the investee company’s financial statements under the equity method for the same period, and recognized investment gain or loss based on those.

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The adoption of ROC SFAS No.5 resulted in a decrease of long-term investment in stocks by NT\$1,182 (US\$36) and a decrease in net income for the year ended 2005 by NT\$1,025 (US\$31). The Company considers the effect insignificant on this change in accounting principles.

4. Cash and cash equivalents

Item	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$6,249	\$197	\$6,684	\$204
Cash in banks	266,458	8,395	315,030	9,604
Time deposits	3,381,799	106,547	1,973,970	60,182
Cash equivalents	128,739	4,056	251,958	7,682
Total	<u>\$3,783,245</u>	<u>\$119,195</u>	<u>\$2,547,642</u>	<u>\$77,672</u>
Interest rate of time deposits	<u>1.225%-1.55%</u>	<u>1.225%-1.55%</u>	<u>1.45%-1.85%</u>	<u>1.45%-1.85%</u>
Interest rate of cash equivalents	<u>0.975%-1.10%</u>	<u>0.975%-1.10%</u>	<u>1.37%-1.40%</u>	<u>1.37%-1.40%</u>

5. Short – term investments

Item	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Parent stock	\$228,587	\$7,202	\$-	\$-
Less: Allowance for valuation loss	(14,579)	(459)	-	-
Subtotal	<u>214,008</u>	<u>6,743</u>	<u>-</u>	<u>-</u>
Common stock and beneficiary				
certificates	1,356,782	42,747	1,588,879	48,442
Designated purpose pecuniary trust funds	41,413	1,305	71,770	2,188
Financial debentures	461,493	14,540	962,980	29,359
Corporate bonds	374,680	11,804	242,370	7,389
Short-term notes	128,739	4,056	251,958	7,682
Subtotal	<u>2,363,107</u>	<u>74,452</u>	<u>3,117,957</u>	<u>95,060</u>
Less: Cash Equivalents	<u>(128,739)</u>	<u>(4,056)</u>	<u>(251,958)</u>	<u>(7,682)</u>
Subtotal	<u>2,234,368</u>	<u>70,396</u>	<u>2,865,999</u>	<u>87,378</u>
Total	<u>\$2,448,376</u>	<u>\$77,139</u>	<u>\$2,865,999</u>	<u>\$87,378</u>

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6. Premiums receivable

Item	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$947,531	\$29,853	\$1,189,004	\$36,250
Less: Allowance for bad debts	(9,475)	(299)	(11,890)	(362)
Net	<u>\$938,056</u>	<u>\$29,554</u>	<u>\$1,177,114</u>	<u>\$35,888</u>

7. Secured loans

Item	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$-	\$-	\$32,000	\$976
Less: Allowance for bad debts	-	-	(2,790)	(85)
Subtotal	-	-	29,210	891
Medium-term secured loans	468,411	14,758	907,065	27,654
Less: Allowance for bad debts	(70,502)	(2,221)	(79,092)	(2,411)
Subtotal	397,909	12,537	827,973	25,243
Long-term secured loans	459,620	14,481	508,355	15,499
Less: Allowance for bad debts	(69,179)	(2,180)	(44,326)	(1,352)
Subtotal	390,441	12,301	464,029	14,147
Total	<u>\$788,350</u>	<u>\$24,838</u>	<u>\$1,321,212</u>	<u>\$40,281</u>
Interest rate	<u>2.07%-4.59%</u>	<u>2.07%-4.59%</u>	<u>1.98%-4.50%</u>	<u>1.98%-4.50%</u>

Secured loans are loans, which secured by real estate. Loans with terms of less than one year are short-term loans; loans with terms of more than one year but less than seven years are medium-term loans ; and loans with terms of more than seven years are long-term loans.

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8. Long-term investments

A. Long-term investments in stocks:

Investee	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
a. Under the equity method:				
Cathay Venture Capital Corp.	\$208,614	\$6,573	\$374,725	\$11,424
Vista Technology Venture Capital Corp.	9,825	309	7,797	238
Subtotal	218,439	6,882	382,522	11,662
b. Under the cost method:				
Taiwan Cement Corp.	8,796	277	-	-
KGEX. Com Co., Ltd.	75,000	2,363	36,000	1,098
Subtotal	83,796	2,640	36,000	1,098
Total	\$302,235	\$9,522	\$418,522	\$12,760

c. Changes in long-term investments in stocks under equity method are summarized as follows:

	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$234,892	\$7,400	\$218,439	\$6,660
Additional investment	-	-	151,000	4,603
Investment income (loss) by equity method recognized	(16,495)	(520)	12,981	396
Cumulative conversion adjustments by equity method recognized	(1,437)	(45)	(10)	-
Capital surplus by equity method recognized	1,479	47	112	3
Balance on December 31	\$218,439	\$6,882	\$382,522	\$11,662

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- d. The investment gains (losses) recognized by the equity method for the years ended December 31, 2004 and 2005 are listed below :

Investee	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$(11,233)	\$(354)	\$15,922	\$485
Vista Technology Venture Capital Corp.	(5,262)	(166)	(2,941)	(89)
Total	\$(16,495)	\$(520)	\$12,981	\$396

- e. In accordance with the ROC SFAS No.5, “Long-Term Investments in Equity Securities” revised on December 9, 2004, the Company is required to obtain the investee Company’s financial statements under the equity method for the same period. The accounting treatment of - Investment in Vista Technology Venture Capital Corp. is changed from the cost method to the equity method. The investment loss of Vista Technology Venture Capital Corp. for the year ended December 31, 2004 was recognized by the equity method based on audited financial statements of 2003 and for the year ended December 31, 2005 was recognized by the equity method based on audited financial statements in the same period.
- f. The investment gains of Cathay Venture Capital Corp. for the years ended December 31, 2004 and 2005 were recognized by the equity method based on audited financial statements in the same period.
- g. An investing loss amounted to \$39,000(US\$1,189) was recognized due to there was evidenced suggests that the value of the Company’s investment in KGEX.Com Co., Ltd, which was accounted under cost method, had been impaired and it is unlikely that the stock price will recover in the future. The new cost of this investment is the carrying amount after recognized the loss.

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B. Long-term investments in bonds

Investee	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	\$2,277,541	\$71,756	\$3,153,955	\$96,157
Interest rate	4.00%-6.00%	4.00%-6.00%	4.00%-6.30%	4.00%-6.30%

9. Property and equipment

Item	December 31, 2004					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$20,960	\$660	\$9,892	\$311	\$11,068	\$349
Other equipment	170,616	5,376	119,202	3,756	51,414	1,620
Subtotal	191,576	6,036	129,094	4,067	62,482	1,969
Prepayments for equipment	2,520	79	-	-	2,520	79
Total	\$194,096	\$6,115	\$129,094	\$4,067	\$65,002	\$2,048

Item	December 31, 2005					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipment	\$15,743	\$480	\$9,249	\$282	\$6,494	\$198
Other equipment	180,783	5,512	135,447	4,129	45,336	1,383
Subtotal	196,526	5,992	144,696	4,411	51,830	1,581
Prepayments for equipment	3,853	117	-	-	3,853	117
Total	\$200,379	\$6,109	\$144,696	\$4,411	\$55,683	\$1,698

The insurance of insured property and equipment were NT\$121,839 (US\$3,839) and NT\$120,353 (US\$3,669) as of December 31, 2004 and 2005, respectively.

As of December 31, 2004 and 2005, the Company didn't provide collateral or guarantee on property and equipment.

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10. Securities serving as deposits paid-bonds

Item	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Government bonds	\$359,937	\$11,340	\$356,051	\$10,855
Interest rate	6.25%-6.90%	6.25%-6.90%	3.00%-6.90%	3.00%-6.90%

Government bonds are according to Article 141 of the ROC Insurance Law, an amount equal to 15% of the Company's stockholder's equity should be deposited in the Central Bank of China as the "Securities serving as deposits paid-bonds".

11. Reserve for operations and liabilities

	January 1, 2004		Provision		Recovered		December 31, 2004	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$3,601,016	\$113,453	\$4,031,204	\$127,007	\$3,601,016	\$113,453	\$4,031,204	\$127,007
Special reserve	2,262,767	71,291	394,744	12,437	87,057	2,743	2,570,454	80,985
Claims reserve	585,308	18,441	634,173	19,980	585,308	18,441	634,173	19,980
Total	<u>\$6,449,091</u>	<u>\$203,185</u>	<u>\$5,060,121</u>	<u>\$159,424</u>	<u>\$4,273,381</u>	<u>\$134,637</u>	<u>\$7,235,831</u>	<u>\$227,972</u>
	January 1, 2005		Provision		Recovered		December 31, 2005	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,031,204	\$122,903	\$4,449,253	\$135,648	\$4,031,204	\$122,903	\$4,449,253	\$135,648
Special reserve	2,570,454	78,367	523,113	15,949	345,774	10,542	2,747,793	83,774
Claims reserve	634,173	19,335	927,006	28,262	634,173	19,335	927,006	28,262
Total	<u>\$7,235,831</u>	<u>\$220,605</u>	<u>\$5,899,372</u>	<u>\$179,859</u>	<u>\$5,011,151</u>	<u>\$152,780</u>	<u>\$8,124,052</u>	<u>\$247,684</u>

12. Capital stock and capital increment

As of December 31, 2004 and 2005, the Company has issued 231,701 thousand shares, with NT\$10 par value per share.

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13. Retained Earnings

(1) Legal reserve

Pursuant to the Company Law, 10% 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) Unappropriated retained earnings

A. According to the Company Law and the Company's articles of incorporations, 10% of the Company's annual earnings, after paying taxes and offsetting deficits, if any, shall be appropriated as legal reserve. In addition to distributing stock interest and 2% as a bonus for employees, the remainder shall be allocated in accordance with the resolutions of the Board of Directors.

B. According to related regulations, if any assessed unappropriated retained earnings of the Company assessed by the tax authority exceed 100% of the Company's paid-in capital, the Company shall distribute cash dividends or stock dividends in the year following the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total unappropriated retained earnings, alternatively; the Company may pay an extra 10% income tax on the excessive unappropriated retained earnings.

C. According to the regulations issued by Securities and Futures Commission, the Company should assume the dividends of year 2004 would be appropriated to the employees, directors and supervisors, and pro-forma earnings per share for the current year.

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	For the year ended December 31,	
	2004	
	NT\$	US\$
a. Distribution		
Bonus paid to employees-Cash	\$4,580	\$140
Bonus paid to employees-Stock	-	-
Remuneration paid to directors and supervisors	-	-
B. Earnings per share after income taxes (expressed in dollars)	\$2.76	\$0.08
Pro-forma earnings per share (expressed in dollars)	\$2.75	\$0.08

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

(3) According to the revised Income Tax Law in 1998, the Company has to pay an extra 10% income tax on all unappropriated retained earnings generated during the year.

14. Personnel, depreciation, depletion and amortization

Item	For the years ended December 31, 2004			For the years ended December 31, 2005		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$483,043	\$483,043	\$-	\$560,282	\$560,282
Labor & health insurance expenses	-	32,174	32,174	-	38,567	38,567
Pension expenses	-	34,887	34,887	-	37,984	37,984
Other expenses	-	201,230	201,230	-	203,252	203,252
Depreciation	-	20,949	20,949	-	24,403	24,403
Depletion	-	-	-	-	-	-
Amortization	-	5,083	5,083	-	7,247	7,247

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Item	For the years ended December 31, 2004			For the years ended December 31, 2005		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$15,219	\$15,219	\$-	\$17,082	\$17,082
Labor & health insurance expenses	-	1,014	1,014	-	1,176	1,176
Pension expenses	-	1,099	1,099	-	1,158	1,158
Other expenses	-	6,340	6,340	-	6,197	6,197
Depreciation	-	660	660	-	744	744
Depletion	-	-	-	-	-	-
Amortization	-	160	160	-	221	221

15. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$819,583	\$25,821	\$751,321	\$22,907
Adjustments				
Interest income of tax on a separate basis	(6,505)	(205)	(5,034)	(153)
Gains on market price recovery of short-term investments	(38,032)	(1,198)	(14,579)	(445)
Realized valuation losses on securities	-	-	39,000	1,189
Bad debts recovery	(49,571)	(1,562)	(8,741)	(266)
Investment losses (gains) recognized by equity method	16,495	520	(12,981)	(396)
Losses (gains) on trading securities	(53,575)	(1,688)	3,751	114
Realized losses on foreign exchanges	2,163	68	(1,804)	(55)
Others	(33,532)	(1,056)	(54,061)	(1,649)
Taxable Income	657,026	20,700	696,872	21,246

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Time; taxes rate less: progressive difference	25%-10	-	25%-10	-
Subtotal	164,247	5,175	174,208	5,311
Extra 10% income tax on unappropriated retained earnings	2,826	89	-	-
Tax effects under integrated income tax systems	(2,816)	(89)	10	-
Income tax credit	(1,830)	(58)	(16,872)	(514)
Subtotal	162,427	5,117	157,346	4,797
Tax on a separate basis	1,301	41	1,007	31
Adjustment of prior year's income tax	3,338	105	638	20
Deferred income tax expenses (benefits)	11,900	375	1,785	54
Total income tax expenses	<u>\$178,966</u>	<u>\$5,638</u>	<u>\$160,776</u>	<u>\$4,902</u>

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

	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	<u>\$39,773</u>	<u>\$1,253</u>	<u>\$37,988</u>	<u>\$1,158</u>
Total deferred income tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
B. Temporary differences:				
Bad debts exceeding legal limitation	\$156,929	\$4,944	\$148,187	\$4,518
Others	2,163	68	3,764	115
Total	<u>\$159,092</u>	<u>\$5,012</u>	<u>\$151,951</u>	<u>\$4,633</u>
C. Deferred income tax assets-current	<u>\$39,773</u>	<u>\$1,253</u>	<u>\$37,988</u>	<u>\$1,158</u>
D. Deferred income tax assets - non-current	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

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- (3) Please refer to the following columns including law of income tax credits, the credits items and amount of income tax credits, the remaining balance and the expiry year:

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	\$1,872(US\$57)	\$-	2009

- (4) The Company's income tax returns have been filed and assessed by the Tax Authorities until 2002.

- (5) Information related to imputation:

	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$9,468	\$298	\$8,898	\$271
	<u>December 31, 2004 (Actual)</u>		<u>December 31, 2005 (Estimated)</u>	
Imputation credit account ratio	1.83%		1.51%	

- (6) Information relating of unappropriated earnings:

Year	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	640,617	20,183	590,545	18,005
Total	\$640,617	\$20,183	\$590,545	\$18,005

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16. Earnings per share

	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes (A)	\$819,583	\$25,821	\$751,321	\$22,907
Net income after taxes (B)	\$640,617	\$20,183	\$590,545	\$18,005
Outstanding number of thousand shares at year-end	231,701	231,701	231,701	231,701
Adjusted weighted average outstanding number of thousand shares(C)	231,701	231,701	231,701	231,701
Earnings per share before income taxes (A)/(C) (dollars)	\$3.54	\$0.11	\$3.24	\$0.10
Earnings per share after income taxes (B)/(C) (dollars)	\$2.76	\$0.09	\$2.55	\$0.08

17. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San-Ching Engineering Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Lucky bank Taiwan Inc.	Affiliate
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Building Management & Maintenance Co., Ltd.	Affiliate
Cathay Futures Corp	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate
Cathay Securities Corp.	Affiliate

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Cathay Capital Management Inc.	Affiliate
Wan Pao Development Co., Ltd.	Affiliate
Cathay Securities Investment Co., Ltd.	Affiliate
Vista Technology Venture Capital Corp.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Cathay Bank Property Agency of Association	Affiliate
Wu Ming-Yang	Senior manager

(2) Transactions with related parties

A. Premiums income

Name	For the years ended December 31,			
	2004		2005	
	Direct written premiums		Direct written premiums	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$177,836	\$5,603	\$136,317	\$4,156
Cathay United Bank	115,075	3,626	184,297	5,619
Cathay General Hospital	5,248	165	6,603	201
Seaward Leasing Ltd.	2,601	82	5,690	174
Lucky bank Taiwan Inc.	-	-	4,680	143
Cathay Real Estate Development Co., Ltd.	1,147	36	1,277	39
San-Ching Engineering Co., Ltd.	470	15	1,623	49
Cathay Securities Corp.	408	13	529	16
Lin Yuan Investment Co., Ltd.	216	7	329	10
Lin Yuan Building Management & Maintenance Co., Ltd.	85	2	2,113	64
Total	\$303,086	\$9,549	\$343,458	\$10,471

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B. Premiums receivable

Name	For the years ended December 31,			
	2004		2005	
	Premiums receivable		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$21,910	\$690	\$8,670	\$264
Cathay United Bank	3,619	114	1,100	34
Cathay General Hospital	291	9	1,024	31
Lin Yuan Building Management & Maintenance Co., Ltd.	-	-	1,482	45
Lucky bank Taiwan Inc.	-	-	745	23
Seaward Leasing Ltd.	60	2	313	10
Total	<u>\$25,880</u>	<u>\$815</u>	<u>\$13,334</u>	<u>\$407</u>

C. Insurance claims payment

Name	For the year ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$15,767	\$497	\$14,877	\$454
Cathay United Bank	104,924	3,306	254,412	7,756
Total	<u>\$120,691</u>	<u>\$3,803</u>	<u>\$269,289</u>	<u>\$8,210</u>

D. Rental expense, guarantee deposits paid and prepaid rents

(a) Buildings

Name	For the year ended December 31, 2004					
	Rental expenses		Guarantee deposits paid		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	<u>\$55,941</u>	<u>\$1,762</u>	<u>\$13,657</u>	<u>\$430</u>	<u>\$2,405</u>	<u>\$76</u>

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Name	For the year ended December 31, 2005					
	Rental expenses		Guarantee deposits paid		Prepaid rents	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$57,481	\$1,752	\$13,832	\$422	\$2,299	\$70

(b) Transportations

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Seaward Leasing Ltd.	\$-	\$-	\$443	\$14

E. Cash in banks

Name	Type	December 31, 2004		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$277,670	0.10%	\$209
	Time deposits	\$269,700	1.50%	\$3,144

Name	Type	December 31, 2004		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$8,748	0.10%	\$7
	Time deposits	\$8,497	1.50%	\$99

Name	Type	December 31, 2005		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$293,029	0.10%	\$105
	Time deposits	\$393,450	1.63%-1.85%	\$5,119

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Name	Type	December 31, 2005		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$8,934	0.10%	\$3
	Time deposits	\$11,995	1.63%-1.85%	\$156

F. Secured loans

Name	For the year ended December 31, 2004			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$2,374	\$1,651	2.60%	\$48

Name	For the year ended December 31, 2004			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$75	\$52	2.60%	\$2

Name	For the year ended December 31, 2005			
	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$1,651	\$1,536	2.97%	\$43

Name	For the year ended December 31, 2005			
	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$50	\$47	2.97%	\$1

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G. Short-term investments-beneficiary certificates

Name		December 31,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Book value	\$351,590	\$11,077	\$165,410	\$5,043
Investment Trust Co., Ltd.	Fair value	\$371,564	\$11,706	\$203,176	\$6,194

H. Commissions expenses

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Bank Property Agency of Association	\$-	\$-	\$32,968	\$1,005

I. Handling fee paid

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$4,838	\$152	\$5,214	\$159

J. Marketing expense and accrued expense

Name	For the year ended December 31, 2004			
	Marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$515,399	\$16,238	\$62,522	\$1,970

Name	For the year ended December 31, 2005			
	Marketing expense		Accrued expense	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$559,521	\$17,059	\$54,399	\$1,659

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K. Party premium expenses

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$-	\$-	\$5,991	\$183

L. Other expenses

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$-	\$-	\$8,262	\$252

M. Deposits paid of futures and options

Name	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Futures Corp.	\$1,420	\$45	\$7,385	\$225

18. Pledged assets

Item	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Government bonds	\$359,937	\$11,340	\$356,051	\$10,855

- (1) According to Article 141 of the ROC Insurance Law, the Company should deposited government bonds, an amount equal to 15% of its stockholders' equity, into the Central Bank of China as capital guarantee deposit.
- (2) The pledged assets are disclosed at net carrying amount.

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19. Other important matters and contingent liabilities

A. The withholding tax on the interest of prior bondholders and tax effects on the interest expenses of amortized premium bonds in years 2002、2001 and 1999 tax returns, amounting to NT\$1,944 (US\$59)、NT\$2,988 (US\$91) and NT\$3,112 (US\$95), respectively, were rejected by the Tax Authority as being able to offset income tax payable. The Company disputed the above tax assessments and had filed for reinvestigation.

B. By the date December 31, 2005, the Company had signed some significant rental contracts, and base, which we estimate that the rents for the following 5 years are, as follows:

Period	Amount (NT\$)	Amount (US\$)
January 01, 2006 ~ December 31, 2006	\$51,541	\$1,571
January 01, 2007 ~ December 31, 2007	52,311	1,595
January 01, 2008 ~ December 31, 2008	53,836	1,641
January 01, 2009 ~ December 31, 2009	55,406	1,689
January 01, 2010 ~ December 31, 2010	57,023	1,739
Total	<u>\$270,117</u>	<u>\$8,235</u>

20. Serious damages

None

21. Subsequent events

None

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22. Other important events

(1) Pension related information

A. Pension funded status:

	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
(1) Vested benefit obligation	\$(38,680)	\$(1,219)	\$(49,136)	\$(1,498)
(2) Non-vested benefit obligation	(131,823)	(4,153)	(141,786)	(4,323)
(3) Accumulated benefit obligation	(170,503)	(5,372)	(190,922)	(5,821)
(4) Additional benefits based on future salaries	(87,443)	(2,755)	(65,708)	(2,003)
(5) Projected benefit obligation	(257,946)	(8,127)	(256,630)	(7,824)
(6) Fair value of plan assets	164,201	5,173	184,053	5,611
(7) Vested benefit	142,586	4,492	165,592	5,049
(8) Funded status=(5)+(6)	(93,745)	(2,954)	(72,577)	(2,213)
(9) Unrecognized transitional net benefit obligation (net assets)	8,123	256	7,543	230
(10) Unrecognized prior service cost	-	-	-	-
(11) Unrecognized pension gain and loss	85,622	2,698	61,629	1,879
(12) Additional accrued pension liability	(6,302)	(199)	(3,464)	(105)
(13) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12)	<u>\$(6,302)</u>	<u>\$(199)</u>	<u>\$(6,869)</u>	<u>\$(209)</u>

B. Net periodic pension cost:

	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
(1) Service cost	\$30,015	\$946	\$28,622	\$872
(2) Interest cost	7,373	232	9,016	275
(3) Projected return on plan assets	(5,182)	(163)	(6,240)	(190)
(4) Amortization of unrealized transit on obligation (asset)	580	18	580	18
(5) Amortization of prior service cost	-	-	-	-
(6) Amortization of gain or loss	2,101	66	2,601	79
(7) Net periodic pension cost	<u>\$34,887</u>	<u>\$1,099</u>	<u>\$34,579</u>	<u>\$1,054</u>

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C. Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(1) Discount rate	3.70%	3.70%
(2) Rate of increase in future salaries	1.08%~8.69%	1.08%~8.69%
(3) Expected return on pension plan assets	3.70%	3.70%

(2) Financial instruments related information

A. Derivative financial instruments related information :

a. Purpose

As of December 31, 2005, the Company enters into forward foreign exchange contracts and futures contracts. The former were to hedge against risks of foreign currency and net assets exchange rate fluctuations while the latter were mainly to hedge against the volatile risks of stock quotes decline. For the purpose of hedging the maximum market risks, the Company adopted those financial derivative instruments highly relevant to the hedged items and assessed its strategies on a regular basis.

b. Credit and market risks

The Company enters into forward foreign exchange contracts with financial institutions with good credit ratings. In addition, the Company enters into contracts with many financial institutions to hedge risks. Forward hedging contracts can offset losses incurred from exchange rate fluctuations.

On a discretionary basis, Fuh Hwa Securities Investment Trust conducts transactions with Taiwan Futures Exchange for the Company. The credit risks of those transactions are not substantial to the point of causing loss; on the other hand, the market risks of stock quotes volatility which might cause loss is offset by the gains/losses from hedging instruments of electronic sector stocks.

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c. Cash flow and demand

As cash inflow and cash outflow will be automatically offset against each other on the expiration date of forward and futures contracts, no demand for substantial cash flow is expected in connection with such transactions.

d. Forward foreign exchange contracts

(a) Receivables and payables resulting from forward foreign exchange contracts are offset against each other. The differences between receivables and payables should be listed as assets or liabilities.

Item	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Forward exchange contracts				
receivable	\$2,317,142	\$73,004	\$3,129,960	\$95,425
Discount on forward				
exchange contracts	12,392	390	18,099	552
Payables on forward				
exchange purchased	<u>(2,266,107)</u>	<u>(71,396)</u>	<u>(3,150,315)</u>	<u>(96,046)</u>
Net-other receivable				
(Payable)	<u>\$63,427</u>	<u>\$1,998</u>	<u>\$(2,256)</u>	<u>\$(69)</u>

(b) As of December 31, 2004 and 2005, the Company has forward exchange contracts of approximately US\$71,000 and US\$95,900, respectively, in notional value. The forward foreign exchange contracts as of December 31, 2004 were due between February 25, 2005 and October 19, 2005. In addition, the forward contracts as of December 31, 2005 were due between January 6, 2006 and August 31, 2006.

Item	Contract amount	December 31, 2004			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>US\$71,000</u>	<u>\$2,266,107</u>	<u>\$71,396</u>	<u>\$2,317,142</u>	<u>\$73,004</u>

Item	Contract amount	December 31, 2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward	<u>US\$95,900</u>	<u>\$3,150,315</u>	<u>\$96,046</u>	<u>\$3,129,960</u>	<u>\$95,426</u>

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The above-mentioned forward foreign exchange contracts hedge against risks associated with net assets exchange rate fluctuations for the long-term investments in bonds.

Futures Contract:

a. The Company recognizes NT\$80 (US\$3) and NT\$426 (US\$13) offsets before December 31, 2004 and December 31, 2005, as futures trading loss (NT\$75 (US\$2) and NT\$85 (US\$3) unrealized future contract loss included).

b.

Type	Open Interest		December 31, 2004			
	Buy/Sell	Position	Contract amount		Fair value	
			NT\$	US\$	NT\$	US\$
Taiwan Stock Exchange Electronic Sector Index	Sell	2	\$1,772	\$56	\$1,847	\$58

The Futures contract mentioned above is to hedge the volatility.

Net Asset	December 31, 2004			
	Carrying amount		Fair Value	
	NT\$	US\$	NT\$	US\$
Short-term investments	\$14,081	\$444	\$13,494	\$425

c. 2005: None.

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B. Non-derivative financial instruments related information :

Item	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and cash equivalents	\$3,783,245	\$3,783,245	\$119,195	\$119,195
Short-term investments	2,434,295	2,461,424	76,695	77,550
Receivables	1,099,503	1,099,503	34,641	34,641
Claims recoverable from reinsurers	252,969	252,969	7,970	7,970
Due from reinsurers and ceding companies	18,266	18,266	575	575
Secured loans	788,350	788,350	24,838	24,838
Long-term investment in stocks	302,235	322,430	9,522	10,158
Guarantee deposits paid	16,470	16,470	519	519
Securities serving as deposits paid-bonds	359,937	359,937	11,340	11,340
Liabilities				
Claims outstanding	632	632	20	20
Due to reinsurers and ceding companies	237,938	237,938	7,497	7,497
Reserve for operations and liabilities	7,235,831	7,235,831	227,972	227,972
December 31, 2005				
Item	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
	Assets			
Cash and cash equivalents	\$2,547,642	\$2,547,642	\$77,672	\$77,672
Short-term investments	2,865,999	2,873,027	87,378	87,592
Receivables	1,395,368	1,395,368	42,542	42,542
Claims recoverable from reinsurers	215,775	215,775	6,578	6,578
Due from reinsurers and ceding companies	80,499	80,499	2,454	2,454
Secured loans	1,321,212	1,321,212	40,281	40,281
Long-term investment in stocks	418,522	418,522	12,760	12,760
Guarantee deposits paid	27,808	27,808	848	848
Securities serving as deposits paid-bonds	356,051	356,051	10,855	10,855
Liabilities				
Claims outstanding	628	628	19	19
Due to reinsurers and ceding companies	224,011	224,011	6,829	6,829
Reserve for operations and liabilities	8,124,052	8,124,052	247,684	247,684

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

- ① Short-term financial instruments estimate their fair value is stated at carrying amount on the balance sheet date. Because the maturity date of those instruments is very close to the balance sheet date, it is reasonable that their carrying amounts are equal to their fair values. That assumption is adopted by the following accounts: cash and cash equivalents, receivables, claims recoverable from reinsurers, due from/to reinsurers and ceding companies, secured loans, claims outstanding and reserve for operations and liabilities.
- ② The amounts are expected to receive guarantee deposits paid and securities serving as deposits paid-bonds are closed to the fair value; accordingly their fair value is equal to their carrying amount.
- ③ If short-term investments and long-term investment in stocks have a market value, that will be their fair value. If there is no market value, their fair value will be estimated based on other financial information or their carrying amount on the balance sheet date.

(3) Discretionary account management

Item	December 31, 2004			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$85,713	\$2,700	\$85,265	\$2,686
Short-term notes	28,034	883	28,034	883
Cash in banks	34,238	1,079	34,238	1,079
Net other assets less liabilities	(103)	(3)	(103)	(3)
Total	<u>\$147,882</u>	<u>\$4,659</u>	<u>\$147,434</u>	<u>\$4,645</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 December 31, 2004 and 2005

Item	December 31, 2005			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$74,806	\$2,280	\$81,331	\$2,479
Short-term notes	3,076	94	3,076	94
Cash in banks	35,788	1,091	35,788	1,091
Net other assets less				
liabilities	20	1	20	1
Total	<u>\$113,690</u>	<u>\$3,466</u>	<u>\$120,215</u>	<u>\$3,665</u>

As of December 31, 2004 and 2005, the Company had discretionary account management contracts in the amount of NT\$150,000(US\$4,726) and NT\$100,000(US\$3,049), respectively.

(4) Material Contract

None

(5) Presentation of Financial Statements:

Certain accounts in financial statements for the year ended December 31, 2004 have been reclassified in order to be comparable with those in the financial statements for the year ended December 31, 2005.

23. Information for investment in Mainland China

None

24. Segment information

None