

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

Name of the company: Cathay Life Insurance Co., Ltd.

Address: 296, Jen Ai Road, Sec.4, Taipei, Taiwan, ROC

Telephone: 886-2-2755-1399

Index to financial statements

	<u>Page</u>
Independent auditors' report	3
Balance sheets as of December 31, 2004 and 2005	4-5
Statements of income for the years ended December 31, 2004 and 2005	6
Statements of changes in stockholders' equity for the years ended December 31, 2004 and 2005	7
Statements of cash flows for the years ended December 31, 2004 and 2005	8-9
Notes to financial statements	10-58

English Translation of Report Originally Issued in Chinese

Independent auditors' report

To: Board of Directors
Cathay Life Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Life Insurance Co., Ltd. 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 audits.

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

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

In addition, we have also audited the consolidated financial statements of the Company as of and for the year ended December 31, 2005 and the separate auditors' report with unqualified opinion was issued.

Diwan, Ernst & Young
Taipei, Taiwan
The Republic of China
January 26, 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 jurisdictions. The standards, procedures and practices to 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 Life Insurance Co., Ltd.

Balance sheets

As of December 31, 2004 and 2005

(Expressed in thousands of dollars)

Assets	Notes	2004		2005	
		NTS	US\$	NTS	US\$
Current assets					
Cash and cash equivalents	2,4	\$219,409,605	\$6,912,716	\$254,335,271	\$7,754,124
Short-term investments	2,5	308,494,073	9,719,410	362,010,783	11,036,914
Notes receivable		12,360,660	389,435	14,014,632	427,275
Interest receivable		8,778,274	276,568	8,647,124	263,632
Other accounts receivable		22,304,818	702,735	10,099,381	307,908
Other financial assets-current		-	-	6,000,000	182,927
Prepayments		23,873	752	49,792	1,518
Disposal long-term investments in stocks		-	-	49,167	1,499
Subtotal		<u>571,371,303</u>	<u>18,001,616</u>	<u>655,206,150</u>	<u>19,975,797</u>
Exchange bills negotiated, discounted and loans					
Policy loans	2,6	169,330,068	5,334,911	166,494,190	5,076,042
Short-term secured loans		100,430	3,164	392,840	11,977
Medium-term secured loans		9,127,958	287,585	11,809,829	360,056
Long-term secured loans		<u>272,270,296</u>	<u>8,578,144</u>	<u>263,989,934</u>	<u>8,048,474</u>
Subtotal		<u>450,828,752</u>	<u>14,203,804</u>	<u>442,686,793</u>	<u>13,496,549</u>
Funds, long-term investments, and receivable					
Long-term investments in stocks	2,7				
Under the equity method		3,602,793	113,510	3,883,938	118,413
Under the cost method		10,639,592	335,211	20,045,384	611,140
Long-term investments in bonds	2,8	421,757,853	13,287,897	522,925,762	15,942,858
Investments in real estate	2,9	101,449,737	3,196,274	101,776,202	3,102,933
Less: Accumulated impairment—long-term investment	2,9	-	-	(196,952)	(6,005)
Subtotal		<u>537,449,975</u>	<u>16,932,892</u>	<u>648,434,334</u>	<u>19,769,339</u>
Property and equipment					
Land	2,10	5,018,358	158,108	4,865,420	148,336
Buildings and construction		11,142,721	351,063	10,584,805	322,708
Communication and transportation equipment		85,457	2,693	53,476	1,630
Other equipment		<u>4,467,766</u>	<u>140,761</u>	<u>4,771,903</u>	<u>145,485</u>
Subtotal		<u>20,714,302</u>	<u>652,625</u>	<u>20,275,604</u>	<u>618,159</u>
Less: Accumulated depreciation		(6,052,476)	(190,690)	(6,237,612)	(190,171)
Less: Accumulated impairment-property and equipment		-	-	(85,519)	(2,607)
Construction in progress and prepayment for equipment		194,122	6,116	3,690	112
Subtotal		<u>14,855,948</u>	<u>468,051</u>	<u>13,956,163</u>	<u>425,493</u>
Intangible assets					
Computer software cost	2	68,921	2,171	178,208	5,433
Subtotal		<u>68,921</u>	<u>2,171</u>	<u>178,208</u>	<u>5,433</u>
Other assets					
Guarantee deposits paid	2,19	1,221,763	38,493	1,653,494	50,412
Overdue receivables	2,11	1,973,413	62,175	484,204	14,762
Temporary payments and suspense accounts		1,061,317	33,438	1,451,193	44,244
Securities serving as deposits paid-bonds	2,8,19	8,090,599	254,902	8,047,275	245,344
Other assets-other	19	42,957	1,354	-	-
Deferred income tax assets	2,16	356,927	11,245	460,119	14,028
Investment-linked products assets	2	<u>37,399,668</u>	<u>1,178,313</u>	<u>95,230,188</u>	<u>2,903,359</u>
Subtotal		<u>50,146,644</u>	<u>1,579,920</u>	<u>107,326,473</u>	<u>3,272,149</u>
Total assets		<u><u>\$1,624,721,543</u></u>	<u><u>\$51,188,454</u></u>	<u><u>\$1,867,788,121</u></u>	<u><u>\$56,944,760</u></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 Life Insurance Co., Ltd.
Balance sheets - (continued)
As of December 31, 2004 and 2005
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	2004		2005	
		NTS	US\$	NTS	US\$
Current liabilities					
Notes payable		\$1,949	\$61	\$1,651	\$50
Collections for others		146,704	4,622	164,312	5,010
Accrued expenses		3,503,500	110,381	3,571,403	108,884
Taxes payable		354,950	11,183	270,115	8,235
Commissions payable		1,093,224	34,443	1,387,540	42,303
Dividends payable		93,565	2,948	29,975	914
Life insurance proceeds payable		2,042	64	4,010	122
Other payable		2,397,171	75,526	3,639,225	110,952
Deferred income tax liabilities- current	2,16	442,800	13,951	396,408	12,086
Accounts collected in advance		155,802	4,909	515,521	15,717
Subtotal		<u>8,191,707</u>	<u>258,088</u>	<u>9,980,160</u>	<u>304,273</u>
Long-term liabilities					
Reserve for land revaluation increment tax		3,726	117	3,726	114
Accrued pension liability	2,23	1,427,710	44,982	1,627,318	49,613
Subtotal		<u>1,431,436</u>	<u>45,099</u>	<u>1,631,044</u>	<u>49,727</u>
Other liabilities					
Reserve for operations and liabilities	2				
Unearned premium reserve		9,486,598	298,885	10,208,331	311,230
Reserve for life insurance		1,456,702,273	45,894,841	1,622,301,856	49,460,422
Special reserve		16,732,119	527,162	17,444,286	531,838
Claims reserve		348,034	10,965	433,636	13,221
Miscellaneous liabilities					
Guarantee deposits received		1,647,431	51,904	1,643,683	50,112
Temporary receipts and suspense accounts		2,210,457	69,643	9,548,953	291,127
Deferred income		-	-	1,773,919	54,083
Investment-linked products liabilities	2	37,399,668	1,178,313	95,230,188	2,903,359
Subtotal		<u>1,524,526,580</u>	<u>48,031,713</u>	<u>1,758,584,852</u>	<u>53,615,392</u>
Total liabilities		<u>1,534,149,723</u>	<u>48,334,900</u>	<u>1,770,196,056</u>	<u>53,969,392</u>
Stockholders' equity					
Capital stock					
Common stock	12	50,686,158	1,596,917	50,686,158	1,545,310
Capital surplus		12,591	397	13,153	401
Retained earnings					
Legal reserve	13,16	16,330,948	514,523	17,891,897	545,485
Special reserve		8,016,080	252,554	11,082,320	337,876
Unappropriated retained earnings		15,609,488	491,792	17,922,656	546,422
Equity adjustment					
Cumulative conversion adjustments	2,13	(83,445)	(2,629)	(4,119)	(126)
Total stockholders' equity		<u>90,571,820</u>	<u>2,853,554</u>	<u>97,592,065</u>	<u>2,975,368</u>
Total liabilities and stockholders' equity		<u>\$1,624,721,543</u>	<u>\$51,188,454</u>	<u>\$1,867,788,121</u>	<u>\$56,944,760</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NTS\$31.74 and NTS\$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 Life Insurance Co., Ltd.

Statements of income

For the years ended December 31, 2004 and 2005

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

Item	Notes	2004		2005	
		NTS	US\$	NTS	US\$
Operating revenues	2				
Premiums income		\$281,951,493	\$8,883,160	\$276,009,738	\$8,414,931
Reinsurance commission earned		121,490	3,827	199,294	6,076
Claims recovered from reinsures		214,363	6,754	219,645	6,696
Recovered premiums reserve		141,776,609	4,466,812	115,895,616	3,533,403
Recovered special reserve		346,167	10,906	727,229	22,172
Recovered claims reserve		329,851	10,392	348,034	10,611
Handling fees earned		805,495	25,378	2,085,722	63,589
Interest income		51,887,670	1,634,772	54,498,858	1,661,551
Gain on disposal of investments		19,378,500	610,539	20,465,421	623,946
Gain on long-term equity investments		78,674	2,479	105,093	3,204
Gain on investments-real estate		4,718,312	148,655	12,321,415	375,653
Investment-linked products revenues	2	27,184,253	856,467	71,367,854	2,175,849
Subtotal		528,792,877	16,660,141	554,243,919	16,897,681
Operating costs	2				
Insurance expenses		(563,924)	(17,767)	(631,500)	(19,253)
Brokerage expenses		(24,333,563)	(766,653)	(25,930,484)	(790,564)
Commissions expenses		(651,145)	(20,515)	(444,974)	(13,566)
Insurance claims payment		(161,667,595)	(5,093,497)	(136,960,890)	(4,175,637)
Provision for premiums reserve		(278,436,263)	(8,772,409)	(282,216,932)	(8,604,175)
Provision for special reserve		(3,698,295)	(116,518)	(1,439,396)	(43,884)
Contribution to the stabilization funds		(281,656)	(8,874)	(275,791)	(8,408)
Provision for claims reserve		(348,034)	(10,965)	(433,636)	(13,221)
Handling fees paid		(662,641)	(20,877)	(752,178)	(22,932)
Interest expenses		(51,052)	(1,608)	(41,189)	(1,256)
Other operating cost		(4,248,985)	(133,869)	(8,666,714)	(264,229)
Investment-linked products expenses	2	(27,184,253)	(856,467)	(71,367,854)	(2,175,849)
Subtotal		(502,127,406)	(15,820,019)	(529,161,538)	(16,132,974)
Operating gross profit		26,665,471	840,122	25,082,381	764,707
Operating expenses	2				
Marketing expenses		(2,759,805)	(86,950)	(2,484,679)	(75,752)
Administrative and general expenses		(7,993,014)	(251,828)	(7,711,701)	(235,113)
Operating income		15,912,652	501,344	14,886,001	453,842
Non-operating revenues & gains					
Gains on disposal of property and equipment		4,041	127	10,131	309
Miscellaneous income		2,102,886	66,254	2,287,723	69,747
Subtotal		2,106,927	66,381	2,297,854	70,056
Non-operating expenses & losses					
Losses on foreign exchange		(2,749,797)	(86,635)	(188,504)	(5,747)
Losses on disposal of property and equipment		(1,298)	(41)	(2,150)	(66)
Impairment loss		-	-	(282,471)	(8,612)
Miscellaneous expenses		(6,010)	(190)	(5,476)	(167)
Subtotal		(2,757,105)	(86,866)	(478,601)	(14,592)
Income from continuing operations before income taxes		15,262,474	480,859	16,705,254	509,306
Income taxes benefit	2,16	356,332	11,227	1,217,402	37,116
Net income		\$15,618,806	\$492,086	\$17,922,656	\$546,422
Earnings per share (In dollars)	17				
Income before income tax		\$3.02	\$0.10	\$3.30	\$0.10
Net income		\$3.09	\$0.10	\$3.54	\$0.11

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

Summary	Retained earnings										Equity adjustments				Total			
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized valuation losses on long-term equity investment		Cumulative conversion adjustments		Treasury stock		NT\$	US\$
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$		
Balance on January 1, 2004	\$50,686,158	\$1,596,917	\$5,200	\$164	\$14,552,065	\$458,477	\$6,249,135	\$196,885	\$17,788,827	\$560,455	\$(19,419)	\$(612)	\$4,341	\$137	\$(3,032,966)	\$(95,557)	\$86,233,341	\$2,716,866
Appropriations and Distributions for 2003																		
Legal reserve	-	-	-	-	1,778,883	56,046	-	-	(1,778,883)	(56,046)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	1,766,945	55,669	(1,766,945)	(55,669)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(14,010,243)	(441,407)	-	-	-	-	-	-	(14,010,243)	(441,407)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(255)	-	-	-	-	-	-	(8,100)	(255)
Bonus paid to employees	-	-	-	-	-	-	-	-	(224,656)	(7,078)	-	-	-	-	-	-	(224,656)	(7,078)
Capital surplus-long-term equity investment	-	-	7,391	233	-	-	-	-	-	-	-	-	-	-	-	-	7,391	233
Unrealized valuation losses on long-term equity investment	-	-	-	-	-	-	-	-	-	-	19,419	612	-	-	-	-	19,419	612
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(87,786)	(2,766)	-	-	(87,786)	(2,766)
Disposal of treasury stock	-	-	-	-	-	-	-	-	(9,318)	(294)	-	-	-	-	3,032,966	95,557	3,023,648	95,263
Net income after tax for the year ended December 31, 2004	-	-	-	-	-	-	-	-	15,618,806	492,086	-	-	-	-	-	-	15,618,806	492,086
Balance on December 31, 2004	<u>\$50,686,158</u>	<u>\$1,596,917</u>	<u>\$12,591</u>	<u>\$397</u>	<u>\$16,330,948</u>	<u>\$514,523</u>	<u>\$8,016,080</u>	<u>\$252,554</u>	<u>\$15,609,488</u>	<u>\$491,792</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(83,445)</u>	<u>\$(2,629)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$90,571,820</u>	<u>\$2,853,554</u>
Balance on January 1, 2005	\$50,686,158	\$1,545,310	\$12,591	\$384	\$16,330,948	\$497,895	\$8,016,080	\$244,393	\$15,609,488	\$475,899	\$-	\$-	\$(83,445)	\$(2,544)	\$-	\$-	\$90,571,820	\$2,761,337
Appropriations and Distributions for 2004																		
Legal reserve	-	-	-	-	1,560,949	47,590	-	-	(1,560,949)	(47,590)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,066,240	93,483	(3,066,240)	(93,483)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,906,612)	(332,519)	-	-	-	-	-	-	(10,906,612)	(332,519)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(247)	-	-	-	-	-	-	(8,100)	(247)
Bonus paid to employees	-	-	-	-	-	-	-	-	(67,587)	(2,060)	-	-	-	-	-	-	(67,587)	(2,060)
Capital surplus-long-term equity investment	-	-	562	17	-	-	-	-	-	-	-	-	-	-	-	-	562	17
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	79,326	2,418	-	-	79,326	2,418
Net income after tax for the year ended December 31, 2005	-	-	-	-	-	-	-	-	17,922,656	546,422	-	-	-	-	-	-	17,922,656	546,422
Balance on December 31, 2005	<u>\$50,686,158</u>	<u>\$1,545,310</u>	<u>\$13,153</u>	<u>\$401</u>	<u>\$17,891,897</u>	<u>\$545,485</u>	<u>\$11,082,320</u>	<u>\$337,876</u>	<u>\$17,922,656</u>	<u>\$546,422</u>	<u>\$-</u>	<u>\$-</u>	<u>\$(4,119)</u>	<u>\$(126)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$97,592,065</u>	<u>\$2,975,368</u>

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2004 and 2005 were NTS31.74 and NTS32.80 to US\$1.00)

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

Cathay Life Insurance Co., Ltd.
Statements of cash flows
(Expressed in thousands of dollars)
For the years ended December 31, 2004 and 2005

	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income for the period	\$15,618,806	\$492,086	\$17,922,656	\$546,422
Adjustments:				
Recovered bad debt	(106,611)	(3,359)	(1,337,280)	(40,771)
Depreciation	2,003,629	63,126	2,257,871	68,837
Amortization	5,745	181	39,313	1,198
Impairment loss	-	-	282,471	8,612
Provision or recovered for each reserve	140,029,967	4,411,782	167,119,086	5,095,094
Gain on disposal of property and equipment	(2,743)	(86)	(7,981)	(243)
Gain on disposal of investments	(253,568)	(7,989)	(331,001)	(10,092)
Gain on disposal of real estate	(26,564)	(837)	(8,626,766)	(263,011)
Realized loss on long-term investments	-	-	888,812	27,098
Amortization of long-term investments in bonds	71,868	2,264	250,125	7,625
Unrealized gain on long-term investments	(11,533)	(363)	(59,485)	(1,814)
Effects of exchange rate changes	(8,462)	(267)	(6,044)	(184)
Decrease (increase) in short-term investments	276,809	8,721	(145,875,830)	(4,447,434)
Decrease (increase) in notes receivable	3,054,336	96,230	(1,653,973)	(50,426)
Decrease (increase) in prepayments	6,549	206	(25,919)	(790)
(Increase) decrease in other current assets	(13,340,940)	(420,319)	6,336,587	193,189
Increase in temporary payments and suspense accounts	(817,193)	(25,746)	(389,876)	(11,886)
(Increase) decrease in other assets-other	(42,957)	(1,353)	42,957	1,310
Increase in deferred income tax assets	(97,204)	(3,063)	(103,192)	(3,146)
Increase (decrease) in notes payable	346	11	(298)	(9)
Increase in accrued expenses	260,104	8,195	279,351	8,517
Increase in other payable	687,298	21,654	1,178,464	35,929
(Decrease) increase in accounts collected in advance	(379,275)	(11,949)	359,719	10,967
Increase in other current liabilities	4,008	126	17,608	537
Increase in accrued pension liability	695,220	21,903	199,608	6,085
Increase in temporary receipts and suspense accounts	1,608,001	50,662	7,338,495	223,735
Increase in deferred income	-	-	1,773,919	54,083
Decrease in deferred income tax liabilities-current	(682,444)	(21,501)	(46,392)	(1,414)
Net cash provided by operating activities	148,553,192	4,680,315	47,823,005	1,458,018
Cash flows from investing activities				
Decrease in policy loans	14,391,331	453,413	2,835,878	86,460
Decrease in secured loans	13,301,647	419,081	6,819,368	207,907
Acquisition of long-term investments	(51,986,251)	(1,637,878)	(26,390,160)	(804,578)
Proceeds from disposal of long-term investments	1,296,021	40,832	7,129,568	217,365
Recovered proceeds of long-term investments	93,846	2,957	90,461	2,758
Disposal of investments in real estate	1,837,250	57,884	13,867,487	422,789
Acquisition of investments in real estate	(9,713,882)	(306,045)	(6,529,830)	(199,080)
Disposal of property and equipment	24,214	763	85,115	2,595
Acquisition of property and equipment	(549,318)	(17,307)	(558,094)	(17,015)
Acquisition of intangible assets	(74,666)	(2,352)	(148,599)	(4,530)
Increase in guarantee deposits paid	(44,937)	(1,416)	(431,731)	(13,163)
Decrease in overdue receivables	2,339,491	73,708	1,313,201	40,037
Net cash used in investing activities	(29,085,254)	(916,360)	(1,917,336)	(58,455)

(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.

Cathay life insurance Co., Ltd.
Statements of cash flows-(continued)
(Expressed in thousands of dollars)
For the years ended December 31, 2004 and 2005

	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Increase (decrease) in guarantee deposits received	320,046	10,084	(3,748)	(114)
Remuneration paid to directors and supervisors	(8,100)	(255)	(8,100)	(247)
Bonus paid to employees	(224,656)	(7,078)	(67,587)	(2,060)
Cash dividends	(14,010,243)	(441,407)	(10,906,612)	(332,519)
Disposal of treasury stock	3,023,648	95,263	-	-
Net cash used in financing activities	(10,899,305)	(343,393)	(10,986,047)	(334,940)
Effects of exchange rate changes	8,462	267	6,044	184
Increase in cash and cash equivalents	108,577,095	3,420,829	34,925,666	1,064,807
Cash and cash equivalents at the beginning of year	110,832,510	3,491,887	219,409,605	6,689,317
Cash and cash equivalents at the end of year	<u>\$219,409,605</u>	<u>\$6,912,716</u>	<u>\$254,335,271</u>	<u>\$7,754,124</u>
Supplemental disclosure of cash flows information				
Interest paid during the year	\$37,666	\$1,187	\$19,094	\$582
Interest paid (excluding capitalized interest)	\$37,666	\$1,187	\$19,094	\$582
Income tax paid	\$883,713	\$27,842	\$1,104,230	\$33,666

(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 Life Insurance Co., Ltd.

Notes to financial statements

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

As of 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 Personal Insurance Industries.” 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. Organizations and business scope

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

As of December 31, 2004 and 2005, the total number of employees was 26,555 and 26,486, respectively.

2. Summary of significant accounting policies

We prepared the financial statements 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 Personal Insurance Industries.” The summary of significant accounting policies is as follows:

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

Current assets are assets, which can be liquidated or disposed of 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 that do not belong to current liabilities are classified as non-current liabilities.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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 include 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. Cost of marketable equity securities sold is determined based on the weighted-average method.

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

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

Overseas investment trust funds are investments in foreign securities made through financial institutions with pre-determined purposes. The trust funds are recorded at the amount originally remitted and stated at the lower of cost or market value at each balance date. Realized interest, dividends and disposal gain, which are remitted back are recognized at the amount received in the current period. Realized gain or loss which are not remitted back are recognized based on the net equity as reported by the trustee each month. The trust funds are translated into NT dollars using the spot rate at each balance sheet date. Any exchange difference is charged to income statement accounts.

Bonds and convertible bonds are recorded at the lower of cost or market value. The cost of these bonds sold is determined based on the weighted-average method.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(4) Allowance for bad and doubtful debts

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

(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 which the Company lacks significant influence over operating and financial policies of the investee, 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 equity 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.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

B. Long-term investments in bonds

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

(6) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

Upon disposal, the related cost, accumulated depreciation and accumulated impairment are eliminated and gain and loss are recorded in operating gain and loss accounts.

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

The Company’s real estate investments are for business leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

(7) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property appreciation shall be recorded under “capital surplus”, according to applicable regulations. The capital surplus can only be used for making up operating losses and for capital increase.

Major additions, renewals and betterment are capitalized, while repairs and maintenance are expensed immediately.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Upon the sale or disposal of properties and equipment, the relating cost, accumulated depreciation and accumulated impairment are eliminated. Gain or loss resulting from such sale or disposal is classified as non-operating gain or loss.

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table.

(8) Intangible assets

Intangible assets are computer software cost stated at cost and amortized on a straight-line basis over 3 years.

(9) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From 1993 to December 31, 2005, an aggregate of NT\$2,562,701 (US\$78,131) was appropriated to this fund.

(10) Impairment of assets

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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

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

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

The write-down in goodwill cannot be reversed under any circumstances in subsequent periods.

Impairment loss (reversal) is classified as non-operating losses/(income).

(11) Real Estate Investment Trust (REIT)

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

Once the sales process was complete and the assigner had transferred his risk and ownership of the real estate property to the assignee, gain on disposal of real estate can be recognized under “total amount accrual method”.

The sponsor and related parties of the Company did not participate the original offering. Instead, they bought the REIT beneficiary securities which were issued within three months and the ownership was under the 20% of its outstanding shares of the market value in the Taiwan Stock Exchange Corporation after the original offering. In this situation, it had insignificant influence to the estimation of economical risk and assigned profit in the real estate. Thus, both of the assigned real estate and purchased REIT beneficiary securities were treated as unique transaction. However, if they bought the REIT beneficiary securities exceeded 20% of its outstanding securities within 3 months, the real estate securitization should be treated as a part of unsold. As a result, the gain (loss) of disposal of real estate sold of REIT holding by sponsor should be deferred.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(12) Guaranteed depository insurance payment

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

(13) Reserve for operations

Reserves for operations are organized according to the Insurance Law. These reserves include the unearned premium reserve, claim reserve, special reserve, and reserve for life insurance. Actuaries provide the figures for these reserves.

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

The Company had a surplus of NT\$11,082,320 (US\$337,876) from the “Special Reserve for the Loss Movement” as of December 31, 2005.

(14) Insurance premium income and expenses

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

(15) Pension plan

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

The Labor Pension Act of R.O.C. (“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.

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

(16) Foreign currency transactions

A. Conversion of foreign currency transactions

Foreign currency transactions are recorded in New Taiwan Dollars (“NT dollars”) at the rate of exchange when the conversion occurs. Gains or losses resulting from adjustments or settlements of foreign currency assets and liabilities are credited or charged to income in the period of actual conversion or settlement. At each balance sheet date, foreign currency assets and liabilities are converted at the balance sheet date exchange rate, and exchange gains or losses are credited or charged to current income.

B. Conversion of foreign subsidiaries’ statements

Financial statements of foreign subsidiaries accounted for by the equity method are converted into NT dollars as follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate prevailing on the balance sheet date. Stockholders’ equity items are converted on the historical rate basis except for the opening balance of retained earnings, which is posted directly from the balance of the last year. Income Statements items are converted by the weighted-average exchange rate for the period. Differences arising from above conversion are reported as “Cumulative Conversion Adjustments” in stockholders’ equity as a separate item.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

When the financial statements of a foreign operation are converted into the local currency, the foreign currency financial statements are first converted into the functional currency if the foreign currency is not the functional currency. The exchange gain or loss from the conversion is recognized in the current period because it directly affects the cash flows of the foreign operation.

(17) Income taxes

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

Deferred income tax assets and liabilities are classified as current or non-current in accordance with the underlying assets or liabilities. Deferred income taxes not related to any assets or liabilities appearing in the financial statements are classified as current or non-current based on the expected length of time before it is settled or recovered.

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

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly file corporation income tax returns and pay the 10% additional tax for their undistributed retained earnings since 2002 under the Integrated Income Tax System. If there are any tax effects due to the adoption of the foregoing Integrated Income Tax System, the parent company may proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) to the Company and other subsidiaries.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(18) Capital expenditure expenses

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

(19) Treasury stock

The Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is recorded at the cost of the shares purchased. When the disposal price of the treasury stock is greater than the cost, the difference is credited to capital surplus. If the disposal price is lower than cost, the difference is debited to capital surplus. If capital surplus is insufficient to cover the excess of the cost over the price, the difference is charged to retained earnings. The book value of treasury stock is calculated using the weighted-average method based on the security type and the reason of repurchase.

When treasury stock is retired, capital surplus-premium of common shares and common stock are debited according to the ratio of retired treasury stock to total issued stock. When the book value of the retired treasury stock is higher than the sum of its par value and capital surplus-premium of common shares, the difference is debited to other capital surplus. If other capital surplus is insufficient to cover the difference, retained earnings are debited. When the book value of the retired treasury stock is lower than the sum of its par value and capital surplus-premium of common shares, the difference is credited to capital surplus-treasury stock.

(20) Derivative financial products transaction

A. Forward foreign exchange contracts for hedging purposes

The purpose of the forward exchange contracts held by the Company is to hedge the risks that may result from changes in currency rates. Transactions on forward foreign exchange contracts are recognized 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. The exchange gains or losses resulting from the adjustments of the spot rate on the balance sheet date are credited or charged to current income.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

B. Currency swap (CS)

The purpose of the CS held by the Company is to hedge the risks that may result from changes in currency rates. CS transactions are recognized 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. The exchange gains or losses resulting from the adjustments of the spot rate on the balance sheets date are recognized in the current period. The exchange gains or losses resulting from the settlement of the swap are credited or charged to current income at the settlement date.

The receivables and payables of the foreign currency and forward exchange contracts are presented on a net basis in the balance sheets.

C. Cross-currency swap (CCS)

The purpose of the CCS held by the Company is to hedge the risks that may result from changes in currency rates and interest rates. CCS transactions are recognized based on the spot rate at the contract date. Interest rates are determined according to the applicable interest rate within the agreed period. The difference is credited or charged to the current income.

D. Interest rate swap agreements (IRS)

The interest rate swap agreements are used for the purpose of hedging risks against interest rate fluctuations and are adjusted for interest revenue or expenses based on the interest difference as of the agreed date of settlement.

E. Options

The premium for an option contract is recorded at cost. When early settled, the cost of options calculated using the first-in first-out method. Options are measured at fair market value at each balance sheet date. Any gain or loss arising from hedging risks associated with the existing asset or liability is recognized as a current period's gain or loss. Gains or losses arising from hedging risks associated with anticipated transactions are deferred until the transaction date, and recognized as an adjustment of the transaction price.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

F. Futures

Only memo entries are made on the contract date. Any gain or loss arising from hedging risks associated with the existing asset or liability is recognized as a current period's gain or loss. Gains or losses arising from hedging risks associated with anticipated transactions are deferred until the transaction date, and recognized as an adjustment of the transaction price.

(21) Investment-linked products

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

The Company has established special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of "Personal Insurance Accounting Standards in Sale-Investment-Linked Insurance Products". The above accounts are recorded under the line items of "Investment-linked products assets", "Investment-linked products liabilities", "Investment-linked products revenues", and "Investment-linked products expenses".

(22) 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 to US\$1.00 and NT\$32.80 to US\$1.00 effective at 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 dollars have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

3. Changes in accounting and its effects

The Company adopted the ROC Statement of Financial Accounting Standards No. 35, “Accounting for Asset Impairment” (“SFAS No.35”) to account for the impairment of its assets for its financial statements ended on and after January 1,2005. No retroactive adjustment is required under SFAS No. 35. Such a change in accounting principles decreased the Company’s investments in real estate and property and equipment by NT\$196,952 (US\$6,005) and NT85,519 (US\$2,607) as of December 31, 2005, respectively, and decreased the Company’s net income by NT\$282,471 (US\$8,612) for the year ended December 31, 2005. The Company considers such an effect was insignificance.

In the first quarter of 2005, the Company adopted the amended ROC’s Statement of Financial Accounting Standards No. 5, “Long-term Investment in Equity securities” (“SFAS No. 5 (r3)”). Under the SFAS No. 5(r3), a deferred equity pick-up for being unable to obtain the financial statements of equity investees is no longer allowed. No retrospective adjustments are needed. Such a change in accounting principles increase the Company’s long-term investment account by NT\$122,713 (US\$3,741) as of December 31,2005, cumulative conversion adjustments increased by NT\$3,970 (US\$121), unrealized valuation losses on long-term equity investments decrease by NT\$30,405 (US \$927) and net income increased by NT\$88,338 (US\$2,693) for the year ended December 31, 2005, respectively. The Company considers such an effect was insignificance.

4. Cash and cash equivalents

	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$378,466	\$11,924	\$254,973	\$7,773
Cash in banks	4,540,400	143,050	1,688,335	51,474
Time deposits	143,126,468	4,509,340	200,046,296	6,098,972
Cash equivalents	71,364,271	2,248,402	52,345,667	1,595,905
Total	<u>\$219,409,605</u>	<u>\$6,912,716</u>	<u>\$254,335,271</u>	<u>\$7,754,124</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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. Short-term investments

	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Common stock and beneficiary certificates	\$97,452,488	\$3,070,337	\$145,587,555	\$4,438,645
Overseas investments	115,955,643	3,653,297	118,390,290	3,609,460
Designated purpose trust fund	32,912,014	1,036,925	27,886,041	850,184
Corporate bonds	8,356,152	263,269	8,668,149	264,273
Government bonds	13,951,964	439,570	9,300,656	283,557
Financial debentures	34,055,589	1,072,955	47,192,153	1,438,785
Short-term notes	77,174,494	2,431,459	57,331,606	1,747,915
Sub-total	379,858,344	11,967,812	414,356,450	12,632,819
Less: Cash equivalents	(71,364,271)	(2,248,402)	(52,345,667)	(1,595,905)
Allowance for valuation loss of short-term investment	-	-	-	-
Total	<u>\$308,494,073</u>	<u>\$9,719,410</u>	<u>\$362,010,783</u>	<u>\$11,036,914</u>

6. Loans

(1) Policy loans

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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) Secured loans

	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Short-term secured loans	\$101,077	\$3,184	\$396,200	\$12,079
Less: Allowance for bad debts	(647)	(20)	(3,360)	(102)
Sub-total	100,430	3,164	392,840	11,977
Medium-term secured loans	9,186,919	289,443	11,810,999	360,091
Less: Allowance for bad debts	(58,961)	(1,858)	(1,170)	(35)
Sub-total	9,127,958	287,585	11,809,829	360,056
Long-term secured loans	274,064,729	8,634,679	264,326,159	8,058,724
Less: Allowance for bad debts	(1,794,433)	(56,535)	(336,225)	(10,250)
Sub-total	272,270,296	8,578,144	263,989,934	8,048,474
Total	<u>\$281,498,684</u>	<u>\$8,868,893</u>	<u>\$276,192,603</u>	<u>\$8,420,507</u>

Secured loans are secured by government bonds, stocks, corporate bonds and real estate. Loans are classified as short-term, medium-term and long-term based on the terms as follows:

Short-term: within one year

Medium-term: over one year but less than seven years

Long-term: over seven years

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

7. Long-term investments in stocks

(1) Long -term investments in stocks

(All of the following securities are common stock unless otherwise stated.)

<u>Investee</u>	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
A. Under the equity method:				
WK Technology Fund VI Co., Ltd.	\$377,149	\$11,882	\$384,610	\$11,726
Vista Technology Venture Capital Corp.	49,126	1,548	38,984	1,189
Omnitek Venture Capital Corp.	152,081	4,791	169,019	5,153
Wa Tech Venture Capital Co., Ltd.	178,895	5,637	155,291	4,734
IBT Venture Capital Corp.	502,290	15,825	564,610	17,214
Cathay Insurance (Bermuda) Co., Ltd.	59,635	1,879	67,504	2,058
Symphox Information Co., Ltd.	265,822	8,375	267,070	8,142
Cathay Securities Investment Trust Co., Ltd.	222,741	7,018	232,350	7,084
Cathay Venture Capital Crop.	208,614	6,572	374,726	11,425
Lin Yuan Property Management Co., Ltd.	34,124	1,075	-	-
Cathay Securities Investment Co., Ltd.	25,662	809	93,736	2,858
Cathay Life Insurance Ltd. (Shanghai)	1,526,654	48,099	1,536,038	46,830
Sub-total	3,602,793	113,510	3,883,938	118,413

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

<u>Investee</u>	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
B. Under the cost method or the lower of cost or market :				
WK Technology Fund Co., Ltd.	\$100,000	\$3,151	\$79,400	\$2,421
Taiwan Aerospace Company	110,500	3,482	110,500	3,369
Concord III Venture Capital Co., Ltd.	89,280	2,813	89,280	2,722
Taipei Financial Center Corp.	1,541,591	48,569	1,000,561	30,505
InveStar Dayspring V.C. Inc.	200,000	6,301	200,000	6,098
FAT Venture Capital Co., Ltd.	50,000	1,575	40,000	1,220
Concord IV Venture Capital Co., Ltd.	50,000	1,575	50,000	1,524
WK Technology Fund V Co., Ltd.	150,000	4,726	150,000	4,573
WK Technology Fund IV Co., Ltd.	127,200	4,008	105,200	3,207
Century Venture Capital Co., Ltd.	100,000	3,151	100,000	3,049
China Power Venture Capital Co., Ltd.	190,000	5,986	190,000	5,793
Super Tech Venture Capital Corp.	100,000	3,151	93,000	2,835
CDIB & Partners Investment Holding Corp.	500,000	15,753	500,000	15,244
Alex-Tech Machinery Industrial Co., Ltd.	7,008	221	7,008	214
R.O.C. Venture Capital Co., Ltd.	151,970	4,788	151,970	4,633

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

<u>Investee</u>	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
National Venture Capital Co., Ltd.	\$100,000	\$3,151	\$100,000	\$3,049
WK Technology Fund VII Co., Ltd.	200,000	6,301	200,000	6,098
Capital Venture Fund II Corp.	50,000	1,575	50,000	1,524
Fu Yu Venture Capital Investment Corp.	200,000	6,301	200,000	6,098
Concord VII Venture Capital Co., Ltd.	100,000	3,151	100,000	3,049
New Century InfoComm Tech Co., Ltd.	1,268,000	39,950	1,061,848	32,373
Srsuntour Co., Ltd.	62,000	1,953	62,000	1,890
Titan I Venture Capital Co., Ltd.	150,000	4,726	150,000	4,573
Harbinger Venture Capital Crop.	200,000	6,301	200,000	6,098
Prosperity Venture Capital Corp.	100,000	3,151	100,000	3,049
KGEx.com Co., Ltd.	175,000	5,514	84,000	2,561
United Venture Corp.	50,000	1,575	50,000	1,524
BioCare Corp.	12,000	378	3,720	113
Megic Corp.	18,000	567	18,000	549
WK Technology Fund VIII Co., Ltd.	200,000	6,301	200,000	6,098
Hua Chih Venture Capital Corp.	60,000	1,890	60,000	1,829
Jih Sun Venture Capital Investment Co., Ltd.	80,000	2,520	80,000	2,439
Win Semiconductors Corp.	16,364	516	16,364	499

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

<u>Investee</u>	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
Kinik Precision Grinding Co., Ltd.	\$7,800	\$246	\$-	\$-
Vita Genomics Inc.	87,500	2,757	87,500	2,668
Tong Hsing Electronic Inc. Co., Ltd.	27,144	855	27,144	828
China Technology Venture Capital Corp.	50,000	1,575	50,000	1,524
Daiwa Securities SMBC-Cathay Co., Ltd.	259,200	8,166	259,200	7,902
Applied Vacuum Coating Technologies Co., Ltd.	6,661	210	-	-
TaiGen Biotechnology Co., Ltd.	42,000	1,323	28,735	876
Cdid BioScience venture I Inc.	285,000	8,979	285,000	8,689
Maxima Venture I, Inc, Taiwan	221,130	6,967	315,630	9,623
Parawin Venture Capital Co., Ltd.	50,000	1,575	50,000	1,524
Darly 3 Venture Co., Ltd.	17,000	536	10,200	311
Top Taiwan IV Venture Capital Co., Ltd.	50,000	1,575	50,000	1,524
Cash Box Audio and Video Co., Ltd.	200,000	6,301	200,000	6,098
Zeng Hsing Industrial Co., Ltd	28,824	908	28,824	879
Hua VI Venture Capital Corp.	50,000	1,575	50,000	1,524
Shin Sheng Venture Capital Investment Corp.	50,000	1,575	50,000	1,524
Centillion III Venture Capital Corp.	50,000	1,575	50,000	1,524

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

<u>Investee</u>	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
Harbinger III Venture Capital Corp.	\$100,000	\$3,151	\$100,000	\$3,049
Unitive Semiconductor Taiwan Corp.	24,000	756	24,000	732
Taiwan High Speed Rail Co. – Preferred Stock	1,000,000	31,506	1,000,000	30,489
Enermax Technology Co.	47,600	1,500	-	-
Creative Sensor Inc.	11,820	373	-	-
Tong Lung metal Industry Co., Ltd.-preferred stock	300,000	9,452	300,000	9,146
Hsin Tao Power Co., Ltd.	765,000	24,102	765,000	23,323
CTBI Venture Capital Co., Ltd.	50,000	1,575	50,000	1,524
Ip Fund Two Co., Ltd.	50,000	1,575	54,000	1,646
Global Top Partner I Venture Capital Co., Ltd.	300,000	9,452	300,000	9,146
Chi Mei Corporation. - preferred stock	-	-	10,000,000	304,878
Super Alloy Industrial Co., Ltd.	-	-	10,000	305
Hui Yang Private Equity Fund Co., Ltd.	-	-	100,000	3,049
Nan Ya PCB Corporation	-	-	72,300	2,204
Toppoly Optoelectronics Corporation.	-	-	100,000	3,049
Chang Yi Co., Ltd.	-	-	25,000	762
Sub-total	10,639,592	335,211	20,045,384	611,140
Total	\$14,242,385	\$448,721	\$23,929,322	\$729,553

English Translation of Financial Statements Originally Issued in Chinese

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

	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$2,114,394	\$66,616	\$3,602,793	\$109,841
Add: Equity investment gains	78,674	2,479	105,093	3,204
Capital surplus- long-term equity investment	7,391	233	562	17
Additional investment	1,628,688	51,313	215,000	6,555
Cumulative conversion adjustments	(87,786)	(2,766)	79,326	2,418
Unrealized valuation losses on long-term equity investment	19,419	612	-	-
Less: Cash dividends	(67,141)	(2,115)	(45,608)	(1,390)
Recovered proceeds of long-term investments	(90,846)	(2,862)	(24,061)	(733)
Disposal long-term investment in stocks	-	-	(49,167)	(1,499)
Balance as of December 31	<u>\$3,602,793</u>	<u>\$113,510</u>	<u>\$3,883,938</u>	<u>\$118,413</u>

(3) The recognized equity investment gains (losses) 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\$
WK Technology Fund VI Co., Ltd.	\$5,436	\$171	\$7,716	\$235
Vista Technology Venture Capital Corp.	(26,309)	(829)	(14,704)	(448)
Omnitek Venture Capital Corp.	15,039	474	17,523	534
Wa Tech Venture Capital Co., Ltd.	13,793	435	457	14

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Investee	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
IBT Venture Capital Corp	30,601	964	75,946	2,315
Cathay Insurance (Bermuda) Co., Ltd.	6,334	200	6,001	183
Symphox Information Co., Ltd.	7,197	227	1,248	38
Cathay Securities Investment Trust Co., Ltd.	28,082	885	32,904	1,003
Cathay Venture Capital Corp.	(11,233)	(354)	15,922	485
Lin Yuan Property Management Co., Ltd.	18,995	598	23,144	706
Cathay Securities Investment Co., Ltd.	10,185	321	8,074	246
Cathay Life Insurance Ltd. (Shanghai)	(19,446)	(613)	(69,138)	(2,107)
Total	<u>\$78,674</u>	<u>\$2,479</u>	<u>\$105,093</u>	<u>\$3,204</u>

- A. The equity investment gains (losses) were recognized based on their respective audited financial statements for the year ended December 31, 2005. The financial statements of WK Technology Fund VI Co., Ltd., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the year ended December 31, 2005, which were audited by other auditors with unqualified opinion.
- B. It is not practicable for some investee companies under the equity method to provide timely audited financial statements. If the Company owns less than 50% interest of such investees, the recognition investment gains or losses for those investees shall be deferred to next year. That is, the Company will recognize its investment gains or losses in proportion to its equivalent stock ownership in the following year.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

The Company owns less than 50% voting share and the recognition investment gains or losses shall be deferred to next year of the following investees: The WK Technology Fund VI Co., Ltd., Vista Technology Venture Capital Corp., Omnitek Venture Capital Corp., Wa Tech Venture Capital Co., Ltd. and IBT Venture Capital Corp. for the year ended December 31, 2004.

The investment gains (losses) were based on their respective audited financial statements for the year ended December 31, 2004 are Cathay Insurance (Bermuda) Co., Ltd., Symphox Information Co., Ltd., Lin Yuan Property Management Co., Ltd., Cathay Securities Investment Trust Co., Ltd., Cathay Venture Capital Corp., Cathay Securities Investment Co., Ltd. and Cathay Life Insurance Ltd. (shanghai). We did not audit the financial statements of Cathay Securities Investment Trust Co., Ltd., which was audited by other auditors with unqualified opinion.

- (4) Effective from January 1, 2005, the Company adopted SFAS No. 7 “Consolidated Financial Statements” which was revised on December 9, 2004. The adoption of SFAS No. 7 resulted in superseding the requirement of the total assets and operating revenues which was under 10% of parent company may not need to prepare consolidated financial statements and restate its prior period consolidated financial statement. The consolidated financial statements of the Company as of and for the year period ended December 31, 2005 include the Company and its subsidiaries, which include Symphox Information Co., Ltd., Cathay Venture Capital Corp., Lin Yuan Property Management Co., Ltd. and Cathay Life Insurance Ltd. (Shanghai). The consolidated financial statements of the Company as of and for the year ended December 31, 2005 excluded Cathay Insurance (Bermuda) Co., Ltd and Cathay securities Investment Co., Ltd because their total assets and operating revenues were insignificant of the total assets and operating revenues of the Company.
- (5) The investing loss amount to NT\$885,227 (US\$26,989) were recognized due to there are evidenced that the value of the Company’s investment in KGEx.com Co., Ltd., TaiGen Biotechnology Co., Ltd., BioCare Corp., Taipei Financial Center Corp. and New Century Infocomm Tech Co., Ltd., which are accounted under cost method, had been impaired and they are unlikely that the stock price will recover in the future. The new costs of these investments are the carrying amount after recognized the loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

8. Long-term investments in bonds

Long-term investments in bonds consist mainly of government bonds as of December 31, 2004 and 2005. Government Bonds were deposited with the Central Bank of China as capital guarantee deposits. As of December 31, 2004 and 2005, the capital guarantee deposits amounted to NT\$8,090,599 (US\$254,902) and NT\$8,047,275 (US\$245,344), respectively, and were categorized under “securities serving as deposits paid-bond”. Please see Note 19, “pledged assets” for details.

One of the long-term investments in bonds, Global structured notes, amounted to NT\$41,807,358 (US\$1,317,182) and NT\$60,710,951 (US\$1,850,944) as of December 31, 2004 and 2005, respectively.

9. Investments in real estate

Item	December 31, 2004								
	Cost		Revaluation surplus		Accumulated depreciation		Net value		
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	
Investments in									
real estate	\$110,896,032	\$3,493,889	\$4,566	\$144	\$(13,078,642)	\$(412,056)	\$97,821,956	\$3,081,977	
Construction	3,627,781	114,297	-	-	-	-	3,627,781	114,297	
Total	<u>\$114,523,813</u>	<u>\$3,608,186</u>	<u>\$4,566</u>	<u>\$144</u>	<u>\$(13,078,642)</u>	<u>\$(412,056)</u>	<u>\$101,449,737</u>	<u>\$3,196,274</u>	

Item	December 31, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$109,289,194	\$3,331,988	\$4,563	\$139	\$(13,000,846)	\$(396,367)	\$(196,952)	\$(6,005)	\$96,095,959	\$2,929,755
Construction	1,675,244	51,074	-	-	-	-	-	-	1,675,244	51,074
Prepayments for buildings and land	3,808,047	116,099	-	-	-	-	-	-	3,808,047	116,099
Total	<u>\$114,772,485</u>	<u>\$3,499,161</u>	<u>\$4,563</u>	<u>\$139</u>	<u>\$(13,000,846)</u>	<u>\$(396,367)</u>	<u>\$(196,952)</u>	<u>\$(6,005)</u>	<u>\$101,579,250</u>	<u>\$3,096,928</u>

(1) The real estate investments are held mainly to generate rental revenue.

(2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

- (3) No investments in real estate were pledged as collateral. Investments in real estate were fully insured.
- (4) The Company had securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Zhong Hwa Building in 2005. Also, the accounting treatment of these transactions is conformed to the regulation of the Accounting Research and Development Foundation. The relative information was disclosure as following,

The Company transferred the risk and returns of ownership of the real estate property to the assignee and the gain on disposal of real estate under “total amount accrual method” was NT\$8,627,731 (US\$263,041).

After the REIT were issued, the sponsor and related parties of the Company did not participate in the original offering. Instead, the Company bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding securities. Thus, it should be treated as a part of unsold real estate. The Company had deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the company. As of December 31, 2005, the amount of deferred gain on disposal of real estate was NT\$1,773,919 (US\$54,083).

10. Property and equipment

Item	December 31, 2004							
	Cost		Revaluation surplus		Accumulated depreciation		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$5,016,149	\$158,038	\$2,209	\$70	\$-	\$-	\$5,018,358	\$158,108
Buildings and construction	11,142,721	351,063	-	-	(3,260,251)	(102,718)	7,882,470	248,345
Communication and transportation equipment	85,457	2,693	-	-	(43,869)	(1,382)	41,588	1,311
Other equipment	4,467,766	140,761	-	-	(2,748,356)	(86,590)	1,719,410	54,171
Sub-total	20,712,093	652,555	2,209	70	(6,052,476)	(190,690)	14,661,826	461,935
Construction in progress	158,664	4,999	-	-	-	-	158,664	4,999
Prepayment for equipment	35,458	1,117	-	-	-	-	35,458	1,117
Total	\$20,906,215	\$658,671	\$2,209	\$70	\$(6,052,476)	\$(190,690)	\$14,855,948	\$468,051

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,863,208	\$148,269	\$2,212	\$67	\$-	\$-	\$(51,331)	\$(1,565)	\$4,814,089	\$146,771
Buildings and construction	10,584,805	322,708	-	-	(3,162,936)	(96,431)	(34,188)	(1,042)	7,387,681	225,235
Communication and transportation equipment	53,476	1,630	-	-	(31,590)	(963)	-	-	21,886	667
Other equipment	4,771,903	145,485	-	-	(3,043,086)	(92,777)	-	-	1,728,817	52,708
Sub-total	\$20,273,392	\$618,092	\$2,212	\$67	\$(6,237,612)	\$(190,171)	\$(85,519)	\$(2,607)	\$13,952,473	\$425,381
Constuction in progress	3,690	112	-	-	-	-	-	-	3,690	112
Total	\$20,277,082	\$618,204	\$2,212	\$67	\$(6,237,612)	\$(190,171)	\$(85,519)	\$(2,607)	\$13,956,163	\$425,493

No property and equipment were pledged as collateral. Property and equipment were fully insured.

11. Overdue receivables

	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$2,782,748	\$87,673	\$1,469,545	\$44,803
Allowance for bad and doubtful debts	(809,335)	(25,498)	(985,341)	(30,041)
Total	\$1,973,413	\$62,175	\$484,204	\$14,762

12. Capital stock

As of December 31, 2004 and 2005, the total authorized thousand shares were 5,068,616, with par value of NT\$10 each.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

13. Retained earnings

(1) Legal reserve

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

(2) Undistributed retained earnings

- A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve. After distributing stock interests and 2% of the total remaining amount as a bonus distribution to employees, the remainder is distributed in accordance with the resolutions of the Board of Directors.
- B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceeded 100% of the Company's paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.
- C. According to the amended Income Tax Law ("Tax Law") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- D. According to the regulations issued by SFC, the Company should assume that dividends for year 2004 would be appropriated to the employee, directors and supervisors, and pro forma earnings per share for the current year.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

	For the years ended December 31,	
	2004(NT\$)	2004(US\$)
A. Distribution		
Bonus paid to employees-Cash	\$67,587	\$2,060
Remuneration paid to directors and supervisors	8,100	247
B. After income tax earnings per share (expressed in dollars)	\$3.09	\$0.09
Pro forma earnings per share (expressed in dollars)	\$3.07	\$0.09

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

The surplus appropriation act of 2005 has not yet passed by the board of directors of the Company as the date of this audit report is issued.

14. Treasury stock

(1) The company's treasury stock variation for year on December 31, 2004 is as follows:

(Unit: thousand shares)

Reason for transfer	January 1, 2004	Increase	Decrease	December 31, 2004
Transferred it to employees	51,551	-	51,551	-

(2) The Company had been transferred 51,551,000 shares to its employees at transferred price of NT58.83 dollars/share (US 1.79 dollars/share) and was approved by the SFC on March 13, 2004. After the transfer transaction, the treasury stock holding of the Company has been reduced to 0 share.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

15. Personnel 、 depreciation 、 depletion and amortizations

Item	For the year ended December 31,2004			For the year ended December 31,2004		
	NT\$			US\$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Personnel expenses						
Salary and wages	\$21,235,911	\$2,564,381	\$23,800,292	\$669,059	\$80,793	\$749,852
Labor & health insurance expenses	1,131,378	208,604	1,339,982	35,645	6,572	42,217
Pension expenses	837,119	154,349	991,468	26,374	4,863	31,237
Other expenses	1,036,315	270,178	1,306,493	32,650	8,512	41,162
Depreciation	-	2,003,629	2,003,629	-	63,126	63,126
Depletion	-	-	-	-	-	-
Amortizations	-	5,745	5,745	-	181	181

Item	For the year ended December 31,2005			For the year ended December 31,2005		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$23,224,228	\$2,205,887	\$25,430,115	\$708,056	\$67,252	\$775,308
Labor & health insurance expenses	1,043,117	181,582	1,224,699	31,802	5,536	37,338
Pension expenses	562,545	97,926	660,471	17,151	2,985	20,136
Other expenses	1,004,099	266,680	1,270,779	30,613	8,130	38,743
Depreciation	-	2,257,871	2,257,871	-	68,837	68,837
Depletion	-	-	-	-	-	-
Amortizations	-	39,313	39,313	-	1,198	1,198

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

16. Estimated income taxes

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$15,262,474	\$480,859	\$16,705,254	\$509,306
Adjustments				
Interest income of tax on a separate basis	(1,322,019)	(41,652)	(2,485,401)	(75,774)
Gain on disposal of investments	(10,251,094)	(322,971)	(8,801,651)	(268,343)
Loss of long-term investment under the cost method	-	-	888,812	27,098
Gain on disposal of Land	(415,188)	(13,081)	(6,678,948)	(203,626)
Unrealized exchange loss	2,741,334	86,369	194,548	5,931
Impairment loss	-	-	282,471	8,612
Bad debt recovery	(296,484)	(9,341)	-	-
Cash dividend	(5,088,019)	(160,303)	(6,214,253)	(189,459)
Pension expense not actually contributed	695,220	21,904	199,608	6,086
Equity investment gains	(78,674)	(2,479)	(105,093)	(3,204)
Others	(33,671)	(1,061)	17,565	535
Taxable income	1,213,879	38,244	(5,997,088)	(182,838)
Times: taxes rate	25%	25%	25%	25%
Add: extra 10% income tax on undistributed retained earnings	335,222	10,561	297,688	9,076
Less: tax effects under integrated income tax systems	(335,222)	(10,561)	(297,688)	(9,076)
Sub-total	303,470	9,561	(1,499,272)	(45,710)
Add: Tax on a separate basis	261,882	8,251	493,370	15,041
Beginning deferred income tax assets	270,265	8,515	364,579	11,115
Ending deferred income tax liabilities	450,452	14,192	401,815	12,251
Less: Income tax credit	(81,833)	(2,579)	(43,768)	(1,334)
Beginning deferred income tax liabilities	(1,135,785)	(35,784)	(450,452)	(13,733)
Ending deferred income tax assets	(364,579)	(11,486)	(465,526)	(14,193)
Dissimilitude on estimate tax after time	(60,204)	(1,897)	(18,148)	(553)
Total income taxes benefit	<u>\$ (356,332)</u>	<u>\$ (11,227)</u>	<u>\$ (1,217,402)</u>	<u>\$ (37,116)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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) The Company's income tax returns through 2001 had been and assessed by the Tax Authorities.

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

	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Total deferred tax liabilities	\$450,452	\$14,192	\$401,815	\$12,251
Total deferred tax assets	\$364,579	\$11,486	\$465,526	\$14,193
Temporary differences:				
Employee benefits	\$10,786	\$340	\$-	\$-
Pension expense	1,427,710	44,981	1,627,318	49,613
Unrealized exchange gains	(1,801,807)	(56,768)	(1,607,259)	(49,002)
Impairment loss	-	-	157,012	4,787
Other	19,820	624	77,775	2,371
Deferred tax assets-current	\$7,652	\$241	\$5,407	\$165
Deferred tax liabilities-current	(450,452)	(14,192)	(401,815)	(12,251)
Net offset balance of deferred liabilities-current	<u>\$(442,800)</u>	<u>\$(13,951)</u>	<u>\$(396,408)</u>	<u>\$(12,086)</u>
Deferred tax assets-noncurrent	\$356,927	\$11,245	\$460,119	\$14,028
Deferred tax liabilities-noncurrent	-	-	-	-
Net balance of deferred tax assets-noncurrent	<u>\$356,927</u>	<u>\$11,245</u>	<u>\$460,119</u>	<u>\$14,028</u>

(4) Information related to imputation

	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	<u>\$1,257,227</u>	<u>\$39,610</u>	<u>\$998,420</u>	<u>\$30,440</u>

	For the years ended	
	December 31,	
	2004	2005
Imputation credit account ratio-actual (May 2, 2005)	9.52%	
Imputation credit account ratio		<u>5.57%</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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) Related information on undistributed earnings

Year	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
After 1998	\$15,609,488	\$491,792	\$17,922,656	\$546,422

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

Regulation	Deductible items	Amount of deductible income tax		Remaining balance		Expiry year
		NT\$	US\$	NT\$	US\$	
		Statute for Upgrading Industries	Education training	\$43,768	\$1,334	

17. Earnings per share

	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Income from continuing operations before income taxes (a)	\$15,262,474	\$480,859	\$16,705,254	\$509,306
Net income (b)	\$15,618,806	\$492,086	\$17,922,656	\$546,422
Outstanding number of shares at year-end	5,068,615,765	5,068,615,765	5,068,615,765	5,068,615,765
Weighted average outstanding number of shares (c)	5,057,911,186	5,057,911,186	5,068,615,765	5,068,615,765
Earnings per share before income taxes (a) / (c) (dollars)	\$3.02	\$0.10	\$3.30	\$0.10
Earnings per share after income taxes (b) / (c) (dollars)	\$3.09	\$0.10	\$3.54	\$0.11

The following table summarizes the changes in the weighted-average number of outstanding shares:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(Shares)	For the years December 31,	
	2004	2005
Shares at the beginning of period	5,068,615,765	5,068,615,765
Less: Treasury stock	(10,704,579)	-
Total	<u>5,057,911,186</u>	<u>5,068,615,765</u>

18. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Lin Yuan Property Management Co., Ltd.	Subsidiary of the Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Taiwan Asset Management Corporation	Their chairman is Cathay United Bank
Seaward Card Co., Ltd.	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Lucky Bank Taiwan Inc.	Affiliate
Lin Yuan Investment Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Wan Pao Development Co., Ltd.	Their chairman is an immediate family member of the Company's chairman
Yi Ru Corporation	Their chairman is an immediate family member of the Company's chairman
Cathay General Hospital	Their chairman is the Company's chairman
Cathay Securities Investment Trust Co., Ltd.	An equity method investee

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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) Significant transactions with related parties

A. Property transactions (from related parties):

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

(A) Significant transactions with related parties for the years ended December 31, 2004 and 2005 are listed below:

Name	For the year ended December 31, 2004		
	Item	NT\$	US\$
San Ching Engineering Co., Ltd.	Hsinyi Oistrict Base-E	\$18,766	\$591
	Tianmu Jung Cheng-A	4,272	135
	Tianmu Jung Cheng-B	4,315	136
	Hsinyi District Base-D	20,338	641
	Ban Ciao Building	254,236	8,010
	Sheraton Taipei Hotel	57,234	1,803
	Cathay General Hospital	8,585	271
	Sainyang Building	30,033	946
	Cosmos Building	7,020	221
	Cathay Golden & Silver Bldg	27,276	859
	Xi-Men Bldg	16,490	520
	Tianmu Shopping Mall-B	9,441	297
	Taipei Financial Center Building	5,528	174
	Li-Yuan Building	52,309	1,648
	Lin Yuan Building	510	16
	Tianmu Base-A	1,242	39
	Cathay Information Building	11,567	364
	Cathay Life Insurance Building	1,757	55
	Tucheng office Building	98,430	3,101
	Jhunan Building	11,192	353
	Keelung Second Building	6,777	214
	Taitung Siwei Building	685	22
	Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	3,340
Hsinyi District Base-D		332	10
Tucheng Office Building		116	4
Symphox Information Co., Ltd.	Hsinyi District Base-E	27,000	851
	Total	\$678,791	\$21,386

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Name	Item	For the year ended December 31,2005	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Tianmu Jung Cheng-A	\$2,769	\$84
	Cathay Golden & Silver Bldg	3,791	116
	Ban Ciao Building	359,060	10,947
	Sheraton Taipei Hotel	53,742	1,638
	Sainyang Building	4,222	129
	Cathay Land Mark	3,000	91
	Financial Center Hsing-E	2,609	80
	Other	293	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	3,537	108
	Cathay Land Mark	1,000	30
Lin Yuan Property Management Co., Ltd.	Cathay General Hospital	1,166	36
	Cathay Cosmos Building	13,631	416
	Li-Yuan Building	2,205	67
	Jhong Jheng Building	1,235	38
	Sih Wei Financial Building	1,475	45
	Min Sheng Chien Kuo Building	4,181	127
	Min Sheng Commercial Building	18,647	569
	Min Sheng Trading Building	1,029	31
	Tianmu Jung Shopping Mall	2,834	86
	Kaohsiung Linyuan Building	3,187	97
	Taipei Chung Hua Building	1,305	40
	Taipei Royalty Building	1,048	32
	Jhong Gang Building	3,223	98
	Cathay Building	7,417	226
	Tun Nan Commercial Building	1,693	52
Taoyuan Fuxing Building	1,011	31	
Taitung Siwei Building	4,213	128	
Chu Tong Building	1,445	44	
Other	15,338	468	
	Total	<u>\$520,306</u>	<u>\$15,863</u>

The total amount of contracted projects for real estate as of December 31, 2004 and 2005 between the Company and San Ching Engineering Co., Ltd. was NT\$9,873,635(US\$311,079) and NT\$1,620,227 (US\$49,397), respectively.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(B)The Company sold real estate to related parties for the years ended December 31, 2004 as follows:

Name	Item	For the year ended December 31,2004			
		Sales amount NT\$	Sales amount US\$	Loss on disposal of assets NT\$	Loss on disposal of assets US\$
Cathay General Hospital	No.678 Sec.2 Chung-Hwa Rd. Hsinchu	<u>\$1,520,000</u>	<u>\$47,889</u>	<u>\$(8,390)</u>	<u>\$(264)</u>

The Company did not sell any real estate to its related parties for the year ended December 31,2005.

(C)The Company bought real estate from related parties for the years ended December 31, 2004 and 2005 are as follows:

The Company did not buy any real estate from its related parties for the year ended December 31, 2004.

Name	Item	For the year ended December 31, 2005			
		Contract Price		Prepayments for buildings and land	
		NT\$	US\$	NT\$	US\$
Wan Pao Development Co., Ltd.	No. 65 Simen Rd, Tainan City.	<u>\$5,290,000</u>	<u>\$161,280</u>	<u>\$2,581,601</u>	<u>\$78,707</u>
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	<u>\$2,470,000</u>	<u>\$75,305</u>	<u>\$1,226,446</u>	<u>\$37,392</u>

(D)The Company sold property and equipment to related parties for the years end December 31, 2004 and 2005 as follows:

The Company did not sell any property and equipment to related parties for the year end December 31, 2004.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Name	Item	For the year ended December 31, 2005			
		Sales amount		Loss on disposal of assets	
		NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	Communication and transportation equipment	\$350	\$11	\$(319)	\$(10)

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

Name	Rental income			
	For the year ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$7,816	\$246	\$8,934	\$272
Cathay Real Estate Development Co., Ltd.	21,568	680	15,819	482
Cathay United Bank	251,580	7,926	264,035	8,050
Cathay Century Insurance Co., Ltd.	53,395	1,682	54,948	1,675
Cathay General Hospital	134,315	4,232	133,356	4,066
San Ching Engineering Co., Ltd.	12,906	407	7,569	231
Symphox Information Co., Ltd.	24,390	769	26,586	811
Cathay Securities Investment Trust Co., Ltd.	8,830	278	11,612	354
Taiwan Asset Management Corporation	-	-	14,342	437
Cathay Securities Co., Ltd.	6,003	189	15,024	458
Cathay Securities Investment Co., Ltd.	4,136	130	3,639	111
Cathay Capital Management Corporation	160	5	1,928	59
Seaward Leasing Co., Ltd.	-	-	1,450	44
Cathay Futures Co., Ltd.	-	-	442	13
Total	\$525,099	\$16,544	\$559,684	\$17,064

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Name	Guarantee deposits received			
	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$4,286	\$135	\$3,645	\$111
Cathay United Bank	73,862	2,327	65,845	2,007
Cathay Century Insurance Co., Ltd.	13,657	430	13,832	422
Cathay General Hospital	2,354	74	4,509	137
San Ching Engineering Co., Ltd.	1,895	60	2,009	61
Symphox Information Co., Ltd.	1,394	44	2,201	67
Cathay Securities Investment Trust Co., Ltd.	2,738	86	2,738	84
Cathay Securities Co., Ltd.	3,323	105	3,647	111
Taiwan Asset Management Corporation	-	-	3,477	106
Cathy Securities Investment Co., Ltd.	877	28	877	27
Cathay Capital Management Inc.	479	15	479	15
Seaward Leasing Co., Ltd.	-	-	346	11
Total	<u>\$104,865</u>	<u>\$3,304</u>	<u>\$103,605</u>	<u>\$3,159</u>

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

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

Name	Rental expense			
	For the year ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$29,582	\$932	\$29,586	\$902
Lin Yuan Investment Co., Ltd.	6,680	210	3,476	106
Yi Ru Corporation	-	-	4,082	124
Total	<u>\$36,262</u>	<u>\$1,142</u>	<u>\$37,144</u>	<u>\$1,132</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Name	Guarantee deposits paid			
	December 31, 2004		December 31, 2005	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate				
Development Co., Ltd.	\$9,157	\$288	\$9,031	\$276
Yi Ru Corporation	-	-	1,190	36
Lin Yuan Investment Co., Ltd.	1,650	52	628	19
Total	\$10,807	\$340	\$10,849	\$331

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

B. Cash in banks

		For the year ended December 31, 2004		
Name	Item	Interest Income NT\$	Rate	Ending balance NT\$
Cathay United	Time deposit	\$198,963	0.80%~2.50%	\$28,276,150
Bank	Cash in bank	3,517	0.00%~0.60%	5,091,709
Total		\$202,480		\$33,367,859

		For the year ended December 31, 2004		
Name	Item	Interest Income US\$	Rate	Ending balance US\$
Cathay United	Time deposit	\$6,268	0.80%~2.50%	\$890,868
Bank	Cash in bank	111	0.00%~0.60%	160,419
Total		\$6,379		\$1,051,287

		For the year ended December 31, 2005		
Name	Item	Interest Income NT\$	Rate	Ending balance NT\$
Cathay United	Time deposit	\$175,785	0.85%~1.85%	\$516,250
Bank	Cash in bank	3,173	0.00%~1.80%	3,139,040
Lucky Bank				
Taiwan Inc.	Cash in bank	6	0.10%	14,450
Total		\$178,964		\$3,669,740

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

Name	Item	For the year ended December 31,2005		
		Interest Income US\$	Rate	Ending balance US\$
Cathay United	Time deposit	\$5,359	0.85%~1.85%	\$15,739
Bank	Cash in bank	97	0.00%~1.80%	95,702
Lucky Bank				
Taiwan Inc.	Cash in bank	-	0.10%	441
Total		<u>\$5,456</u>		<u>\$111,882</u>

C. Secured loans

Name	For the year ended December 31,2004			
	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Cathay General Hospital	<u>\$2,192,866</u>	<u>\$50,795</u>	2.60%~3.50%	<u>\$2,192,411</u>

Name	For the year ended December 31,2004			
	Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Cathay General Hospital	<u>\$69,088</u>	<u>\$1,600</u>	2.60%~3.50%	<u>\$69,074</u>

Name	For the year ended December 31,2005			
	Maximum amount NT\$	Interest income NT\$	Rate	Ending balance NT\$
Cathay General Hospital	<u>\$2,656,679</u>	<u>\$66,678</u>	2.60%~3.09%	<u>\$2,650,612</u>

Name	For the year ended December 31,2005			
	Maximum amount US\$	Interest income US\$	Rate	Ending balance US\$
Cathay General Hospital	<u>\$80,996</u>	<u>\$2,033</u>	2.60%~3.09%	<u>\$80,811</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

D. Beneficiary certificates:

Name	Item	December 31,			
		2004		2005	
		NT\$	US\$	NT\$	US\$
Cathay Securities	Cost	\$4,866,000	\$153,308	\$5,038,740	\$153,620
Investment Trust Co., Ltd.	Market value	4,866,388	153,320	5,486,340	167,266

E. Accounts receivable – related parties

Name	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$62,522	\$1,970	\$-	\$-
Cathay Insurance (Bermuda) Co., Ltd.	16,044	505	17,491	533
Cathay Securities Co., Ltd.	-	-	403	12
Symphox Information Co., Ltd.	501	16	863	27
Total	<u>\$79,067</u>	<u>\$2,491</u>	<u>\$18,757</u>	<u>\$572</u>

F. Other receivable-tax refund receivable

Name	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	<u>\$409,990</u>	<u>\$12,917</u>	<u>\$2,171,620</u>	<u>\$66,208</u>

G. Guarantee deposit paid

Name	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	<u>\$-</u>	<u>\$-</u>	<u>\$317,156</u>	<u>\$9,669</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

H. Accounts payable-related parties

Name	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$21,910	\$690	\$8,670	\$264
Symphox Information Co., Ltd.	20,453	645	31,542	962
Lin Yuan Property Management Co., Ltd.	1	-	409	12
San Ching Engineering Co., Ltd.	42,028	1,324	54,164	1,651
Cathay Real Estate Development Co., Ltd.	909	29	947	29
Total	<u>\$85,301</u>	<u>\$2,688</u>	<u>\$95,732</u>	<u>\$2,919</u>

I. Accounts collected in advance

Name	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,405	\$76	\$2,189	\$67
Cathay United Bank	396	12	396	12
Total	<u>\$2,801</u>	<u>\$88</u>	<u>\$2,585</u>	<u>\$79</u>

J. Prepayment

Name	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	<u>\$8,159</u>	<u>\$257</u>	<u>\$2,217</u>	<u>\$68</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

K. Insurance income

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$334,357	\$10,534	\$301,670	\$9,197
Cathay Financial Holding Co., Ltd.	511	16	683	21
Cathay Securities Co., Ltd.	292	9	1,348	41
Cathay Futures Co., Ltd.	2,214	70	2,291	70
Cathay General Hospital	-	-	21,883	667
Cathay Real Estate Development Co., Ltd.	-	-	1,350	41
San Ching Engineering Co., Ltd.	-	-	1,178	36
Cathay Century Insurance Co., Ltd.	-	-	7,071	215
Symphox Information Co., Ltd.	-	-	1,073	33
Cathay Securities Investment Trust Co., Ltd.	-	-	817	25
Total	<u>\$337,374</u>	<u>\$10,629</u>	<u>\$339,364</u>	<u>\$10,346</u>

L. Insurance expense

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$177,836</u>	<u>\$5,603</u>	<u>\$136,317</u>	<u>\$4,156</u>

M. Indemnity income

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$15,767</u>	<u>\$497</u>	<u>\$14,877</u>	<u>\$454</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

N.Reinsurance income

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$95,492	\$3,009	\$139,957	\$4,267

O.Reinsurance claims payment

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$22,143	\$698	\$68,743	\$2,096

P. Reinsurance commission expense

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$18,243	\$575	\$18,355	\$560

Q.Reinsurance handling fee expense

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$7,665	\$241	\$-	\$-

R. Reinsurance handling fee income

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$-	\$-	\$4,779	\$146

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

S. Cost of disposal real estate

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	\$-	\$-	\$158,000	\$4,817
Cathay United Bank	-	-	96,000	2,927
Total	\$-	\$-	\$254,000	\$7,744

T. Miscellaneous income

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$485,733	\$15,303	\$545,578	\$16,633
Cathay United Bank	236,575	7,454	146,936	4,480
Symphox Information Co., Ltd.	-	-	2,777	85
Cathay Securities Investment Trust Co., Ltd.	7,617	240	11,378	347
Total	\$729,925	\$22,997	\$706,669	\$21,545

The miscellaneous income was commission and cross-selling income received for fire and earthquake insurance bundled with loans to customers.

U. Commissions expense

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$287,969	\$9,073	\$185,278	\$5,649

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

V. Marketing expense

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$253,506	\$7,987	\$240,745	\$7,340

W. Administrative and general expense

Name	For the years ended December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Lin Yuan Property Management Co., Ltd.	\$736,109	\$23,192	\$689,163	\$21,011
Cathay Securities Investment Co., Ltd.	52,500	1,654	52,500	1,601
San Ching Engineering Co., Ltd.	7,589	239	7,127	217
Cathay Real Estate Development Co., Ltd.	7,790	245	7,263	222
Cathay Securities Co., Ltd.	-	-	78,435	2,391
Cathay Futures Co., Ltd.	-	-	8,159	249
Cathay Capital Management Corporation	-	-	20,383	621
Seaward Leasing Co., Ltd.	-	-	5,198	159
Seaward Card Co., Ltd.	-	-	1,344	41
Cathay Lin Yuan Security Co., Ltd.	-	-	826	25
Total	\$803,988	\$25,330	\$870,398	\$26,537

X. Other

As of December 31, 2004 and 2005, the notional amount of the derivative financial instruments transactions with Cathy United Bank are listed below:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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,	
	2004	2005
Forward foreign exchange contracts	USD 100,000	USD 125,545
CCS contracts	USD 340,000	USD 435,000

19. Pledged assets

As of December 31, 2004 and 2005, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Law, the Company is required to deposit long-term investment in bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	December 31,			
	2004		2005	
	NT\$	US\$	NT\$	US\$
Long-term investment in bonds	\$8,090,599	\$254,902	\$8,047,275	\$245,344
Time deposits	338,907	10,678	235,250	7,172
Total	<u>\$8,429,506</u>	<u>\$265,580</u>	<u>\$8,282,525</u>	<u>\$252,516</u>

Pledged assets are based on the carrying amount.

20. Other important matters and contingent liabilities

None.

21. Serious damages

None.

22. Subsequent events

None.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

23. Other important events

(1) Pension related information

A. As discussed in Note 2, the pension plan of the Company has changed significantly as a result of the enforcement of the Act. The Company has re-estimated its pension costs, based on an updated actuarial report, and recognized a net pension cost of NT\$468,482 (US\$14,283) for the year ended December 31, 2005. And the Company has contributed NT\$296,249 (US\$9,334) and NT\$268,874 (US\$8,197) to the pension fund for the years ended December 31, 2004 and 2005, respectively.

B. Pension funded status:

	For the years ended December 31,			
	2004	2004	2005	2005
	NT\$	US\$	NT\$	US\$
(1) Vested benefit obligation	\$(5,712,528)	\$(179,979)	\$(5,852,955)	\$(178,444)
(2) Non-vested benefit obligation	(3,073,193)	(96,824)	(2,774,358)	(84,584)
(3) Accumulated benefit obligation	(8,785,721)	(276,803)	(8,627,313)	(263,028)
(4) Additional benefits based on future salaries	(2,059,182)	(64,877)	(2,668,181)	(81,347)
(5) Projected benefit obligation	(10,844,903)	(341,680)	(11,295,494)	(344,375)
(6) Vested benefit	(7,980,112)	(251,421)	(8,174,936)	(249,236)
(7) Fair value of plan assets	12,042,436	379,409	10,512,569	320,505
(8) Funded status = (5) + (7)	1,197,533	37,729	(782,925)	(23,870)
(9) Unrecognized transitional net benefit obligation (net assets)	(2,272,193)	(71,588)	(1,893,495)	(57,728)
(10) Unrecognized prior service cost	362,134	11,409	310,401	9,464
(11) Unrecognized pension gain and loss	(715,184)	(22,532)	738,701	22,521
(12) Additional accrued pension liability	-	-	-	-
(13) Accrued pension liability /prepaid pension cost =(8)+(9)+(10)+(11)+(12)	<u>\$ (1,427,710)</u>	<u>\$ (44,982)</u>	<u>\$ (1,627,318)</u>	<u>\$ (49,613)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

C. Actuarial assumptions

	For the years ended December 31,	
	2004	2005
(1) Discount rate	3.00%	3.00%
(2) Rate of increase in future salaries	3.00%	3.00%
(3) Expected return on pension plan Assets	3.00%	3.00%

(2) Financial instruments related information

A. Derivative financial instruments related information

(A) Purpose

As of December 31, 2004 and 2005, the Company held the following derivative financial instruments: futures contracts, forward foreign exchange contracts and interest rate swaps. Futures contracts are entered into to hedge against risks of stock price fluctuations; forward contracts are entered into to hedge against risks of foreign currency and exchange rate fluctuations; interest rate swaps are entered into to hedge against risk of interest rate fluctuations. None of them was for trading purposes.

(B) Credit and market risks

The counterparties for all of the Company's futures contracts, forward foreign exchange contracts, and interest rate swaps are international financial organization with superior credit ratings. In addition, the Company worked with several other financial institutions to diversify its risks. The Company believes that the possibility of a breach of contract was quite low. Moreover, if there is a breach, the Company believes that it would not encounter major loss due to the nature of the investments. Further, the Company was exposed to various exchange rate risks but the possible loss can be balanced out by gain/loss from hedging transactions.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(C) Cash flow and demand

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

(D) Product type and condition

a. Futures

		December 31, 2004				
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
Overseas stock futures	Selling out	310	\$1,063,432	\$33,504	\$(42,841)	\$(1,350)
Overseas bonds futures	Selling out	1,120	3,908,581	123,144	(6,837)	(215)
TX		100	118,998	3,749	(4,762)	(150)

		December 31, 2005				
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			(NT\$)	(US\$)	(NT\$)	(US\$)
TX	Selling out	3,754	\$4,823,481	\$147,057	\$(128,045)	\$(3,904)
Overseas bonds futures	Selling out	400	9,637,487	293,826	(27,364)	(834)

b. Forward and CCS contracts

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

(b) As of December 31, 2004 and 2005, the Company had forward foreign exchange contracts of approximately US\$15,036,800 and US\$21,072,827, respectively, in notional value.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

The forward foreign exchange contracts as of December 31,2004, were due between January 5, 2005 and December 13, 2005. In addition, the forward exchange contracts as of December 31,2005, were due between January 3, 2006 and September 11, 2006.

Item	Contract amount	December 31,2004			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	USD15,036,800	\$480,851,885	\$15,149,713	\$497,959,345	\$15,688,700

Item	Contract amount	December 31,2005			
		Fair value		Due value	
		NT\$	US\$	NT\$	US\$
Forward & CCS	USD21,072,827	\$689,496,446	\$21,021,233	\$690,876,142	\$21,063,297

The above-mentioned forward foreign exchange contracts hedge against risks associated with net assets exchange rate fluctuations for the following short-term investment.

Net assets	December 31,	
	2004	2005
Short-term and long-term investment	USD 15,036,800	USD 21,072,827

Losses on the forward foreign exchange and currency swap contracts were NT\$1,111,561 (US\$35,021) and NT\$2,032,118 (US\$61,955), for the years ended December 31,2004 and 2005.

c. Interest rate swap agreement (IRS)

The IRS agreements of the Company as of December 31,2005 are set forth below:

Category	Currency	Period	Amount
IRS	NTD	2002.9.13~2015.4.12	NT\$62,325,449 US\$1,900,166

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

d. Option

December 31, 2004						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Buy in	4,268	\$1,263,225	\$39,799	\$(13,436)	\$(423)

December 31, 2005						
Item	Transaction type	Lot	Contract amount		Net loss of fair value estimated	
			NT\$	US\$	NT\$	US\$
TXO	Buy in	6,945	\$2,115,600	\$64,500	\$(8,786)	\$(268)

B. Non-derivative financial instruments related information:

Item	December 31, 2004			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$219,409,605	\$219,409,605	\$6,912,716	\$6,912,716
Receivables	12,439,727	12,439,727	391,926	391,926
Short-term investments	308,494,073	320,778,412	9,719,410	10,106,440
Long-term investments in stocks	14,242,385	14,220,032	448,721	448,016
Guarantee deposits paid	1,221,763	1,221,763	38,493	38,493
Securities serving as deposits paid-bonds	8,090,599	8,090,599	254,902	254,902
<u>Liabilities</u>				
Payables	87,250	87,250	2,749	2,749
Guarantee deposits received	1,647,431	1,647,431	51,904	51,904

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets</u>				
Cash and cash equivalents	\$254,335,271	\$254,335,271	\$7,754,124	\$7,754,124
Receivables	14,033,389	14,033,389	427,847	427,847
Short-term investments	362,010,783	372,362,149	11,036,914	11,352,505
Long-term investments in stocks	23,929,322	23,929,322	729,553	729,553
Guarantee deposits paid	1,653,494	1,653,494	50,412	50,412
Securities serving as deposits paid-bonds	8,047,275	8,047,275	245,344	245,344
<u>Liabilities</u>				
Payables	43,219	43,219	1,318	1,318
Guarantee deposits revived	1,643,683	1,643,683	50,112	50,112

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.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- ③ The fair value of the Company's short-term investments and long-term investments is based on market prices at the reporting date if market prices are available. The fair value of the Company's long-term investments is based on relevant financial or any other information if market prices are not available.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(3) Discretionary account management

Item	December 31,2004			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$1,835,044	\$57,815	\$1,865,982	\$58,789
Repurchase bonds	4,927,808	155,255	4,928,799	155,287
Convertible bonds	190,292	5,995	172,244	5,427
Bonds	3,640,806	114,707	3,706,615	116,780
Cash in bank	339,800	10,706	339,800	10,706
Net other assets less liabilities	(34,318)	(1,081)	(34,318)	(1,081)
Total	<u>\$10,899,432</u>	<u>\$343,397</u>	<u>\$10,979,122</u>	<u>\$345,908</u>

Item	December 31,2005			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$2,868,344	\$87,450	\$3,369,393	\$102,726
Repurchase bonds	3,487,493	106,326	3,488,377	106,353
Convertible bonds	33,867	1,032	35,167	1,072
Bonds	5,136,796	156,610	5,175,026	157,775
Cash in banks	160,577	4,895	160,584	4,896
Total	<u>\$11,687,077</u>	<u>\$356,313</u>	<u>\$12,228,547</u>	<u>\$372,822</u>

As of December 31, 2004 and 2005, the Company had discretionary account management contracts in the amount of NT\$10,050,000 (US\$316,635), and NT\$10,350,000 (US\$315,549), respectively.

(4) Material contract:

None

(5) Presentation of financial statements:

Certain accounts in the 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life 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

(6) Other:

None

23. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2004, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2004, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of December 31, 2005, the Company's remittances to this new company totaled approximately US\$48,330.

24. Segment Information

None