Cathay Life Insurance Co., Ltd.
Financial Statements
For the Three-Month Periods Ended
March 31, 2005 and 2006
With Independent Auditors' Review Report

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Guidelines Governing the Preparation of Financial Reports by 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.

Name of the company: Cathay Life Insurance Co., Ltd.
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Index to unaudited financial statements

English Translation of Review Report Originally Issued in Chinese

Independent auditors' review report

Board of Directors
Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of March 31, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the three months periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our reviewed.

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

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the three months periods ended March 31, 2005 and 2006 in order for them to be 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.

As discussed in Note 3 to the financial statements, effective from January 1, 2006, the Company adopted the R.O.C. Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments," and No. 36, "Disclosure and Presentation of Financial Instruments".

Diwan, Ernst & Young
Taipei, Taiwan
Republic of China
April 19, 2006

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Unaudited balance sheets

As of March 31, 2005 and 2006

(Expressed in thousands of dollars)

		March 31,2005		March 31,2006	
Assets	Notes	NT$	US$	NT$	US$
Current assets					
Cash and cash equivalents	2,4	$196,294,686	$6,239,500	$304,019,420	$9,377,527
Net income for the periods	2,5	145,728,180	4,632,174	126,252,419	3,894,276
Available-for-sale financial assets - current	2,6	95,875,277	3,047,529	77,381,233	2,386,836
Held-to-maturity financial assets - current		686,390	21,818	2,115,025	65,238
Derivative financial assets for hedging - current	2,7	-	-	474,155	14,625
Notes receivable		8,686,030	276,098	8,726,159	269,160
Reinsurance accounts receivable		10,781	343	-	-
Other accounts receivable		12,283,168	390,438	31,881,614	983,393
Other financial assets-current		10,000,000	317,864	9,000,000	277,607
Prepayments		70,454	2,239	67,960	2,096
Deferred income tax assets - current	2,20	-	-	2,828,691	87,251
Other current assets		7,772,783	247,069	6,811,070	210,089
Subtotal		477,407,749	15,175,072	569,557,746	17,568,098
Loans	2,8				
Policy loans		167,411,734	5,321,416	167,779,740	5,175,193
Secured loans		279,830,850	8,894,814	276,764,349	8,536,840
Subtotal		447,242,584	14,216,230	444,544,089	13,712,033
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9	119,884,080	3,810,683	130,146,321	4,014,384
Held-to-maturity financial assets - noncurrent	2,10	388,285,492	12,342,196	505,062,806	15,578,742
Financial assets carried at cost - noncurrent		20,995,331	667,366	20,760,193	640,351
Investments in debt securities with no active market - noncurrent		38,544,799	1,225,200	45,039,171	1,389,240
Long-term investments in stocks under the equity method	2,11	3,568,139	113,418	4,239,990	130,783
Investments in real estate	2,12	101,236,045	3,217,929	105,332,668	3,249,003
Subtotal		672,513,886	21,376,792	810,581,149	25,002,503
Property and equipment	2,13				
Land		5,054,120	160,652	4,751,378	146,557
Buildings and construction		11,281,284	358,591	10,028,870	309,342
Computer equipment		1,380,348	43,876	1,542,161	47,568
Communication and transportation equipment		79,338	2,522	43,956	1,356
Other equipment		3,136,651	99,703	3,257,728	100,485
Revaluation increments		2,212	70	1,615	50
Less: Accumulated depreciation		(6,104,683)	(194,046)	(6,285,236)	(193,869)
Less: Accumulated impairment		(85,519)	(2,718)	(85,519)	(2,638)
Construction in progress and prepayment for equipment		46,770	1,487	6,373	197
Subtotal		14,790,521	470,137	13,261,326	409,048
Intangible assets					
Computer software cost		89,200	2,835	246,461	7,602
Subtotal		89,200	2,835	246,461	7,602
Other assets					
Guarantee deposits paid		8,371,499	266,100	8,207,978	253,176
Other overdue receivables	2,14	986,664	31,363	38,421	1,185
Deferred income tax assets- non current	2,20	448,220	14,247	463,689	14,303
Separate account products assets		43,676,385	1,388,315	108,960,890	3,360,916
Other assets-other		768,320	24,422	1,852,038	57,126
Subtotal		54,251,088	1,724,447	119,523,016	3,686,706
Total assets		$1,666,295,028	$52,965,513	$1,957,713,787	$60,385,990

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT$31.46 and NT$32.42 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.

Unaudited balance sheets - (continued)

As of March 31, 2005 and 2006

(Expressed in thousands of dollars)

		March 31,2005		March 31,2006	
Liabilities & stockholders' equity	Notes	NT$	US$	NT$	US$
Current liabilities					
Financial liabilities at fair value through profit and loss - curren	2,15	$12,638	$402	$12,127,807	$374,084
Derivative financial liabilities for hedging - current	2,16	-	-	15,188	468
Notes payable		1,427	45	19,811	611
Commissions payable		1,148,208	36,497	1,231,373	37,982
Life insurance proceeds payable		2,513	80	3,412	105
Reinsurance accounts payable		263,127	8,364	241,480	7,449
Other payable		4,482,589	142,485	22,138,647	682,870
Accounts collected in advance		205,738	6,540	145,303	4,482
Deferred income tax liabilities - current	2,20	164,896	5,242	-	-
Subtotal		6,281,136	199,655	35,923,021	1,108,051
Long-term liabilities					
Reserve for land revaluation increment tax		3,726	118	3,581	111
Accrued pension liability		1,495,732	47,544	1,641,598	50,635
Subtotal		1,499,458	47,662	1,645,179	50,746
Reserve for operations and liabilities					
Unearned premium reserve		9,180,780	291,824	10,182,853	314,092
		1,493,265,420	47,465,525	1,658,738,661	51,164,055
		16,467,712	523,450	17,237,949	531,707
		335,652	10,669	1,222,531	37,709
		1,519,249,564	48,291,468	1,687,381,994	52,047,563
		1,633,451	51,921	1,572,014	48,489
Other miscellaneous liabilities		2,010,952	63,921	10,950,081	337,757
Separate account products liabilities		43,676,385	1,388,315	108,960,890	3,360,916
Subtotal		47,320,788	1,504,157	121,482,985	3,747,162
Total liabilities		1,574,350,946	50,042,942	1,846,433,179	56,953,522
Stockholders' equity					
Capital stock	2,17				
Common stock		50,686,158	1,611,130	50,686,158	1,563,423
Capital surplus		13,153	418	12,065	372
Retained earnings	2,18				
Legal reserve		16,330,948	519,102	17,891,897	551,878
Special reserve		8,016,080	254,802	11,082,320	341,836
Unappropriated retained earnings		17,039,811	541,634	24,446,563	754,058
Equity adjustment					
Unrealized (losses) gains on financial instruments		(30,406)	(966)	7,173,779	221,276
Cumulative conversion adjustments		(111,662)	(3,549)	(12,174)	(375)
Total stockholders' equity		91,944,082	2,922,571	111,280,608	3,432,468
Total liabilities and stockholders' equity		$1,666,295,028	$52,965,513	$1,957,713,787	$60,385,990

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT$31.46 and NT$32.42 to US$1.00)

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English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Unaudited statements of income

For the three months ended March 31, 2005 and 2006

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

Item	Notes	January 1-March 31,2005		January 1-March 31,2006	
		NT$	US$	NT$	US$
Operating revenues	2				
Premiums income		$60,880,626	$1,935,176	$61,662,768	$1,901,998
Reinsurance commission earned		10,350	329	10,042	310
Claims recovered from reinsures		38,609	1,227	66,668	2,056
Recovered premiums reserve		22,915,247	728,393	24,856,869	766,714
Recovered special reserve		426,257	13,549	362,504	11,182
Recovered claims reserve		12,382	394	-	-
Handling fees earned		359,438	11,425	204,124	6,296
Interest income		12,877,443	409,327	14,833,458	457,540
Gains on long-term equity investments		23,407	744	110,998	3,424
Gains on disposal of investments		1,948,158	61,925	14,246,909	439,448
Gains on investments-real estate		1,340,160	42,599	2,524,301	77,863
Separate account products revenues	2	9,219,656	293,060	20,493,919	632,138
Subtotal		110,051,733	3,498,148	139,372,560	4,298,969
Operating costs	2				
Reinsurance premiums ceded		(157,654)	(5,011)	(164,556)	(5,076)
Brokerage expenses		(6,057,883)	(192,558)	(6,548,469)	(201,988)
Commissions expenses		(128,669)	(4,090)	(63,534)	(1,960)
Insurance claims payment		(30,037,435)	(954,782)	(32,581,556)	(1,004,983)
Provision for premiums reserve		(59,172,576)	(1,880,883)	(61,268,197)	(1,889,827)
Provision for special reserve		(161,850)	(5,144)	(156,167)	(4,817)
Contribution to the stabilization funds		(60,871)	(1,935)	(61,600)	(1,900)
Provision for claims reserve		-	-	(788,895)	(24,334)
Handling fees paid		(152,208)	(4,838)	(275,076)	(8,485)
Interest expenses		(17,579)	(559)	(9,622)	(297)
Losses from valuation on financial assets	2	-	-	(5,075,132)	(156,543)
Losses from valuation on financial liabilities	2	-	-	(1,789,838)	(55,208)
Losses on foreign exchange		(1,118,721)	(35,560)	(5,243,707)	(161,743)
Separate account products expenses	2	(9,219,656)	(293,060)	(20,493,919)	(632,138)
Other operating cost		(7,740)	(246)	(2,599)	(80)
Subtotal		(106,292,842)	(3,378,666)	(134,522,867)	(4,149,379)
Operating gross profit		3,758,891	119,482	4,849,693	149,590
Operating expenses	2				
Marketing expenses		(432,841)	(13,758)	(572,892)	(17,671)
Administrative and general expenses		(2,420,645)	(76,944)	(2,345,613)	(72,351)
Subtotal		(2,853,486)	(90,702)	(2,918,505)	(90,022)
Operating income		905,405	28,780	1,931,188	59,568
Non-operating revenues & gains					
Gains on disposal of property and equipment		5,586	177	1,230	38
Other Non-operating revenues & gains		345,335	10,977	331,139	10,214
Subtotal		350,921	11,154	332,369	10,252
Non-operating expenses & losses					
Losses on disposal of property and equipment		(1,158)	(37)	(174)	(5)
Impairment loss		(297,148)	(9,445)	-	-
Miscellaneous expenses		(1,075)	(34)	(8,900)	(275)
Subtotal		(299,381)	(9,516)	(9,074)	(280)
Income from continuing operations before income taxes		956,945	30,418	2,254,483	69,540
Income taxes benefit	2,20	473,378	15,047	953,569	29,413
Income from continuing operations after income taxes		1,430,323	45,465	3,208,052	98,953
Cumulative effect of changes in accounting principles	3	-	-	3,315,855	102,278
Net income		$1,430,323	$45,465	$6,523,907	$201,231
Earnings per share (In dollars)	2,21				
Net income from continuing operations		$0.28	$0.01	$0.63	$0.02
Cumulative effect of changes in accounting principles		-	-	0.66	0.02
Net income		$0.28	$0.01	$1.29	$0.04

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT$31.46 and NT$32.42 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.
Unaudited statements of changes in stockholders' equity
(Expressed in thousands of dollars)
For the three months ended March 31, 2005 and 2006

					Retained earnings						Equity adjustments					
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gain or loss of financial assets		Cumulative conversion adjustments		Total	
Summary	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2005	$50,686,158	$1,611,130	$12,591	$400	$16,330,948	$519,102	$8,016,080	$254,802	$15,609,488	$496,169	$-	$-	$(83,445)	$(2,652)	$90,571,820	$2,878,951
Net income for the periods	-	-	562	18	-	-	-	-	-	-	-	-	-	-	562	18
Unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(30,406)	(966)	-	-	(30,406)	(966)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(28,217)	(897)	(28,217)	(897)
Net income after tax for the three months ended March 31, 2005	-	-	-	-	-	-	-	-	1,430,323	45,465	-	-	-	-	1,430,323	45,465
Balance on March 31, 2005	$50,686,158	$1,611,130	$13,153	$418	$16,330,948	$519,102	$8,016,080	$254,802	$17,039,811	$541,634	$(30,406)	$(966)	$(111,662)	$(3,549)	$91,944,082	$2,922,571
Balance on January 1, 2006	$50,686,158	$1,563,423	$13,153	$406	$17,891,897	$551,878	$11,082,320	$341,836	$17,922,656	$552,827	$-	$-	$(4,119)	$(127)	$97,592,065	$3,010,243
Land revaluation increments	-	-	(1,088)	(34)	-	-	-	-	-	-	-	-	-	-	(1,088)	(34)
Unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	7,173,779	221,276	-	-	7,173,779	221,276
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	(8,055)	(248)	(8,055)	(248)
Net income after tax for the three months ended March 31, 2006	-	-	-	-	-	-	-	-	6,523,907	201,231	-	-	-	-	6,523,907	201,231
Balance on March 31, 2006	$50,686,158	$1,563,423	$12,065	$372	$17,891,897	$551,878	$11,082,320	$341,836	$24,446,563	$754,058	$7,173,779	$221,276	$(12,174)	$(375)	$111,280,608	$3,432,468

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT$31.46 and NT$32.42 to US$1.00)

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

Cathay Life Insurance Co., Ltd.
Unaudited statements of cash flows
(Expressed in thousands of dollars)
For the three months ended March 31, 2005 and 2006

	January 1-March 31,2005		January 1-March 31,2006	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Net income for the periods	$1,430,323	$45,465	$6,523,907	$201,231
Adjustments:				
Recovered bad debt	(102,419)	(3,256)	(40,899)	(1,262)
Depreciation	538,710	17,124	667,606	20,592
Amortization	5,456	173	18,374	567
Impairment loss	297,148	9,445	-	-
Provision or recovered for each reserve	35,980,540	1,143,692	36,993,885	1,141,082
Gain on disposal of disposal long-term investments in stock	-	-	(3,707)	(114)
Gain on disposal of property and equipment	(4,428)	(141)	(1,057)	(33)
Gain on disposal of real estate	(2,719)	(86)	(1,117,240)	(34,461)
Unrealized gain on long-term investments	(23,407)	(744)	(110,998)	(3,424)
Effects of exchange rate changes	4,015	128	(4,022)	(124)
Cumulative effect of changes in accounting principles	-	-	(3,315,855)	(102,278)
Increase in financial assets at fair value through profit and loss - current	(661,974)	(21,042)	(3,407,674)	(105,110)
(Increase) decrease in available-for-sale financial assets - current	(21,259,920)	(675,776)	46,014,005	1,419,309
Decrease in held-to-maturity financial assets - current	5,123,833	162,868	2,870,914	88,554
Increase in derivative financial assets for hedging - current	-	-	(14,194)	(438)
Decrease in notes receivable	3,674,629	116,803	5,288,473	163,124
Increase in reinsurance accounts receivable	(10,781)	(343)	-	-
Decrease (increase) in other accounts receivable	2,131,085	67,740	(14,890,799)	(459,309)
Increase in other financial assets-current	(10,000,000)	(317,864)	(3,000,000)	(92,535)
Increase in prepayments	(50,981)	(1,620)	(22,359)	(690)
Increase in deferred income tax assets - current	-	-	(2,828,691)	(87,251)
Increase in other current assets	(2,844,975)	(90,432)	(3,323,578)	(102,516)
Increase in deferred income tax assets- non current	(91,293)	(2,902)	(3,570)	(110)
Decrease (increase) in other assets-other	335,954	10,679	(400,845)	(12,364)
(Decrease) increase in financial liabilities at fair value through profit and loss - current	(145,324)	(4,619)	7,991,246	246,491
Increase in derivative financial liabilities for hedging - current	-	-	15,188	468
(Decrease) increase in notes payable	(521)	(17)	18,160	560
Increase (decrease) in commissions payable	54,984	1,748	(156,167)	(4,817)
Increase (decrease) in life insurance proceeds payable	471	15	(597)	(18)
Increase in reinsurance accounts payable	93,296	2,966	49,690	1,533
(Decrease) increase in other payable	(1,698,650)	(53,994)	16,698,037	515,054
Decrease in deferred income tax liabilities - current	(277,904)	(8,834)	(396,408)	(12,227)
Increase (decrease) in accounts collected in advance	63,078	2,005	(337,682)	(10,416)
Decrease in reserve for land revaluation increment tax	-	-	(145)	(5)
Increase in accrued pension liability	68,022	2,162	14,279	440
Decrease in other miscellaneous liabilities	(199,505)	(6,342)	(372,790)	(11,499)
Net cash provided by operating activities	12,426,743	395,001	89,414,487	2,758,004
Cash flows from investing activities				
Decrease (increase) in policy loans	1,918,334	60,977	(1,285,550)	(39,653)
Decrease (increase) in secured loans	2,524,146	80,233	(88,184)	(2,720)
Decrease (increase) in available-for-sale financial assets - noncurrent	21,540,684	684,701	(17,695,658)	(545,825)
Increase in held-to-maturity financial assets - noncurrent	(66,968,112)	(2,128,675)	(50,898,063)	(1,569,959)
Increase in financial assets carried at cost - noncurrent	(9,955,739)	(316,457)	(309,346)	(9,542)
(Increase) decrease in investments in debt securities with no active market - noncurrent	(1,948,569)	(61,938)	567,389	17,501
Disposal of Long-term investments held for disposal	-	-	47,411	1,463
Disposal of investments in real estate	4,290	136	1,681,819	51,876
Acquisition of investments in real estate	(422,096)	(13,417)	(4,234,647)	(130,618)
Disposal of property and equipment	72,603	2,308	4,645	143
Acquisition of property and equipment	(204,390)	(6,497)	(60,795)	(1,875)
Acquisition of intangible assets	(25,735)	(818)	(86,627)	(2,672)
(Increase) decrease in guarantee deposits paid	(42,513)	(1,351)	14,631	451
Decrease in other overdue receivables	232,855	7,402	3,122	96
Net cash used in investing activities	(53,274,242)	(1,693,396)	(72,339,853)	(2,231,334)

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT$31.46 and NT$32.42 to US$1.00)

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

Cathay life insurance Co., Ltd.
Unaudited statements of cash flows-(continued)
(Expressed in thousands of dollars)
For the three months ended March 31, 2005 and 2006

	January 1-March 31,2005		January 1-March 31,2006	
	NT$	US$	NT$	US$
Cash flows from financing activities				
Decrease in guarantee deposits received	(13,980)	(444)	(71,670)	(2,211)
Net cash used in financing activities	(13,980)	(444)	(71,670)	(2,211)
Effects of exchange rate changes	(4,015)	(128)	4,022	124
(Decrease) increase in cash and cash equivalents	(40,865,494)	(1,298,967)	17,006,986	524,583
	237,160,180	7,538,467	287,012,435	8,852,944
	$196,294,686	$6,239,500	$304,019,421	$9,377,527
	$12,064	$383	$2,277	$70
	$12,064	$383	$2,277	$70
	$255,719	$8,128	$322,689	$9,953

(The exchange rates provided by the Federal Reserve Bank of New York on March 31, 2005 and 2006 were NT$31.46 and NT$32.42 to US$1.00)

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English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.
Notes to unaudited financial statements
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of March 31, 2005 and 2006

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 March 31, 2005 and 2006, the total numbers of employees were 26,370 and 26,562, 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." A summary of significant accounting policies follows:

(1) Current and non-current assets and liabilities

Current assets are assets which can be liquidated or disposed within one year. Assets other than current assets are non-current assets. Current liabilities are liabilities which will be paid-off within one year. Liabilities other than current liabilities are non-current liabilities.

(2) Cash and cash equivalents

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

(3) Financial assets and financial liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No.34 "Accounting for Financial Instruments", "Guidelines Governing the Preparation of Financial Reports by securities Issuers" and "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries". Financial assets are categorized as the "financial assets at fair value through profit and loss", "held-to-maturity financial assets", "Investments in debt securities with no active market" "available-for-sale financial assets", and "derivative financial assets for hedging". Financial liabilities are categorized as the "financial liabilities at fair value through profit and loss" or "derivative financial liabilities for hedging".

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

A. Financial assets at fair value through profit and loss

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

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or not classified in any of the three preceding categories. Gain or losses on available-for-sale financial assets shall be recognized in equity, except for impairment losses and gains or losses on exchange rate of monetary financial assets until the financial assets is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be recognized in profits and losses.

E. Derivative financial assets for hedging

Derivative financial assets that have been designated in hedge accounting and are effective hedging instruments shall be measured at fair value.

The fair value of a listed stock or a depositary receipt is the closing price as of the balance sheet date. The fair value of an open-end fund is the net asset value of the fund as of the balance sheet date.

Financial liabilities are subsequently measured at fair value.

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

(6) Derivative financial instruments

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

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

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

A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability;

B. Cash flow hedges: to hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction; or

C. Hedge of a net investment in a foreign operation: to hedge the exchange rate variability risk for a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents hedge relationship to which the Company wishes to apply hedge accounting, the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges in compliance with hedge accounting requirements are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amounts of the hedged items are adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are recorded in profit or loss.

For fair value hedge relating to item carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment in a foreign operation

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

(7) 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 the past experience of the Company.

(8) Long – term investments under equity method

Long-term investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was amortized over 5 years. However, started from January 1, 2006, such difference is no longer amortized. Newly acquired difference is analyzed and accounted for in conformity with the acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method." Goodwill is no longer amortized.

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

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

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

(9) 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 gains and losses are recorded in operating gains and losses 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").

Real estate investment primarily is for business leasing purposes; rents can be paid annually, semi-annually, quarterly, monthly or in a lump sum.

(10) 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 to offset operating losses and to increase capital.

Major improvements, additions, and renewals are capitalized, while repairs and maintenance are expensed when incurred.

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for 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. Property and equipment that are still in use after their useful lives are depreciated on the residual value and the newly estimated remaining useful lives.

(11) Intangible assets

"Computer software costs" are stated at cost and amortized over 3 years on a straight-line method.

(12) 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 March 31, 2006, an aggregate of NT$2,624,301 (US$80,947) was appropriated to this fund.

(13) Accounting for Assets Impairment

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

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

In addition, a goodwill-allocated CGU or group of CGUs is tested for impairment at the same 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).

(14) 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 is complete and the transferor has transferred his risk and ownership of the real estate property to the transferee, gain on disposal of real estate shall be recognized under "total amount accrual method".

If the promoter and its related parties do not participate in the initial offering but subsequently acquire the REIT beneficiary securities less than 20% of its outstanding shares from the TSE at fair market value within three months after the issue date, the transfer and purchase transaction are deemed two independent transactions due to the subsequent purchase transaction has no significant influence over the transfer transaction. However, if the promoter and its related parties subsequently acquire the REIT beneficiary securities over 20% of its outstanding shares within three months after the issue date, the subsequently acquired portion is not deemed a sale and therefore gain or loss on disposal of real estate for the promoter related to the subsequently acquired portion shall be deferred.

(15) 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".

(16) 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$341,836) from the "Special Reserve for the Loss Movement" as of March 31, 2006.

(17) 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.

(18) Pension plan

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

The Labor Pension Act of 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 adopted the ROC SFAS No. 18, "Accounting for Pensions". An actuarial valuation of pension liability is performed on the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets.

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

(19) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries' financial statements

Financial statements of foreign subsidiaries under the equity method are converted into NT dollars based on follows: all assets and liabilities denominated in foreign currencies are converted into NT dollars at the exchange rate on the balance sheet date. Stockholders' equity items are converted based on the historical rates except for the opening balance of retained earnings, which is posted directly from the year end balance of previous year. Income statement items are converted by the weighted-average exchange rate of the fiscal year. Differences arising from above conversion are reported as "cumulative conversion adjustments" under stockholders' equity.

Before converting into the local currency, the foreign currency financial statements need to be converted into the functional currency if the foreign currency is not the functional currency. This process will have the same result as if the transactions are recorded in the functional currency from the beginning. The foreign exchange gain or loss from the conversion is recognized in the current period due to the impact to the cash flows of the foreign operation.

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

The Company 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.

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

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on it undistributed retained earnings since 2002 under the Integrated Income Tax System. If there is any tax effects due to the adopt foregoing Integrated Income Tax System, parent company can proportionately allocate the effects on tax expense (benefit), deferred income tax and tax payable (tax refund receivable) among the Company and its parent company.

Effective from January 1, 2006, the Company adopted "Income Basic Tax Act" to estimate income basic tax.

(21) 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 as incurred.

(22) Separate account products

The Company sells Separate account 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 "Accounting standards in separate account". The above accounts are recorded under the line items of "Separate account products assets", "Separate account products liabilities", "Separate account products revenues", and "Separate account products expenses".

(23) Significant accounting policies used in 2005

A. 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. Market price is the weighted-average closing price of the month before the balance sheet date.

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 gains or losses 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.

B. 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 have significant operational influence.

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

(B) Long-term investments in bonds

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

C 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.

(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 rates 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.

(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.

(24) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of March 31, 2005 and 2006 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$31.46 and NT$32.42 provided by Federal Reserve Bank of New York of March 31, 2005 and 2006 are used for the conversion.

3. Changes in accounting and its effects

The Company adopted the ROC Statements of Financial Accounting Standards No.34 "Accounting For Financial Instruments" (SFAS No.34) and No.36. "Disclosure and Presentation of Financial Instruments" (SFAS No.36) beginning on and after January 1, 2006 (the "effective date").

The above change in accounting principles increased the Company's current assets, current liability, funds and investments and stockholders' equity by NT$5,377,249 (US$165,862), NT$2,061,394 (US$63,584), NT$9,914,421 (US$305,812) and NT$9,914,421 (US$305,812) as of January 1, 2006, respectively. It also increased the company's net income and earnings per share by NT$3,315,855 (US$102,278) and NT$0.66 (US$0.02), respectively, for the three months ended March 31, 2006.

The Company adopted the R.O.C. Statement of Financial Accounting Standards No.5, "Accounting for long-term investments in stocks under the equity method" ("SFAS No.5 (r5)") and No.25, "Business Combinations-Accounting Treatment under Purchase Method" to account for the difference between the acquisitions cost and the Company's share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the "effective date"). Goodwill is not amortized. Such change in accounting principles decreased the Company's long-term equity investments by NT$1,401(US $ 43) as of March 31, 2006, and decreased the Company's net income by NT$1,401(US $ 43) for the three months ended March 31, 2006. The Company considers the effect insignificant.

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

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$211,629 (US$6,727) and NT85,519 (US$2,718) as of March 31, 2005, respectively, and decreased the Company's net income by NT$297,148 (US$9,445) for the three months ended March 31, 2005. The Company considers the effect insignificant.

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 decreased the Company's long-term investment account by NT$36,467 (US$1,159) as of March 31,2005, and net income decreased by NT$1,401(US$45) for the three months ended March 31, 2005, respectively. The Company considers such an effect was insignificance.

4. Cash and cash equivalents

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Cash on hand	$390,540	$12,414	$279,914	$8,634
Cash in banks	6,546,186	208,079	7,489,609	231,018
Time deposits	133,103,398	4,230,877	216,487,822	6,677,601
Cash equivalents	56,254,562	1,788,130	79,762,075	2,460,274
Total	$196,294,686	$6,239,500	$304,019,420	$9,377,527

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

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

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Common stock	$26,040,338	$827,729	$20,095,032	$619,834
Overseas stocks	2,652,971	84,328	1,895,434	58,465
Beneficiary certificates	38,132,839	1,212,105	61,422,792	1,894,596
Exchange traded funds	1,922,965	61,124	589,470	18,182
Overseas bonds	42,201,703	1,341,440	13,040,849	402,247
Corporate bonds	587,137	18,663	1,497,689	46,196
Government bonds	20,896,849	664,236	21,919,845	676,121
Financial debentures	-	-	525,935	16,223
Derivative financial instruments	13,293,378	422,549	10,340,505	318,955
Sub-total	145,728,180	4,632,174	131,327,551	4,050,819
Less: Adjustment of valuation	-	-	(5,075,132)	(156,543)
Total	$145,728,180	$4,632,174	$126,252,419	$3,894,276

6. Available-for-sale financial assets-current

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Common stock	$66,317,080	$2,107,981	$61,425,434	$1,894,677
Overseas stocks	29,558,197	939,548	4,957,648	152,919
Beneficiary certificates	-	-	1,460,700	45,056
Real estate investment trust	-	-	3,292,777	101,566
Sub - total	95,875,277	3,047,529	71,136,559	2,194,218
Add: Adjustment of valuation	-	-	6,244,674	192,618
Total	$95,875,277	$3,047,529	$77,381,233	$2,386,836

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

7. Derivative financial assets for hedging-current

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$14,194	$438
Add: Adjustment of valuation	-	-	459,961	14,187
Total	$-	$-	$474,155	$14,625

8. 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.

(2) Secured loans

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Secured loans	$280,978,723	$8,931,301	$276,675,461	$8,534,098
Less: Allowance for bad debts	(1,832,614)	(58,252)	(314,870)	(9,712)
Sub-total	279,146,109	8,873,049	276,360,591	8,524,386
Overdue receivables	1,369,482	43,531	1,345,860	41,513
Less: Allowance for bad debts	(684,741)	(21,766)	(942,102)	(29,059)
Sub-total	684,741	21,765	403,758	12,454
Total	$279,830,850	$8,894,814	$276,764,349	$8,536,840

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

Secured loans are secured by government bonds, stocks, corporate bonds and real estate.

9. Available-for-sale financial assets-noncurrent

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Corporate bonds	$8,904,177	$283,032	$13,336,558	$411,368
Government bonds	16,136,532	512,922	15,864,339	489,338
Financial debentures	13,560,462	431,038	25,537,937	787,722
Collateralized loans obligation	-	-	1,031,232	31,808
Overseas bonds	81,262,909	2,583,055	74,160,220	2,287,484
Real estate asset trusts	20,000	636	-	-
Sub-total	119,884,080	3,810,683	129,930,286	4,007,720
Add: Adjustment of valuation	-	-	216,035	6,664
Total	$119,884,080	$3,810,683	$130,146,321	$4,014,384

10.Held-to-maturity financial assets-noncurrent

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Corporate bonds	$9,534,528	$303,068	$8,059,792	$248,606
Government bonds	21,417,452	680,784	20,120,229	620,612
Financial debentures	7,934,229	252,200	16,241,819	500,981
Collateralized loans obligation and collateralized bonds obligation	171,875	5,463	2,591,830	79,945
Overseas bonds	357,317,133	11,357,824	466,082,515	14,376,389
Sub-total	396,375,217	12,599,339	513,096,185	15,826,533
Less: securities serving as deposits paid – bonds	(8,089,725)	(257,143)	(8,033,379)	(247,791)
Total	$388,285,492	$12,342,196	$505,062,806	$15,578,742

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

One of the financial assets investment global structured notes, amounted to NT$50,758,452 (US$1,613,428) and NT$75,972,463 (US$2,343,383) as of March 31, 2005 and 2006, respectively. The details of global structured notes are listed below:

Item	March 31, Cost		Adjustment of valuation		Book value	
	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit and loss-current	$1,330,204	$41,031	$(124,881)	$(3,852)	$1,205,323	$37,179
Available-for-sale financial assets-noncurrent	6,639,781	204,805	10,622	328	6,650,403	205,133
Held-to-maturity financial assets-noncurrent	67,301,013	2,075,910	-	-	67,301,013	2,075,910
Investments in debt securities with no active market-noncurrent	815,724	25,161	-	-	815,724	25,161
Total	$76,086,722	$2,346,907	$(114,259)	$(3,524)	$75,972,463	$2,343,383

11.Long-term investments under equity method

(1) Long -term investments under equity method

	March 31, 2005		2006	
	NT$	US$	NT$	US$
Investee	Book value	Book value	Book value	Book value
WK Technology Fund VI Co., Ltd.	$362,179	$11,512	$399,652	$12,327
Vista Technology Venture Capital Corp.	39,892	1,268	39,725	1,225
Omnitek Venture Capital Corp.	152,726	4,855	364,481	11,243
Wa Tech Venture Capital Co., Ltd.	168,819	5,366	177,416	5,473
IBT Venture Capital Corp.	499,458	15,876	656,706	20,256

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

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Investee	Book value	Book value	Book value	Book value
Cathay Insurance (Bermuda) Co., Ltd.	59,253	1,883	67,679	2,088
Symphox Information Co., Ltd.	267,739	8,510	258,981	7,988
Cathay Securities Investment Trust Co., Ltd.	232,213	7,381	243,258	7,503
Cathay Venture Capital Corp.	223,005	7,089	418,162	12,898
Lin Yuan Property Management Co., Ltd.	41,276	1,312	-	-
Cathay Securities Investment Co., Ltd.	28,014	891	97,964	3,022
Cathay Life Insurance Ltd. (Shanghai)	1,493,565	47,475	1,515,966	46,760
Total	$3,568,139	$113,418	$4,239,990	$130,783

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

	For the three months ended March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Balance as of January 1	$3,602,793	$114,519	$3,883,938	$119,800
Add: Gain on investments under equity method	23,407	744	110,998	3,424
Capital surplus- long-term equity investment	562	18	-	-
Unrealized gain or loss on financial instruments- long-term equity investment	(30,406)	(966)	253,109	7,807
Cumulative conversion adjustments	(28,217)	(897)	(8,055)	(248)
Balance as of March 31	$3,568,139	$113,418	$4,239,990	$130,783

Cathay Life Insurance Co., Ltd.
Notes to unaudited financial statements – continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of March 31, 2005 and 2006

(3) The recognized equity investment gains (losses) for the three months ended March 31, 2005 and 2006 are listed below:

	For the three months ended March 31,			
	2005		2006	
Investee	NT$	US$	NT$	US$
WK Technology Fund Ⅵ Co., Ltd.	$2,590	$82	$510	$16
Vista Technology Venture Capital Corp.	(9,579)	(304)	(42)	(1)
Omnitek Venture Capital Corp.	644	20	22,985	709
Wa Tech Venture Capital Co., Ltd.	(10,076)	(320)	22,125	682
IBT Venture Capital Corp	15,020	478	46,131	1,423
Cathay Insurance (Bermuda) Co., Ltd.	341	11	972	30
Symphox Information Co., Ltd.	1,918	61	(8,089)	(250)
Cathay Securities Investment Trust Co., Ltd.	9,471	301	10,908	337
Cathay Venture Capital Corp.	14,665	466	24,147	745
Lin Yuan Property Management Co., Ltd.	7,153	227	-	-
Cathay Securities Investment Co., Ltd.	2,352	75	4,228	130
Cathay Life Insurance Ltd. (Shanghai)	(11,092)	(353)	(12,877)	(397)
Total	$23,407	$744	$110,998	$3,424

A. The equity investment gains (losses) were recognized based on their respective reviewed financial statements for the three months ended March 31, 2006, except for WK Technology Fund VI Co., Ltd. and Wa Tech Venture Capital Co., Ltd were recognized based on the unreviewed financial statement. The financial statements of Omnitek Venture Capital Corp., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the three months ended March 31, 2006, were reviewed by other auditors with unqualified review report except for Cathay Securities Investment Trust Co., Ltd., which had an explanatory paragraph within the unqualified review report.

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

B. In the first quarter of 2005, due to the amendment of SFAS No. 5 (r3) as discussed in the Note 3, the Company recognized the 2004 investment income in 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. based on the 2004 audited financial statements of the respective investees. However, according to SFAS No. 23, "Interim Financial Reporting and Disclosures", the equity method was not required for the financial statements of the above investees for the first quarter in 2005.

The investment gains (losses) recognized in the first quarter of 2005 for Symphox Information Co., Ltd., Lin Yuan Property Management Co., Ltd., Cathay Venture Capital Corp and Cathay Life Insurance Ltd. (Shanghai) were recognized based on the investees' respective reviewed financial statements for the three months ended March 31, 2005.

The investment gains (losses) recognized in the first quarter of 2005 for Cathay Insurance (Bermuda) Co., Ltd. Cathay Securities Investment Co., Ltd. and Cathay Securities Investment Trust Co., Ltd. were recognized based on the investees' respective unreviewed financial statements for the three months ended March 31, 2005.

12. Investments in real estate

	March 31,2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Investments in real estate	$113,060,197	$3,593,776	$4,563	$145	$(13,478,704)	$(428,439)	$(211,629)	$(6,727)	$99,374,427	3,158,755
Construction	1,861,618	59,174	-	-	-	-	-	-	1,861,618	59,174
Total	$114,921,815	$3,652,950	$4,563	$145	$(13,478,704)	$(428,439)	$(211,629)	$(6,727)	$101,236,045	$3,217,929

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

	March 31,2006									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Investments in real estate	$117,088,135	$3,611,602	$4,072	$126	$(13,466,772)	$(415,385)	$(196,952)	$(6,075)	$103,428,483	$3,190,268
Construction	1,904,185	58,735	-	-	-	-	-	-	1,904,185	58,735
Total	$118,992,320	$3,670,337	$4,072	$126	$(13,466,772)	$(415,385)	$(196,952)	$(6,075)	$105,332,668	$3,249,003

(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.

(3) No investments in real estate were pledged as collateral.

(4) The Company has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Zhong Hwa Building in 2005. The accounting treatment of these transactions is conformed to the regulations 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 estates under “total amount accrual method” was NT$8,627,731 (US$266,124).

After the REIT was 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 March 31, 2006, the amount of deferred gain on disposal of real estate was NT$1,773,919 (US$54,717).

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

13. Property and equipment

	March 31, 2005									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$5,054,120	$160,652	$2,212	$70	$-	$-	$(51,331)	$(1,632)	$5,005,001	$159,090
Buildings and construction	11,281,284	358,591	-	-	(3,299,340)	(104,874)	(34,188)	(1,086)	7,947,756	252,631
Communication and transportation equipment	79,338	2,522	-	-	(44,912)	(1,428)	-	-	34,426	1,094
Computer equipment	1,380,348	43,876	-	-	(986,048)	(31,343)	-	-	394,300	12,533
Other equipment	3,136,651	99,703	-	-	(1,774,383)	(56,401)	-	-	1,362,268	43,302
Sub-total	20,931,741	665,344	2,212	70	(6,104,683)	(194,046)	(85,519)	(2,718)	14,743,751	468,650
Construction in progress	46,770	1,487	-	-	-	-	-	-	46,770	1,487
Total	$20,978,511	$666,831	$2,212	$70	$(6,104,683)	$(194,046)	$(85,519)	$(2,718)	$14,790,521	$470,137

	March 31,2006									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$4,751,378	$146,557	$1,615	$50	$-	$-	$(51,331)	$(1,583)	$4,701,662	$145,024
Buildings and construction	10,028,870	309,342	-	-	(3,138,569)	(96,809)	(34,188)	(1,055)	6,856,113	211,478
Communication and transportation equipment	43,956	1,356	-	-	(27,094)	(836)	-	-	16,862	520
Computer equipment	1,542,161	47,568	-	-	(1,090,864)	(33,648)	-	-	451,297	13,920
Other equipment	3,257,728	100,485	-	-	(2,028,709)	(62,576)	-	-	1,229,019	37,909
Sub-total	19,624,093	605,308	1,615	50	(6,285,236)	(193,869)	(85,519)	(2,638)	13,254,953	408,851
Construction in progress	6,373	197	-	-	-	-	-	-	6,373	197
Total	$19,630,466	$605,505	$1,615	$50	$(6,285,236)	$(193,869)	$(85,519)	$(2,638)	$13,261,326	$409,048

No properties or equipments and equipment were pledged as collaterals.

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

14. Other overdue receivables

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Overdue receivables	$1,030,267	$32,749	$66,645	$2,056
Allowance for bad and doubtful debts	(43,603)	(1,386)	(28,224)	(871)
Total	$986,664	$31,363	$38,421	$1,185

15. Financial liabilities at fair value through profit and loss-current

	March 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$12,638	$402	$10,337,969	$318,876
Add: Adjustment of valuation	-	-	1,789,838	55,208
Total	$12,638	$402	$12,127,807	$374,084

16. Derivative financial liabilities for hedging-current

	March 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$15,188	$468
Add: Adjustment of valuation	-	-	-	-
Total	$-	$-	$15,188	$468

17. Capital stock

As of March 31, 2005 and 2006, the total authorized shares were 5,068,616 thousand with par value of NT$10 each.

18. 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 shares capital, up to 50% of such excess may be capitalized if authorized 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. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments expect for the legal reserve since 2007.

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

19.Personnel、depreciation、depletion and amortizations

Item	For the three months ended March 31,2005 NT$			For the three months ended March 31,2005 US$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
Personnel expenses						
Salary and wages	$5,458,178	$1,102,252	$6,560,430	$173,496	$35,036	$208,532
Labor & health insurance expenses	255,557	39,591	295,148	8,123	1,259	9,382
Pension expenses	119,285	18,480	137,765	3,792	587	4,379
Other expenses	205,313	36,924	242,237	6,526	1,174	7,700
Depreciation	-	538,710	538,710	-	17,124	17,124
Depletion	-	-	-	-	-	-
Amortizations	-	5,456	5,456	-	173	173

Item	For the three months ended March 31,2006 NT$			For the three months ended March 31,2006 US$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$5,897,274	$985,740	$6,883,014	$181,903	$30,405	$212,308
Labor & health insurance expenses	264,660	41,001	305,661	8,163	1,265	9,428
Pension expenses	154,398	23,919	178,317	4,762	738	5,500
Other expenses	205,234	36,722	241,956	6,330	1,133	7,463
Depreciation	-	667,606	667,606	-	20,592	20,592
Depletion	-	-	-	-	-	-
Amortizations	-	18,374	18,374	-	567	567

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

20.Estimated income taxes

(1) Income tax expenses include the following:

	For the three months ended March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Income before taxes	$956,945	$30,418	$2,254,483	$69,540
Adjustments				
Interest income of tax on a separate basis	(522,485)	(16,608)	(979,930)	(30,226)
Gain on disposal of securities and futures	(2,712,810)	(86,230)	(5,162,770)	(159,246)
Losses from valuation of financial assets and liabilities	-	-	6,864,970	211,751
Gains on disposal of lands	(2,681)	(85)	(1,142,328)	(35,235)
Unrealized exchange losses	1,114,706	35,432	5,247,729	161,867
Impairment loss	297,149	9,445	-	-
Cash dividend	(5,888)	(187)	(3,300)	(102)
Pension expense not actually contributed	68,022	2,162	14,279	440
Gains on investments under equity method	(23,407)	(744)	(110,998)	(3,424)
Others	(1,192)	(38)	108	3
Taxable income	(831,641)	(26,435)	6,982,243	215,368
Multiply by: tax rates	25%	25%	25%	25%
Add: extra 10% income tax on undistributed retained earnings	-	-	-	-
Less: tax effects under integrated income tax systems	-	-	-	-
Sub-total	-	-	1,745,561	53,842
Add: Separation taxes	103,728	3,297	192,425	5,936
Additional taxes assessed by the tax authority	-	-	901	28
Beginning deferred income tax assets	364,579	11,589	465,526	14,359
Ending deferred income tax liabilities	171,775	5,460	-	-
Allocation of the cumulative effect of changes in accounting principles	-	-	338,668	10,446
Less: Income tax credit	(207,910)	(6,609)	(2,455)	(76)
Beginning deferred income tax liabilities	(450,452)	(14,318)	(401,815)	(12,394)
Ending deferred income tax assets	(455,098)	(14,466)	(3,292,380)	(101,554)
Total income taxes benefit	$(473,378)	$(15,047)	$(953,569)	$(29,413)

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

(2) The Company's income tax returns have been assessed by the Tax Authorities up to fiscal 2001.

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

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Total deferred tax liabilities	$171,775	$5,460	$-	$-
Total deferred tax assets	$455,098	$14,466	$3,292,380	$101,554
Temporary differences:				
Employee benefits	$9,438	$300	$-	$-
Pension expense	1,495,732	47,544	1,641,597	50,635
Unrealized exchange gains	(687,100)	(21,840)	3,640,471	112,291
Losses from valuation on financial assets and liabilities	-	-	6,297,991	194,263
Impairment loss	297,149	9,445	157,012	4,843
Other	11,738	373	77,775	2,399
Total	$1,126,957	$35,822	$11,814,846	$364,431
Income tax credit	$1,584	$50	$-	$-
Allocation of cumulative effect of changes in accounting principles	$-	$-	$338,668	$10,446
Deferred tax assets-current	$6,878	$218	$2,828,691	$87,251
Deferred tax liabilities-current	(171,775)	(5,460)	-	-
Net offset balance of deferred liabilities-current	$(164,897)	$(5,242)	$2,828,691	$87,251
Deferred tax assets-noncurrent	$448,220	$14,247	$463,689	$14,303
Deferred tax liabilities-noncurrent	-	-	-	-
Net balance of deferred tax assets-noncurrent	$448,220	$14,247	$463,689	$14,303

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

(4) Information related to imputation

	March 31,			
	2005		2006	
	NT$	US$	NT$	US$
Balance of imputation credit account	$1,368,980	$43,515	$1,116,423	$34,436

	For the three months ended March 31,	
	2005	2006
Imputation credit account ratio-actual (May 2, 2005)	9.52%	
Imputation credit account ratio-estimate		4.57%

(5) Related information on undistributed earnings

	March 31,			
	2005		2006	
Year	NT$	US$	NT$	US$
After 1998	$15,609,488	$496,169	$17,922,656	$552,827

Undistributed earnings after 1998 did not include the net income from January 1 to March 31, 2005 and 2006.

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

		Amount of deductible income tax		Remaining balance		Expiry
Regulation	Deductible items	NT$	US$	NT$	US$	year
Statute for Upgrading Industries	Education training	$2,455	$76	$-	$-	2010

21. Earnings per share

	For the three months ended March 31, 2005			
	Before income taxes		After income taxes	
	NT$	US$	NT$	US$
Income from continuing operations (a)	$956,945	$30,418	$1,430,323	$45,465
Cumulative effect of changes in accounting principles (a)	-	-	-	-
Net income (a)	$956,945	$30,418	$1,430,323	$45,465

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

	For the three months ended March 31, 2005			
	Before income taxes		After income taxes	
	NT$	US$	NT$	US$
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Income from continuing operations	$0.19	$0.01	$0.28	$0.01
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	$0.19	$0.01	$0.28	$0.01

	For the three months ended March 31, 2006			
	Before income taxes		After income taxes	
	NT$	US$	NT$	US$
Income from continuing operations (a)	$2,254,483	$69,540	$3,208,052	$98,953
Cumulative effect of changes in accounting principles (a)	2,977,187	91,832	3,315,855	102,278
Net income (a)	$5,231,670	$161,372	$6,523,907	$201,231
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Income from continuing operations	$0.44	$0.01	$0.63	$0.02
Cumulative effect of changes in accounting principles	0.59	0.02	0.66	0.02
Net income	$1.03	$0.03	$1.29	$0.04

22. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent 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 Securities Investment Trust Co., Ltd.	An equity method investee
Cathay Venture Capital Corp.	An equity method investee
WK Technology Fund VI Co., Ltd.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee
Omnitek Venture Capital Corp.	An equity method investee
Wa Tech Venture Capital Co., Ltd.	An equity method investee
IBT Venture Capital Corp.	An equity method investee
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Seaward Card Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Taiwan Real Estate Management Co., Ltd.	Affiliate
Cathay property Insurance Agent Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
Pao Shin Securities Co., Ltd.	Affiliate
China England Company Ltd.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate

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

Name	Relationship
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Lucky Bank Taiwan Inc.	Affiliate
Cathay Charity Foundation	Affiliate
Cathay General Hospital	Their chairman is the Company's chairman
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
Taiwan Asset Management Corporation	Their Chairman is Cathay United Bank

(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 three months ended March 31, 2005 and 2006 are listed below:

	For the three months ended March 31, 2005		
Name	Item	NT$	US$
San Ching Engineering Co., Ltd.	Ban Ciao Building	$116,411	$3,700
	Sheraton Taipei Hotel	12,105	385
	Sainyang Building	4,222	134
	Cathay Golden & Silver Bldg	3,791	121
	Tianmu Base-A	1,238	39
	Other	281	9
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	589	19
	Total	$138,637	$4,407

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

	For the three months ended March 31,2006		
Name	Item	NT$	US$
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	$750	$23
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building	1,291	40
	Li-Yuan Building	9,540	294
	Jhong Jheng Building	2,134	66
	International Building	1,077	33
	World cornmercial Building	1,393	43
	Financial Center Hsing-E	1,317	40
	Yuanlin Building	1,554	48
	Changhua 2nd Building	1,431	44
	Central industrial & commercial Building	1,406	43
	Taipei Royalty Building	9,610	296
	Jhong Gang Building	1,584	49
	Cathay Building	4,561	140
	Tun Nan Commercial Building	2,618	83
	Other	4,846	149
	Total	$45,112	$1,391

The total amount of contracted projects for real estate as of March 31, 2005 and 2006 between the Company and San Ching Engineering Co., Ltd. was NT$7,306,738 (US$232,255) and NT$1,405,513 (US$43,353), respectively.

(B) Real estates acquired from related parties for the three months ended March 31, 2005 and 2006 are as follows:

The Company did not acquire any real estates from its related parties for the three months ended March 31, 2005.

		For the three months ended March 31, 2006	
		Contract Price	
Name	Item	NT$	US$
Wan Pao Development Co., Ltd.	No. 65 Simen Rd, Tainan City.	$5,290,000	$163,171
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	$2,470,000	$76,188

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

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

	Rental income			
	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$2,234	$71	$2,271	$70
Cathay Real Estate Development Co., Ltd.	4,072	130	3,929	121
Cathay United Bank	66,227	2,105	61,825	1,907
Cathay Century Insurance Co., Ltd.	13,518	430	13,165	406
Cathay General Hospital	31,622	1,005	36,837	1,136
San Ching Engineering Co., Ltd.	1,893	60	1,864	58
Symphox Information Co., Ltd.	5,983	190	7,380	228
Cathay Securities Investment Trust Co., Ltd.	2,906	92	2,993	92
Taiwan Asset Management Corporation	3,585	114	3,599	111
Cathay Securities Co., Ltd.	3,505	111	3,798	117
Cathay Securities Investment Co., Ltd.	908	29	844	26
Cathay Capital Management Corporation	481	15	496	15
Seaward Leasing Co., Ltd.	332	11	303	10
Total	$137,266	$4,363	$139,304	$4,297

	Guarantee deposits received			
	March 31,2005		March 31,2006	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$4,286	$136	$3,645	$112
Cathay United Bank	73,534	2,337	65,845	2,031
Cathay Century Insurance Co., Ltd.	13,731	437	13,994	432
Cathay General Hospital	2,354	75	6,857	212
San Ching Engineering Co., Ltd.	2,195	70	1,709	53
Symphox Information Co., Ltd.	1,901	60	1,901	59
Cathay Securities Investment Trust Co., Ltd.	2,738	87	2,738	84
Cathay Securities Co., Ltd.	3,647	116	3,647	112
Taiwan Asset Management Corporation	3,477	111	3,477	107
Cathy Securities Investment Co., Ltd.	877	28	877	27
Cathay Capital Management Inc.	479	15	479	15
Seaward Leasing Co., Ltd.	346	11	346	11
Total	$109,565	$3,483	$105,515	$3,255

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

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)：

	Rental expense			
	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$7,397	$235	$7,352	$227
Lin Yuan Investment Co., Ltd.	1,672	53	628	19
Yi Ru Corporation	-	-	1,022	31
Lucky Bank Taiwan Inc.	-	-	862	27
Total	$9,069	$288	$9,864	$304

	Guarantee deposits paid			
	March 31,2005		March 31,2006	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$9,157	$291	$8,926	$275
Yi Ru Corporation	-	-	1,190	37
Lin Yuan Investment Co., Ltd.	1,650	53	601	18
Lucky Bank Taiwan Inc.	-	-	1,292	40
Total	$10,807	$344	$12,009	$370

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

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

B. Cash in banks

Name	Item	For the three months ended March 31,2005 Interest income NT$	Rate	Ending balance NT$
Cathay United	Time deposit	$78,622	0.85%~2.00%	$25,090,650
Bank	Cash in bank	1,315	0.10%	4,698,831
Total		$79,937		$29,789,481

Name	Item	For the three months ended March 31,2005 Interest income US$	Rate	Ending balance US$
Cathay United	Time deposit	$2,499	0.85%~2.00%	$797,541
Bank	Cash in bank	42	0.10%	149,359
Total		$2,541		$946,900

Name	Item	For the three months ended March 31,2006 Interest income NT$	Rate	Ending balance NT$
Cathay United	Time deposit	$3,021	1.05%~1.85%	$1,066,250
Bank	Cash in bank	55,508	0.00%~2.10%	19,982,811
Lucky Bank				
Taiwan Inc.	Cash in bank	-	0.10%	15,085
Total		$58,529		$21,064,146

Name	Item	For the three months ended March 31,2006 Interest income US$	Rate	Ending balance US$
Cathay United	Time deposit	$93	1.05%~1.85%	$32,889
Bank	Cash in bank	1,712	0.01%~2.10%	616,373
Lucky Bank				
Taiwan Inc.	Cash in bank	-	0.10%	465
Total		$1,805		$649,727

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

C. Other financial assets - current

	For the three months ended March 31,2005		
Name	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	$-	0.12%~3.03%	$2,000,000

	For the three months ended March 31,2005		
Name	Interest income US$	Rate	Ending balance US$
Cathay United Bank	$-	0.12%~3.03%	$63,573

	For the three months ended March 31,2006		
Name	Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	$-	1.80%	$1,000,000

	For the three months ended March 31,2006		
Name	Interest income US$	Rate	Ending balance US$
Cathay United Bank	$-	1.80%	$30,845

D. Secured loans

	For the three months ended March 31,2005			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$2,192,411	$14,714	2.60%~2.72%	$2,192,213

	For the three months ended March 31,2005			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$69,689	$468	2.60%~2.72%	$69,683

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

	For the three months ended March 31,2006			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$3,750,544	$26,831	3.03%~3.15%	$3,750,409

	For the three months ended March 31,2006			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$115,686	$828	3.03%~3.15%	$115,682

E. Beneficiary certificates:

	March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$5,166,000	$164,209	$5,915,672	$182,470

F. Accounts receivable – related parties

	March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$65,962	$2,097	$-	$-
Cathay Insurance (Bermuda) Co., Ltd.	7,599	241	8,880	274
Cathay Futures Co., Ltd.	126	4	-	-
Symphox Information Co., Ltd.	505	16	-	-
Cathay General Hospital	29,415	935	29,414	907
Total	$103,607	$3,293	$38,294	$1,181

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

G. Other receivable-tax refund receivable

	March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$769,892	$24,472	$2,171,620	$66,984

H. Guarantee deposits paid

	March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$-	$-	$461,569	$14,237

I. Accounts payable-relateds parties

	March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$2,277	$72	$7,321	$226
Symphox Information Co., Ltd.	37,935	1,206	18,386	567
Lin Yuan Property Management Co., Ltd.	41,866	1,331	55,151	1,701
San Ching Engineering Co., Ltd.	20,513	652	504	15
Cathay Real Estate Development Co., Ltd.	-	-	384	12
Seaward Leasing Co., Ltd.	-	-	453	14
Total	$102,591	$3,261	$82,199	$2,535

J. Other payable-tax refund payable

	March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$-	$-	$1,612,842	$49,748

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

K. Accounts collected in advance

	March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay General Hospital	$446	$14	$428	$13
Cathay Century Insurance Co., Ltd.	2,506	80	2,336	72
Cathay United Bank	-	-	330	10
Total	$2,952	$94	$3,094	$95

L. Prepayment

	March31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$5,401	$172	$4,527	$139
Cathay Life Insurance Agent Co., Ltd.	-	-	15,615	482
Total	$5,401	$172	$20,142	$621

M. Insurance income

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay United Bank	$55,355	$1,760	$73,660	$2,272
Cathay Futures Co., Ltd.	346	11	507	16
Cathay General Hospital	-	-	6,709	207
Cathay Real Estate Development Co., Ltd.	-	-	365	11
San Ching Engineering Co., Ltd.	-	-	300	9
Cathay Century Insurance Co., Ltd.	-	-	1,886	58
Symphox Information Co., Ltd.	227	7	317	10
Total	$55,928	$1,778	$83,744	$2,583

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

N. Insurance expense

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$86,313	$2,744	$79,306	$2,446

O. Indemnity income

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$250	$8	$316	$10

P. Reinsurance income

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$6,144	$195	$36,745	$1,133

Q. Reinsurance claims payment

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$1,892	$60	$26,569	$820

R. Reinsurance commission expense

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$-	$-	$4,535	$140

Cathay Life Insurance Co., Ltd.
Notes to unaudited financial statements – continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of March 31, 2005 and 2006

S. Miscellaneous income

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$128,116	$4,072	$133,844	$4,128
Cathay United Bank	40,554	1,289	34,109	1,052
Symphox Information Co., Ltd.	-	-	717	22
Cathay Securities Investment Trust Co., Ltd.	1,343	43	2,002	62
Total	$170,013	$5,404	$170,672	$5,264

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

T. Commissions expense

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Agent Co., Ltd.	$50,389	$1,602	$27,924	$861

U. Contribution expense

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Charity Foundation	$-	$-	$850	$26

V. Marketing expense

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$52,791	$1,678	$40,509	$1,249
Cathay General Hospital	-	-	605	19
Lucky Bank Taiwan Inc.	-	-	587	18
Total	$52,791	$1,678	$41,701	$1,286

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

W. Administrative and general expense

	For the three months ended March 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Lin Yuan Property Management Co., Ltd.	$206,917	$6,577	$180,595	$5,570
Cathay Securities Investment Co., Ltd.	13,125	417	13,125	405
San Ching Engineering Co., Ltd.	1,440	46	1,008	31
Cathay Real Estate Development Co., Ltd.	1,722	55	1,210	37
Cathay Capital Management Corporation	-	-	9,196	284
Seaward Leasing Co., Ltd.	-	-	1,712	53
Seaward Card Co., Ltd.	-	-	341	11
Total	$223,204	$7,095	$207,187	$6,391

X. Other

As of March 31, 2005 and 2006, the notional amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

	March 31,	
Item	2005	2006
Forward foreign exchange contracts	USD 114,760	USD 159,267
CCS contracts	USD 545,000	USD 385,000

19. Pledged assets

As of March 31, 2005 and 2006, 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.

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

	March 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Guarantee deposits paid	$8,089,725	$257,143	$8,033,379	$247,791
Time deposits	278,750	8,861	207,850	6,411
Total	$8,368,475	$266,004	$8,241,229	$254,202

Pledged assets are based on the carrying amount.

20. Other important matters and contingent liabilities

None.

21. Serious damages

None.

22. Subsequent events

None.

23. Other important events

(1) Pension related information

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

(2) Financial risk management objectives and policies

The Company’s financial assets primarily consist of domestic or foreign common stocks, preferred stocks, bonds, corporate bonds, short-term notes, mortgage-backed securities, mutual funds, short-term notes, cash and cash equivalents.

The Company enters into derivative transactions such as stock options, index futures, interest rate futures, interest rate swaps, currency forwards and cross currency swap to protect against the risks of stock value, interest rate and exchange rate from investment activities.

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk. In addition to the risk management policies and guidance, the Company also establishes risk management systems such as the VaR model, the credit evaluation model, the integrated appraisal and collection and the concentration management systems to monitoring and managing the Company's risks.

Market Risk

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

Credit Risk

Credit risk is the risk of loss due to a counterparty defaulting on a contract. The Company has taken the credit concentration index of each group into the consideration of establishing Lending Policy to prevent over-exposure. An internal credit risk evaluation model for investments in financial instruments is also created based on external credit assessments and various characteristics of financial instruments. The Company also monitors the credit risk level of the investment targets, issuers or counterparties by evaluating the credit concentration of the investments or counterparties.

Operational Risk

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

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

Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that can not be bought or sold quickly enough to prevent or minimize a loss. The Company primarily has sought to achieve the flexible cash flow and stable liquidity by utilizing the deposits in financial institutions, short-term notes (includes repurchase agreement) and domestic bond funds. In pursuit of these goals, the Company also conducts analysis of assets allocation, liquid asset ratio and cash flows to ensure the effectiveness and timeliness of managing liquidity risk.

(3) Financial instruments related information:

	March 31,2005			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Cash and cash equivalents	$196,294,686	$196,294,686	$6,239,500	$6,239,500
Receivables	8,789,637	8,789,637	279,391	279,391
Financial assets at fair value through profit and loss - current	132,434,802	131,990,733	4,209,626	4,195,510
Available-for-sale financial assets - current	95,875,277	108,002,299	3,047,529	3,433,004
Held-to-maturity financial assets - current	686,390	686,390	21,818	21,818
Available-for-sale financial assets - noncurrent	119,884,080	119,289,927	3,810,683	3,791,797
Held-to-maturity financial assets - noncurrent	388,285,492	388,705,110	12,342,196	12,355,534
Financial assets carried at cost - noncurrent	20,995,331	-	667,366	-
Investments in debt securities with no active market - noncurrent	38,544,799	38,513,618	1,225,200	1,224,209
Long-term investments in stocks	3,568,139	3,568,139	113,418	113,418
Guarantee deposits paid	8,371,499	8,371,499	266,100	266,100

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

	March 31,2005			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets-derivative				
Financial assets at fair value through profit and loss - current				
Futures	$4,897,375	$4,880,854	$155,670	$155,145
Option	81,166	86,715	2,580	2,756
Forward contracts	8,294,314	8,294,314	263,646	263,646
IRS	20,523	(20,704)	652	(658)
Liabilities-non-derivative				
Payables	104,018	104,018	3,306	3,306
Guarantee deposits received	1,633,451	1,633,451	51,921	51,921
Liabilities-derivative				
Financial liabilities at fair value through profit and loss - current				
Option	12,638	12,638	402	402

	March 31,2006			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Cash and cash equivalents	$304,019,420	$304,019,420	$9,377,527	$9,377,527
Receivables	8,764,453	8,764,453	270,341	270,341
Financial assets at fair value through profit and loss - current	119,913,749	119,913,749	3,698,759	3,698,759
Available-for-sale financial assets - current	77,381,233	77,381,233	2,386,836	2,386,836
Held-to-maturity financial assets - current	2,115,025	2,115,025	65,238	65,238
Available-for-sale financial assets - noncurrent	130,146,321	130,146,321	4,014,384	4,014,384
Held-to-maturity financial assets - noncurrent	505,062,806	498,447,092	15,578,742	15,374,679
Financial assets carried at cost - noncurrent	20,760,193	-	640,351	-
Investments in debt securities with no active market - noncurrent	45,039,171	44,290,676	1,389,240	1,366,153
Long-term investments in stocks	4,239,990	4,239,990	130,783	130,783
Guarantee deposits paid	8,207,978	8,207,978	253,176	253,176

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

	March 31,2006			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets-derivative				
Financial assets at fair value through profit and loss - current				
Futures	$2,773,674	$2,773,674	$85,554	$85,554
Option	17,218	17,218	531	531
Forward	3,442,445	3,442,445	106,183	106,183
IRS	105,333	105,333	3,249	3,249
Derivative financial assets for hedging - current				
IRS	474,155	474,155	14,625	14,625
Liabilities-non-derivative				
Payables	102,010	102,010	3,147	3,147
Guarantee deposits received	1,572,014	1,572,014	48,489	48,489
Liabilities-derivative				
Financial liabilities at fair value through profit and loss - current				
Option	2,776	2,776	86	86
Forward	11,401,667	11,401,667	351,686	351,686
IRS	723,364	723,364	22,312	22,312
Derivative financial liabilities for hedging - current				
IRS	15,188	15,188	468	468

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 Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for the Company's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

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

④ The fair value of the Company's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at March 31, 2006:

	March 31,2006			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Financial assets at fair value through profit and loss-current	$119,913,749	$119,913,749	$-	$-
Available-for-sale financial assets-current	77,381,233	77,381,233	-	-
Held-to-maturity financial assets-current	2,115,025	2,115,025	-	-
Available-for-sale financial assets-noncurrent	130,146,321	130,146,321	-	-
Held-to-maturity financial assets-noncurrent	38,980,291	42,183,622	466,082,515	456,263,470
Financial assets curried at cost-noncurrent	20,760,193	-	-	-
Investment in debt securities with no active market-noncurrent	14,568,482	14,568,482	30,470,689	29,722,194
Long-term investments in stocks under the equity method	4,239,990	4,239,990	-	-
Assets-non-derivative				
Financial assets at fair value through profit and loss-current				
Futures	2,773,674	2,773,674	-	-
Option	17,218	17,218	-	-
Forward contracts	3,442,445	3,442,445	-	-
IRS	105,333	105,333	-	-
Derivative financial assets for hedging-current				
IRS	474,155	474,155	-	-
Liability-non-derivative				
Financial liability at fair value through profit and loss-current				
Option	2,776	2,776	-	-
Forward contracts	11,401,667	11,401,667	-	-
IRS	723,364	723,364	-	-
Derivative financial assets for hedging-current				
IRS	15,188	15,188	-	-

Cathay Life Insurance Co., Ltd.
Notes to unaudited financial statements – continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of March 31, 2005 and 2006

Financial Instruments	March 31,2006 US$ Based on the quoted market price Carrying amount	Fair value	Based on valuation techniques Carrying amount	Fair value
Assets-non-derivative				
Financial assets at fair value through profit and loss-current	$3,698,759	$3,698,759	$-	$-
Available-for-sale financial assets-current	2,386,836	2,386,836	-	-
Held-to-maturity financial assets-current	65,238	65,238	-	-
Available-for-sale financial assets-noncurrent	4,014,384	4,014,384	-	-
Held-to-maturity financial assets-noncurrent	1,202,353	1,301,160	14,376,389	14,073,519
Financial assets carried at cost-noncurrent	640,351	-	-	-
Investment in debt securities with no active market-noncurrent	449,367	449,367	939,873	916,786
Long-term investments in stocks under the equity method	130,783	130,783	-	-
Assets-derivative				
Financial assets at fair value through profit and loss-current				
Futures	85,554	85,554	-	-
Option	531	531	-	-
Forward contracts	106,183	106,183	-	-
IRS	3,249	3,249	-	-
Derivative financial assets for hedging-current				
IRS	14,625	14,625	-	-
Liability-non-derivative				
Financial liability at fair value through profit and loss-current				
Option	86	86	-	-
Forward contracts	351,686	351,686	-	-
IRS	22,312	22,312	-	-
Derivative financial assets for hedging-current				
IRS	468	468	-	-

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

(4) Risk of interest rate

The following table summarizes the maturites of the Company's financial instruments at March 31, 2006:

Fixed interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit and loss	$2,322,399	$71,635	$339,041	$10,458	$1,273,090	$39,269	$286,779	$8,846
Available-for-sale financial assets	1,578,044	48,675	1,426,934	44,014	542,777	16,742	425,619	13,128
Held-to-maturity financial assets	89,837,040	2,771,038	8,129,329	250,751	2,082,737	64,242	11,053,349	340,942
Investments in debt securities with no active market	452,379	13,954	50,962	1,572	954,945	29,455	1,788,135	55,155
Financial liabilities at fair value through profit and loss	(2,707)	(84)	-	-	(69)	(2)	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit and loss	$1,174,760	$36,235	$161,991,428	$4,996,651	$167,387,497	$5,163,094
Available-for-sale financial assets	5,107,710	157,548	80,327,989	2,477,730	89,409,073	2,757,837
Held-to-maturity financial assets	5,545,800	171,061	250,297,698	7,720,472	366,945,953	11,318,506
Investments in debt securities with no active market	718,048	22,148	27,264,237	840,970	31,228,706	963,254
Financial liabilities at fair value through profit and loss	-	-	-	-	(2,776)	(86)

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

Float interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit and loss	$1,854,586	$57,205	$25,688	$792	$441,829	$13,628	$10,647	$329
Available-for-sale financial assets	73,082	2,254	3,724,580	114,885	8,754,592	270,037	67,139	2,071
Held-to-maturity financial assets	-	-	-	-	-	-	779,040	24,030
Investments in debt securities with no active market	-	-	4,815,724	148,542	2,403,579	74,139	5,000,000	154,226
Derivative financial assets for hedging	-	-	26,918	830	60,588	1,869	-	-
Financial liabilities at fair value through profit and loss	(39,131)	(1,207)	(150,924)	(4,655)	-	-	(22,689)	(700)
Derivative financial liabilities for hedging	-	-	(9,555)	(295)	(3,551)	(109)	(1,772)	(55)

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit and loss	$2,926	$90	$3,687,682	$113,747	$6,023,358	$185,791
Available-for-sale financial assets	8,148,270	251,335	19,969,586	615,965	40,737,249	1,256,547
Held-to-maturity financial assets	-	-	91,672,999	2,827,668	92,452,039	2,851,698
Investments in debt securities with no active market	-	-	1,591,163	49,079	13,810,466	425,986
Derivative financial assets for hedging	162,978	5,027	223,671	6,899	474,155	14,625
Financial liabilities at fair value through profit and loss	(22,639)	(698)	(487,982)	(15,052)	(723,365)	(22,312)
Derivative financial liabilities for hedging	(310)	(9)	-	-	(15,188)	(468)

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

(5) Credit risk

The Company's exposure to credit risk is minimal.

(6) Hedged of derivative financial instruments related information:

Cash flow hedges-IRS

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$11,030,000	$340,222	90DCP	Each quarter	August 2008~ April 2015
585,000	18,044	ARMS~ARMS+65bps	Each quarter	March 2009~ October 2009
1,800,000	55,521	0~7.6%-90DCP	Half year	July 2007~ October 2007
200,000	6,169	4.003%-6mL,the floor of interest rate is 0%	Half year	June 2007
500,000	15,423	If 6ML<1.1%,6ML If 1.1%<6ML<2.0%,3.8% If 6ML>2.0%,Max(5.50%-6ML,0)	Half year	June 2011
500,000	15,423	If 6ML<0.95%,Libor If 0.95%<6ML<2.0%,3.5% If 2.0%<6ml;4.8%-6ML	Half year	January 2009
200,000	6,169	0.5y:3.8%, 0.5y +6ml:3.0%, 0.5-1.5y:0.75-2.0%, 1.5-2.5y:1.0-2.5%, 2.5-3.5y:1.0-3.0%, 3.5-4.5y:1.0-3.5%, 4.5-5.5y;1.0-4.0%, 5.5-6.5Y:1.0-4.5%, 6.5-7.0Y:1.0-5.0%	Half year	March 2011
4,350,000	134,176	4.00%-6ml~7.75%-6ml	Half year to one year	July 2007~ March 2011
800,000	24,676	4%-12ml~4.3%-12ml	Yearly	June 2008~ June 2010

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

(7) Discretionary account management

	March 31,2005			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$2,665,370	$84,723	$2,615,472	$83,136
Repurchase bonds	7,772,783	247,069	7,772,783	247,069
Convertible bonds	55,391	1,761	53,504	1,701
Bonds	1,895,460	60,250	1,908,634	60,669
Cash in bank	237,035	7,534	237,035	7,534
Net other assets less liabilities	(80,087)	(2,546)	(80,087)	(2,546)
Total	$12,545,952	$398,791	$12,507,341	$397,563

	March 31,2006			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$3,968,261	$122,402	$3,968,261	$122,402
Repurchase bonds	6,611,071	203,919	6,613,396	203,991
Convertible bonds	35,867	1,106	35,867	1,106
Bonds	3,565,507	109,979	3,565,507	109,979
Cash in banks	85,659	2,642	85,738	2,644
Total	$14,266,365	$440,048	$14,268,769	$440,122

As of March 31, 2005 and 2006, the Company had discretionary account management contracts in the amount of NT$11,550,000 (US$367,133), and NT$12,350,000 (US$380,938), respectively.

(8) Material contract:

None.

(9) Presentation of financial statements:

Certain accounts in the financial statements for the three months ended March 31,2005 have been reclassified in order to be comparable with those in the financial statements for the three months ended March 31, 2006.

(10) Other:

None

23. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, 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, 2003, 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 March 31, 2006, the Company's remittances to this company totaled approximately US$48,330.

24. Segment Information

In accordance with SFAS No. 23"Interim Financial Reporting and Disclosures", segment reporting is not required for interim financial statements.