

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
Together with
Independent Auditors' Review Report
As of June 30, 2006

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated 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 consolidated financial statements shall prevail.

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

Telephone: 886-2-2755-1399

Index to consolidated financial statements

	<u>Page</u>
Independent auditors' review report	3
Unaudited consolidated balance sheet as of June 30, 2006	4-5
Unaudited consolidated statement of income for the six months ended June 30, 2006	6
Unaudited consolidated statement of changes in stockholders' equity for the six months ended June 30, 2006	7
Unaudited consolidated statement of cash flows for the six months ended June 30, 2006	8-9
Notes to unaudited consolidated financial statements	10-68

English Translation of Report Originally Issued in Chinese

Independent auditors' review report

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

We have reviewed the accompanying consolidated balance sheet of Cathay Life Insurance Co., Ltd. and its subsidiaries as of June 30, 2006, and the related consolidated statement of income, changes in stockholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our review.

We conducted our review in accordance with generally accepted auditing standards No. 36 "Review of Financial Statements" in the Republic of China (R.O.C). A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards in the R.O.C, where the objective is to express 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 consolidated financial statements as of and for the six months periods ended July 30, 2006 in order for them to be in conformity with "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries.", and generally accepted accounting principles in the Republic of China.

As discussed in Note 3 to the financial statements, effective from January 1, 2006, Cathay Life Insurance Co., Ltd and Subsidiaries 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".

Ernst & Young
Taipei, Taiwan
The Republic of China
July 31, 2006

Notice to Readers

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated balance sheets
As of June 30, 2006
(Expressed in thousands of dollars)

Assets	Notes	June 30, 2006	
		NT\$	US\$
Current assets			
Cash and cash equivalents	2,4	\$ 275,177,963	\$ 8,511,536
Financial assets at fair value through profit and loss-current	2,5	122,850,119	3,799,880
Available-for-sale financial assets - current	2,6	83,208,834	2,573,735
Held-to-maturity financial assets - current	2	4,494,949	139,033
Derivative financial assets for hedging - current	2,7	326,925	10,112
Investments in debt securities with no active market-current	2	2,669,773	82,579
Notes receivable		9,382,065	290,197
Reinsurance accounts receivable		109,082	3,374
Other accounts receivable		25,452,317	787,266
Other financial assets-current		16,770,611	518,732
Prepayments		60,463	1,870
Deferred income tax assets - current		4,030,351	124,663
Other current assets		4,897,325	151,479
Subtotal		<u>549,430,777</u>	<u>16,994,456</u>
Loans			
Policy loans	2	171,014,783	5,289,662
Secured loans	2,8	283,508,264	8,769,201
Subtotal		<u>454,523,047</u>	<u>14,058,863</u>
Funds and investments			
Available-for-sale financial assets - noncurrent	2,9	139,042,414	4,300,724
Held-to-maturity financial assets - noncurrent	2,10	525,728,952	16,261,335
Financial assets carried at cost - noncurrent	2,11	20,729,513	641,185
Investments in debt securities with no active market - noncurrent	2	43,008,176	1,330,287
Long-term investments in stocks under the equity method	2,13	1,956,567	60,519
Investments in real estate	2,14	104,937,051	3,245,810
Subtotal		<u>835,402,673</u>	<u>25,839,860</u>
Property and equipment			
Land	2,15	4,791,136	148,195
Buildings and construction		10,035,621	310,412
Computer equipment		1,589,165	49,154
Communication and transportation equipment		36,258	1,121
Other equipment		3,737,084	115,592
Revaluation increments		1,472	46
Less: Accumulated depreciation		(6,670,427)	(206,323)
Less: Accumulated impairment		(85,519)	(2,645)
Construction in progress and prepayment for equipment		27,015	836
Subtotal		<u>13,461,805</u>	<u>416,388</u>
Intangible assets			
Computer software cost	2	318,612	9,855
Subtotal		<u>318,612</u>	<u>9,855</u>
Other assets			
Guarantee deposits paid		8,969,847	277,447
Deferred income tax assets- non current		453,543	14,029
Other overdue receivables	2,16	34,786	1,076
Separate account products assets		120,707,975	3,733,621
Other assets-other		2,534,358	78,390
Subtotal		<u>132,700,509</u>	<u>4,104,563</u>
Total assets		<u>\$1,985,837,423</u>	<u>\$ 61,423,985</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 was NT\$32.33 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated balance sheets - (continued)
As of June 30, 2006
(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	June 30, 2006	
		NT\$	US\$
Current liabilities			
Financial liabilities at fair value through profit and loss - current	2,17	\$17,205,497	\$532,184
Derivative financial liabilities for hedging - current	2,18	22,695	702
Notes payable		43,915	1,358
Commissions payable		1,156,898	35,784
Life insurance proceeds payable		7,101	220
Reinsurance accounts payable		134,926	4,173
Other payable		13,179,173	407,645
Accounts collected in advance		183,822	5,686
Other current liabilities		46,498	1,438
Subtotal		<u>31,980,525</u>	<u>989,190</u>
Long-term liabilities			
Reserve for land revaluation increment tax		3,581	111
Accrued pension liability		1,657,161	51,258
Subtotal		<u>1,660,742</u>	<u>51,369</u>
Reserve for operations and liabilities			
Unearned premium reserve		10,376,621	320,960
Reserve for life insurance liabilities	2	1,694,220,871	52,403,986
Special reserve		17,296,479	534,998
Loss and loss expense provisions		1,269,629	39,271
Subtotal		<u>1,723,163,600</u>	<u>53,299,215</u>
Guarantee deposits received			
Separate account products liabilities		1,560,791	48,277
Other miscellaneous liabilities		120,707,975	3,733,621
Subtotal		<u>6,173,392</u>	<u>190,949</u>
Total liabilities		<u>1,885,247,025</u>	<u>58,312,621</u>
Stockholders' equity	2,19		
Capital stock			
Common stock		50,686,158	1,567,775
Capital surplus		10,105	313
Retained earnings	2,20		
Legal reserve		19,684,163	608,851
Special reserve		14,133,703	437,170
Unappropriated retained earnings		7,179,279	222,062
Equity adjustment			
Unrealized (losses) gains on financial instruments		6,035,801	186,694
Unrealized revaluation increments		2,105	65
Cumulative conversion adjustments		(10,884)	(337)
Minority interests		2,869,968	88,771
Total stockholders' equity		<u>100,590,398</u>	<u>3,111,364</u>
Total liabilities and stockholders' equity		<u>\$1,985,837,423</u>	<u>\$61,423,985</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 was NT\$32.33 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of income
For the six months ended June 30, 2006
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	January 1-June 30,2006	
		NT\$	US\$
Operating revenues	2		
Premiums income		\$127,776,079	\$3,952,245
Reinsurance commission earned		190,590	5,895
Claims recovered from reinsures		104,243	3,224
Recovered premiums reserve		54,154,832	1,675,064
Recovered special reserve		474,262	14,669
Recovered loss and loss expense provisions		381	12
Handling fees earned		481,362	14,889
Interest income		30,432,837	941,319
Gain from valuation on financial assets		5,551,496	171,714
Gains on long-term equity investments		185,363	5,734
Gains on disposal of investments		15,708,894	485,892
Gains on investments-real estate		5,421,521	167,693
Separate account products revenues		36,853,788	1,139,925
Other operating revenues		327,659	10,135
Subtotal		<u>277,663,307</u>	<u>8,588,410</u>
Operating costs	2		
Reinsurance premiums ceded		(295,305)	(9,134)
Brokerage expenses		(13,012,415)	(402,487)
Commissions expenses		(128,783)	(3,983)
Insurance claims payment		(69,857,685)	(2,160,770)
Provision for premiums reserve		(125,765,909)	(3,890,068)
Provision for special reserve		(326,455)	(10,098)
Contribution to the stabilization funds		(127,253)	(3,936)
Provision for claims reserve		(835,688)	(25,849)
Handling fees paid		(549,580)	(16,999)
Interest expenses		(86,717)	(2,682)
Losses from valuation on financial liabilities		(17,147,105)	(530,378)
Losses on foreign exchange		(5,275,480)	(163,176)
Separate account products expenses		(36,853,788)	(1,139,925)
Other operating cost		(468,093)	(14,479)
Subtotal		<u>(270,730,256)</u>	<u>(8,373,964)</u>
Operating gross profit		<u>6,933,051</u>	<u>214,446</u>
Operating expenses	2		
Marketing expenses		(1,441,459)	(44,586)
Administrative and general expenses		(4,091,326)	(126,549)
Research and development expenses		(7,594)	(235)
Subtotal		<u>(5,540,379)</u>	<u>(171,370)</u>
Operating income		<u>1,392,672</u>	<u>43,076</u>
Non-operating revenues & gains			
Gains on disposal of property and equipment		2,266	70
Other Non-operating revenues & gains		627,231	19,401
Subtotal		<u>629,497</u>	<u>19,471</u>
Non-operating expenses & losses			
Losses on disposal of property and equipment		(410)	(13)
Miscellaneous expenses		(13,136)	(406)
Subtotal		<u>(13,546)</u>	<u>(419)</u>
Income from continuing operations before income taxes		2,008,623	62,128
Income taxes benefit	2,22	1,925,608	59,561
Income from continuing operations after income taxes		3,934,231	121,689
Cumulative effect of changes in accounting principles		3,321,129	102,726
Consolidated income		<u>\$7,255,360</u>	<u>\$224,415</u>
Include :			
Parent company		\$7,179,279	\$222,062
Minority interest		76,081	2,353
Consolidated income		<u>\$7,255,360</u>	<u>\$224,415</u>
Earnings per share (expressed in dollars)	2,23		
Primary earnings per share			
Consolidated income from continuing operations		\$0.78	\$0.02
Cumulative effect of changes in accounting principles		0.65	0.02
Consolidated income		<u>\$1.43</u>	<u>\$0.04</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 was NT\$32.33 to US\$1.00)

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

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of changes in stockholders' equity
For the six months ended June 30, 2006
(Expressed in thousands of dollars)

Summary	Retained earnings										Other stockholders' equity									
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized gain or loss of financial assets		Unrealized revaluation increments		Cumulative conversion adjustments		Minority interests		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2006	\$50,686,158	\$1,567,775	#####	####	\$17,891,897	\$553,414	\$11,082,320	\$342,788	\$17,922,656	\$554,366	\$-	\$-	\$3,048	\$94	\$(4,119)	\$(128)	\$2,668,222	#####	\$100,260,287	\$3,101,153
Appropriations and Distributions for 2005																				
Legal reserve	-	-	-	-	1,792,266	55,437	-	-	(1,792,266)	(55,437)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,051,383	94,382	(3,051,383)	(94,382)	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(13,057,689)	(403,888)	-	-	-	-	-	-	-	-	(13,057,689)	(403,888)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(250)	-	-	-	-	-	-	-	-	(8,100)	(250)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,218)	(409)	-	-	-	-	-	-	-	-	(13,218)	(409)
Land revaluation increments	-	-	-	-	-	-	-	-	-	-	-	-	(943)	(29)	-	-	-	-	(943)	(29)
Unrealized gains or losses on financial instruments	-	-	-	-	-	-	-	-	-	-	6,035,801	186,694	-	-	-	-	-	-	6,035,801	186,694
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,765)	(209)	-	-	(6,765)	(209)
Parent company net income after tax for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	7,179,279	222,062	-	-	-	-	-	-	-	-	7,179,279	222,062
Minority interests income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76,081	2,353	76,081	2,353
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	125,665	3,887	125,665	3,887
Balance on June 30, 2006	\$50,686,158	\$1,567,775	#####	####	\$19,684,163	\$608,851	\$14,133,703	\$437,170	\$7,179,279	\$222,062	\$6,035,801	\$186,694	\$2,105	\$65	\$(10,884)	\$(337)	\$2,869,968	#####	\$100,590,398	\$3,111,364

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 was NT\$32.33 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of cash flows
For the six months ended June 30, 2006
(Expressed in thousands of dollars)

	January 1-June 30, 2006	
	NT\$	US\$
Cash flows from operating activities		
Consolidated income	\$7,255,360	\$224,415
Adjustments:		
Recovered bad debt	(3,762)	(116)
Depreciation	1,193,580	36,919
Amortization	52,166	1,613
Provision or recovered for each reserve	72,298,432	2,236,264
Gain on disposal of long-term investments in stock	(3,707)	(115)
Gain on disposal of property and equipment	(1,856)	(57)
Gain on disposal of real estate	(1,004,697)	(31,076)
Unrealized gain on long-term investments	(58,895)	(1,822)
Effects of exchange rate changes	(4,207)	(130)
Cumulative effect of changes in accounting principles	(3,321,129)	(102,726)
Decrease in financial assets at fair value through profit and loss - current	623,827	19,296
Decrease in available-for-sale financial assets - current	42,113,728	1,302,621
Decrease in held-to-maturity financial assets - current	490,991	15,187
Decrease in derivative financial assets for hedging - current	107,068	3,312
Increase in investments in debt securities with no active market-current	(2,669,773)	(82,579)
Decrease in notes receivable	4,620,007	142,901
Increase in reinsurance accounts receivable	(109,081)	(3,374)
Increase in other accounts receivable	(8,314,294)	(257,170)
Increase in other financial assets-current	(10,346,111)	(320,016)
Decrease in prepayments	5,794	179
Increase in deferred income tax assets - current	(4,030,351)	(124,663)
Increase in other current assets	(1,380,894)	(42,712)
Decrease in deferred income tax assets- non current	6,576	203
Increase in other assets-other	(1,072,452)	(33,172)
Increase in financial liabilities at fair value through profit and loss - current	13,068,936	404,236
Increase in derivative financial liabilities for hedging - current	22,695	702
Increase in notes payable	42,585	1,317
Decrease in commissions payable	(230,642)	(7,134)
Increase in life insurance proceeds payable	2,263	70
Decrease in reinsurance accounts payable	(56,863)	(1,759)
Increase in other payable	7,606,046	235,263
Decrease in deferred income tax liabilities - current	(396,408)	(12,261)
Decrease in accounts collected in advance	(348,429)	(10,777)
Increase in other current liabilities	20,516	635
Decrease in reserve for land revaluation increment tax	(145)	(4)
Increase in accrued pension liability	29,843	923
Decrease in other miscellaneous liabilities	(5,149,479)	(159,279)
Net cash provided in operating activities	<u>111,057,238</u>	<u>3,435,114</u>
Cash flows from investing activities		
Increase in policy loans	(4,520,577)	(139,826)
Increase in secured loans	(6,851,064)	(211,910)
Increase in available-for-sale financial assets - noncurrent	(28,254,397)	(873,937)
Increase in held-to-maturity financial assets - noncurrent	(70,746,561)	(2,188,264)
Decrease in financial assets carried at cost - noncurrent	230,524	7,130
Decrease in investments in debt securities with no active market - noncurrent	2,598,385	80,371
Proceeds from sale of long-term investments in stocks	47,411	1,466
Disposal of investments in real estate	1,681,819	52,020
Acquisition of investments in real estate	(4,386,853)	(135,690)
Disposal of property and equipment	8,683	269
Acquisition of property and equipment	(172,719)	(5,342)
Acquisition of intangible assets	(174,209)	(5,389)
Increase in guarantee deposits paid	(91,741)	(2,838)
Increase in other overdue receivables	(5,923)	(183)
Increase in other miscellaneous assets	(7,316)	(226)
Net cash used in investing activities	<u>(110,644,538)</u>	<u>(3,422,349)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 was NT\$32.33 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Unaudited consolidated statements of cash flows-(continued)
For the six months ended June 30, 2006
(Expressed in thousands of dollars)

	January 1-June 30, 2006	
	NT\$	US\$
Cash flows from financing activities		
Decrease in guarantee deposits received	(83,342)	(2,578)
Remuneration paid to directors and supervisors	(8,100)	(250)
Bonus paid to employees	(13,218)	(409)
Cash dividends	<u>(13,057,689)</u>	<u>(403,888)</u>
Net cash used in financing activities	<u>(13,162,349)</u>	<u>(407,125)</u>
Effects of exchange rate changes	2,732	85
Decrease in cash and cash equivalents	(12,746,917)	(394,275)
Cash and cash equivalents at the beginning of period	<u>287,924,880</u>	<u>8,905,811</u>
Cash and cash equivalents at the end of period	<u>\$275,177,963</u>	<u>\$8,511,536</u>
Supplemental disclosure of cash flows information		
Interest paid during the period	<u>\$71,831</u>	<u>\$2,222</u>
Interest paid (excluding capitalized interest)	<u>\$71,831</u>	<u>\$2,222</u>
Income tax paid	<u>\$610,423</u>	<u>\$18,881</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2006 was NT\$32.33 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated 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 consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

1. Organizations and business scope

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

As of June 30, 2006, the total number of employees was 26,867.

2. Summary of significant accounting policies

We prepared the consolidated financial statements in accordance with the generally accepted accounting principles, the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and the “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries.” The summary of significant accounting policies is as follows:

(1) Principles of consolidation

Effective from January 1, 2005, The Company adopted SFAS No.7 “Consolidated Financial Statements” which was revised on December 9, 2004. As of and for the six months ended June 30, 2006, the consolidated financial statements include the followings:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Investors	Investees	Business	Ownership interest	Notes
The Company、Cathay Venture	Symphox Information Co., Ltd. (“Symphox Information”)	Type II telecom service, data processing service, information supply service	99.53%	Symphox Information was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Law. Cathay Life and Cathay Venture’s ownership interests are 60.12% and 39.41% of the common stock, respectively. As of June 30, 2006, the total number of employees was 158.
The Company	Cathay Venture Capital Co., Ltd. (“Cathay Venture”)	Venture capital investment	25.00%	Cathay Venture was incorporated in Taiwan on September 13, 2000, under the provisions of the Company Law. 67% ownership interests are held by the Company, Cathay Financial Holding Co., Ltd., Cathay United Bank and Cathay Century Insurance Co., Ltd.
The Company	Cathay Life Insurance Ltd. (Shanghai) (“Cathay Life (Shanghai)”)	Life insurance	50.00%	Cathay Life (Shanghai) acquired an operation license of an enterprise as a juristic person on December 29, 2004. The Company and China Eastern Airlines Corporation Limited ownership interests are 50% of the common stock, respectively. As of June 30, 2006, the total number of employees was 346.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

As of and for the six months ended June 30, 2006, the consolidated financial statements excluded:

Investors	Investees	Business	Ownership interest	Notes
The Company	Cathay Insurance (Bermuda) Co., Ltd. ("Cathay Insurance (Bermuda)")	Class 3 general business insurers and a Long-term insurer	100.00%	The consolidated financial statements of the Company as of and for the six months ended June 30, 2006 excluded Cathay Insurance (Bermuda) because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Securities Investment Co., Ltd. ("Cathay Securities Investment")	Securities investment research analysis	100.00%	The consolidated financial statements of the Company as of and for the six months ended June 30, 2006 excluded Cathay Securities Investment because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.

(2) Current and non-current assets and liabilities

Current assets are assets can be liquidated or disposed within one year. Assets other than current assets are non-current assets. Current liabilities are debts must be paid-off within one year. Debts other than current liabilities are non-current liabilities.

(3) 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(4) Recognition of financial assets and 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”, “financial assets carried at cost” 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”. Financial assets are recorded at fair value plus the cost of ownership or issuance cost at the initial recognition.

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 and impaired. 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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 and impaired.

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. Gains or losses on available-for-sale financial assets shall be recognized in equity before the financial assets are derecognized, except for impairment losses and gains or losses on exchange rate of monetary financial assets. When financial assets are derecognized, the cumulative gains or losses previously recognized in equity shall be recognized in profits or loss.

E. Financial assets carried at cost

Financial assets measured at cost are investments to non-listed companies without significant influence or control. They are recorded at initial cost due to the fair values of the related equity instruments are not able to be reliably measured. If there is objective evidence that an impairment loss has been incurred, the amount of the loss will be recognized. The impairment loss can not be reversed.

F. Derivative financial assets for hedging

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

The fair value of a listed stock or a 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(5) Derecognize 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 derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in the income statement.

(6) 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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.

(7) 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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 fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk which could impact profit or loss. The carrying amount of the fair value hedged item is adjusted for gains and losses attributable to the risk being hedged. The underlying derivative is remeasured at fair value and resulting gains or losses are recognized as profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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

Hedging instruments are subsequently measured at fair value or the gains (losses) resulting from the exchange rate changes are recognized in current period earnings by to the Statements of Financial Accounting Standards No.14 "Accounting for Foreign Currency Transactions and Translation of Foreign Financial Statements".

Cash flow hedges

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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 disposed, 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.

(8) Allowance for bad and doubtful debts

Based on the regulation the Company estimated the possible bad debts of accounts receivable and secured loans by evaluating customers' financial results, payments histories, collaterals and past due periods.

The allowance for bad debts of Cathay Life (Shanghai) was calculated by management using aging analysis and past experience and based on the year end balances of receivables such as premiums receivable, interest receivable and accounts receivable.

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(9) 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.

The Company prepares semi-annual and annual consolidated financial statements which include parent company, parent controlled or significant subsidiaries.

(10) 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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.

(11) 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.

Fixed assets of Cathay life (Shanghai) are assets with useful life over a year and value per unit exceeds \$2,000 RMB such as houses, buildings, machines, equipments and vehicles. These assets are recorded at cost and depreciated using straight-line method starting from the subsequent month after the assets are ready to be used. The remaining values of the fixed assets are 10% of their costs.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(12) Intangible assets

A. The Company

Intangible assets of the company are computer softwares which are recorded at cost and amortized over 3 years on a straight-line basis.

B. Cathay Life (Shanghai)

Intangible assets of Cathay Life (Shanghai) are primarily computer softwares which are recorded at cost and amortized on a straight-line basis over the least of the following : estimated useful lives, contract terms and statutory useful lives.

(13) 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 June 30, 2006, an aggregate of NT\$2,689,954 (US\$83,203) was appropriated to this fund.

(14) Impairment of assets

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

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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).

(15) Real Estate Investment Trust (REIT)

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

Profit or loss on disposal of the real estate property is calculated by the “total accrual” method when rights and obligation of the estate property has been transferred to the REIT.

Should the Company and its related parties did not participate in the original offering but acquired REIT shares less than 20% of the REIT’s total outstanding shares at fair value, from the Taiwan Stock Exchange Corporation within three months subsequent to the original offer. Such acquisition of REIT shares is deemed to have no effect on the disposal of the underlying real estate property. Therefore, the acquisition of REIT shares is treated separately against the disposal of the underlying real estate property.

However, should the Company and its related parties did not participate in the original offering, but acquired REIT shares greater than 20% of the REIT’s total outstanding shares at fair value, from the Taiwan Stock Exchange Corporation within three months subsequent to the original offer. Such acquisition of REIT shares is then deemed as a partly disposal of the real estate property and defer part of the profit or loss of the disposal of the real estate property in terms of the total REIT shares acquired against

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

REIT's total outstanding shares.

(16) Guaranteed depository insurance payment

A. The Company

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 bonds with the Central Bank of China (the "Central Bank") as the "Guaranteed Depository Insurance".

B. Cathay Life (Shanghai)

According to the Insurance Law of the People's Republic of China, the guaranteed deposit of Cathay Life (Shanghai) is 20% of the registration capital must be deposited in the form of time deposits.

(17) Reserve for operations

A. The Company

According to the Insurance Law, reserves for operations are required, including unearned premium reserve, claim reserve, special reserve, and reserve for life insurance. The reserve amounts are provided by actuaries.

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.

B. Cathay Life (Shanghai)

In accordance with the Insurance Law of the People's Republic of China, the operating reserves (including unearned premium reserves, claim reserves and life

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

policy reserves) are required and are calculated based on the actuarial reports.

(18) 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. In addition, Cathay Life (Shanghai) adopts the same way. Related expenses (commissions, brokerage fees, etc.) are recognized on an accrual basis.

(19) Pension plan

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

The Labor Pension Act of R.O.C. (“the Act”), which adopts a defined contribution scheme, takes effect from July 1, 2005. In accordance with the Act, employees of the Company may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company shall make monthly contributions to the employees’ individual pension accounts on a basis no less than 6% of the employees’ monthly wages.

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

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”.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(20) 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' statements

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

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

(21) 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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

between deferred income tax liabilities, deferred income tax assets, prior year's loss carry forwards and investment tax credits. The valuation allowance is recognized if evidence shows it is more likely than not that a part or all of the deferred tax assets will not be realized. The prior year's income tax expenses adjustment should be recorded as current period income tax expenses in the year of adjustment.

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

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

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

Effective from January 1, 2006, the Company adopted the "Income Basic Tax Act" to calculate income basic tax except for Cathay Life (Shanghai).

(22) 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(23) Separate account products

A. The Company

The Company sells investment linked products. These products are funded by the insurance premium after necessary insurance expenses. Dispersion of investment into various sub-accounts were instructed or assigned by the insured. The sub-account assets are revalued according to the ROC GAAP and applicable regulations into its fair value at financial year end.

The assets, liabilities, revenues and expenses of sub-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" in accordance with the ROC "Accounting standards of separate account products by life insurance company".

B. Cathay Life (Shanghai)

Cathay Life (Shanghai) sell separate account insurance products. These products are funded by the insurance premium after necessary insurance expenses. Dispersion of investment into various sub-accounts were instructed or assigned by the insured. The related accounting treatments are in accordance with the "Accounting standards of investment-linked products by insurance companies" by Ministry of Finance People's Republic of China and the "Statements of Financial Accounting Standard" of Republic of China.

The assets, liabilities, revenues and expenses of separate 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" in accordance with the ROC "Accounting standards of separate account products by life insurance company".

(24) Convenience conversion into U.S. dollars

The consolidated financial statements are stated in NT dollars. Conversion of the June 30, 2006 NT dollar amounts into U.S. dollar amounts in the financial statements is included in the financial statements solely for the convenience of the readers, using the noon buying rate of NT\$32.33 to US\$1.00 effective at June 30, 2006, as provided by the Federal Reserve Bank of New York. The convenience conversion should not be construed as a representation that the NT dollars have been, or could in the future be,

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

converted into U.S. dollars at this rate or any other rate of exchange.

3. Changes in accounting and its effects

The Company and subsidiaries 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\$5,381,277 (US\$166,448), NT\$2,061,394 (US\$63,761), NT\$10,108,650 (US\$312,671) and NT\$10,107,404 (US\$312,632) as of January 1, 2006, respectively. It also increased the company’s net income and earnings per share by NT\$3,321,129 (US\$102,726) and NT\$0.65 (US\$0.02), respectively, for the six months ended June 30, 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”) 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 long-term equity investments by NT\$1,401(US\$43) as of June 30, 2006, and decreased the net income by NT\$1,401(US\$43) for the six months ended June 30, 2006. The Company considers the effect insignificant.

4. Cash and cash equivalents

	June 30, 2006	
	NT\$	US\$
Cash on hand	\$278,501	\$8,614
Cash in banks	4,749,916	146,920
Time deposits	232,773,178	7,199,913
Cash equivalents	37,376,368	1,156,089
Total	<u>\$275,177,963</u>	<u>\$8,511,536</u>

As of June 30 2006, the amounts time deposits with maturities beyond one year were NT\$1,097,570(US\$33,949).

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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

	June 30,2006	
	NT\$	US\$
Listed stocks	\$19,702,733	\$609,426
Overseas stocks	2,216,337	68,554
Beneficiary certificates	52,233,526	1,615,636
Exchange traded funds	1,821,761	56,349
Overseas bonds	13,678,375	423,086
Corporate bonds	754,975	23,352
Government bonds	22,409,214	693,140
Financial debentures	518,779	16,046
Derivative financial instruments	3,834,474	118,604
Subtotal	117,170,174	3,624,193
Add: Adjustment of valuation	5,679,945	175,687
Total	<u>\$122,850,119</u>	<u>\$3,799,880</u>

6. Available-for-sale financial assets-current

	June 30,2006	
	NT\$	US\$
Listed stocks	\$61,586,648	\$1,904,938
Overseas stocks	6,798,666	210,290
Overseas beneficiary certificates	3,180,186	98,366
Internal beneficiary certificates	701,648	21,703
Exchange traded funds	122,857	3,800
Real estate investment trust	3,302,115	102,138
Subtotal	75,692,120	2,341,235
Add: Adjustment of valuation	7,516,714	232,500
Total	<u>\$83,208,834</u>	<u>\$2,573,735</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

7. Derivative financial assets for hedging-current

	June 30,2006	
	NT\$	US\$
Derivative financial instruments	\$-	\$-
Add: Adjustment of valuation	326,925	10,112
Total	<u>\$326,925</u>	<u>\$10,112</u>

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

	June 30,2006	
	NT\$	US\$
Secured loans	\$283,391,178	\$8,765,579
Less: Allowance for bad debts	(300,821)	(9,304)
Subtotal	<u>283,090,357</u>	<u>8,756,275</u>
Overdue receivables	1,393,023	43,087
Less: Allowance for bad debts	(975,116)	(30,161)
Subtotal	<u>417,907</u>	<u>12,926</u>
Total	<u>\$283,508,264</u>	<u>\$8,769,201</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

9. Available-for-sale financial assets-noncurrent

	June 30,2006	
	NT\$	US\$
Corporate bonds	\$16,898,275	\$522,681
Government bonds	16,350,376	505,734
Financial debentures	28,378,871	877,788
Internal stocks	138,677	4,289
Overseas stocks	13,768	426
Collateralized loans obligation and collateralized bonds obligation	1,031,102	31,893
Overseas bonds	78,100,364	2,415,724
Subtotal	140,911,433	4,358,535
Less: Adjustment of valuation	(1,869,019)	(57,811)
Total	<u>\$139,042,414</u>	<u>\$4,300,724</u>

10. Held-to-maturity financial assets-noncurrent

	June 30,2006	
	NT\$	US\$
Corporate bonds	\$8,567,502	\$265,002
Government bonds	19,349,914	598,513
Financial debentures	17,005,069	525,984
Collateralized loans obligation and collateralized bonds obligation	9,454,009	292,422
Overseas bonds	479,479,104	14,830,779
Subtotal	533,855,598	16,512,700
Less: securities serving as deposits paid - bonds	(8,126,646)	(251,365)
Total	<u>\$525,728,952</u>	<u>\$16,261,335</u>

11. Financial assets carried at cost - noncurrent

	June 30,2006	
	NT\$	US\$
Internal stocks	\$20,587,768	\$636,801
Overseas stocks	141,745	4,384
Total	<u>\$20,729,513</u>	<u>\$641,185</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$85,821,578 (US\$2,654,549) as of June 30 2006. The details of structured notes are listed below:

Item	June 30, 2006					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit and						
loss-current	\$2,881,778	\$89,136	\$(148,281)	\$(4,586)	\$2,733,497	\$84,550
Available-for-sale financial						
assets-noncurrent	14,277,218	441,609	(26,760)	(828)	14,250,458	440,781
Held-to-maturity financial						
assets-noncurrent	68,024,843	2,104,078	-	-	68,024,843	2,104,078
Investments in debt securities						
with no active						
market-noncurrent	812,780	25,140	-	-	812,780	25,140
Total	<u>\$85,996,619</u>	<u>\$2,659,963</u>	<u>\$(175,041)</u>	<u>\$(5,414)</u>	<u>\$85,821,578</u>	<u>\$2,654,549</u>

13. Long-term investments under equity method

Investee	June 30, 2006	
	NT\$	US\$
	Book value	Book value
WK Technology Fund VI Co., Ltd.	\$399,071	\$12,344
Vista Technology Venture Capital Corp.	39,884	1,234
Omnitek Venture Capital Corp.	343,716	10,631
Wa Tech Venture Capital Co., Ltd.	164,617	5,092
IBT Venture Capital Corp.	597,809	18,491
Cathay Insurance (Bermuda) Co., Ltd.	66,403	2,054
Cathay Securities Investment Trust Co., Ltd.	240,964	7,453
Cathay Securities Investment Co., Ltd.	104,103	3,220
Total	<u>\$1,956,567</u>	<u>\$60,519</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

14. Investments in real estate

Item	June 30, 2006									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in real estate	\$118,227,310	\$3,656,892	\$4,215	\$130	\$(13,806,156)	\$(427,039)	\$(196,951)	\$(6,092)	\$104,228,418	\$3,223,891
Construction	708,633	21,919	-	-	-	-	-	-	708,633	21,919
Total	\$118,935,943	\$3,678,811	\$4,215	\$130	\$(13,806,156)	\$(427,039)	\$(196,951)	\$(6,092)	\$104,937,051	\$3,245,810

- (1) The real estate investments are held mainly to generate rental income.
- (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. Investments in real estate were fully insured.
- (4) The Company has securitized its real estate properties such as Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Zhong Hwa Building in 2005. The accounting treatment of these transactions is conformed with the regulation of the Accounting Research and Development Foundation. Below are the relative disclosures.

The Company transferred the risk and returns of ownership of the real estate properties to the assignee and the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$272,684).

After the REIT was issued, the Company did not participate in the original offering. Instead, the Company bought the REIT beneficiary certificates which were issued within three months from the market and its ownership of the REIT was over the 20% of the REIT fund’s outstanding shares. Thus, the Company deferred the gain on disposal of real estate by percentage of REIT outstanding shares held by the company. However, as of June 30, 2006, the Company owned less than 20% of the REIT. Therefore, the previous deferred gain on disposal of real estate, which was NT\$1,773,919 (US\$54,869), has been recognized in profit or loss.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

15. Property and equipment

Item	June 30, 2006									
	Cost		Revaluation surplus		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Land	\$4,791,136	\$148,195	\$1,472	\$46	\$-	\$-	\$(51,331)	\$(1,588)	\$4,741,277	\$146,653
Buildings and construction	10,035,621	310,412	-	-	(3,133,853)	(96,933)	(34,188)	(1,057)	6,867,580	212,422
Computer equipment	1,589,165	49,154	-	-	(1,131,551)	(35,000)	-	-	457,614	14,154
Communication and transportation equipment	36,258	1,121	-	-	(23,463)	(726)	-	-	12,795	395
Other equipment	3,737,084	115,592	-	-	(2,381,560)	(73,664)	-	-	1,355,524	41,928
Sub-total	20,189,264	624,474	1,472	46	(6,670,427)	(206,323)	(85,519)	(2,645)	13,434,790	415,552
Construction in progress	27,015	836	-	-	-	-	-	-	27,015	836
Total	<u>\$20,216,279</u>	<u>\$625,310</u>	<u>\$1,472</u>	<u>\$46</u>	<u>\$(6,670,427)</u>	<u>\$(206,323)</u>	<u>\$(85,519)</u>	<u>\$(2,645)</u>	<u>\$13,461,805</u>	<u>\$416,388</u>

No properties or equipments were pledged as collaterals.

16. Other overdue receivables

	June 30, 2006	
	NT\$	US\$
Overdue receivables	\$75,689	\$2,341
Allowance for bad and doubtful debts	(40,903)	(1,265)
Total	<u>\$34,786</u>	<u>\$1,076</u>

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

Item	June 30, 2006	
	NT\$	US\$
Derivative financial instruments	\$55,771	\$1,725
Add: Adjustment of valuation	17,149,726	530,459
Total	<u>\$17,205,497</u>	<u>\$532,184</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

18. Derivative financial liabilities for hedging-current

Item	June 30, 2006	
	NT\$	US\$
Derivative financial instruments	\$-	\$-
Add: Adjustment of valuation	22,695	702
Total	<u>\$22,695</u>	<u>\$702</u>

19. Capital stock

As of June 30, 2006, the total authorized shares were 5,068,616 thousand with par value of NT\$10 each.

20. Retained earnings

(1) Legal reserve

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

- 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.

21. Personnel 、 depreciation 、 depletion and amortizations

Item	For the six months ended June 30,2006			For the six months ended June 30,2006		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$11,676,083	\$1,605,100	\$13,281,183	\$361,153	\$49,648	\$410,801
Labor & health insurance expenses	557,338	86,796	644,134	17,239	2,685	19,924
Pension expenses	329,237	50,564	379,801	10,184	1,564	11,748
Other expenses	448,322	86,422	534,744	13,867	2,673	16,540
Depreciation	30,908	1,162,672	1,193,580	956	35,963	36,919
Amortizations	1,654	50,512	52,166	51	1,562	1,613

22. Estimated income taxes

- (1) Income tax expenses include the following:

	For the six months ended June 30, 2006	
	NT\$	US\$
Expected income tax expense	\$1,776,441	\$54,947
Add: Separation taxes	370,562	11,462
Assessed tax payable for year 2001	901	28
Allocation of the cumulative effect of changes in accounting principles	338,668	10,475
Alternative minimum tax payable	13,656	423
Estimated tax difference-prior years	174	5
Deferred income tax assets-beginning balance	465,526	14,399
Less: Income tax credit	(5,827)	(180)
Deferred income tax liabilities-beginning balance	(401,815)	(12,428)
Deferred income tax assets-ending balance	(4,483,894)	(138,692)
Total income taxes benefit	<u>\$ (1,925,608)</u>	<u>\$ (59,561)</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

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

	June 30, 2006	
	NT\$	US\$
Total deferred tax liabilities	\$-	\$-
Total deferred tax assets	\$4,483,894	\$138,692
Temporary differences:		
Employee benefits	\$-	\$-
Pension expense	1,657,161	51,258
Unrealized exchange gains	3,662,223	113,276
Losses from valuation on financial assets and liabilities	12,437,555	384,706
Impairment loss	157,011	4,857
Other	21,627	669
Total	\$17,935,577	\$554,766
Deferred tax assets-current	\$4,030,351	\$124,663
Deferred tax liabilities-current	-	-
Net offset balance of deferred tax assets-current	\$4,030,351	\$124,663
Deferred tax assets-noncurrent	\$453,543	\$14,029
Deferred tax liabilities-noncurrent	-	-
Net balance of deferred tax assets-noncurrent	\$453,543	\$14,029

(3) Income tax returns:

	June 30, 2006	
	Income tax returns assessed	Notes
The Company	Through 2001	-
Symphox Information	Through 2003	-
Cathy Venture	Through 2003	-
Cathay Life (Shanghai)	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(4) Information related to imputation

A. Balance of imputation credit account

	June 30, 2006	
	NT\$	US\$
The Company	\$88,763	\$2,746
Symphox Information	-	-
Cathay Venture	18,124	561

B. Imputation credit account ratio

	For the six months ended June 30, 2006
	Actual
The Company	7.33%
Symphox Information	-
Cathay Venture	-

(5) Related information on undistributed earnings

Year	June 30, 2006	
	NT\$	US\$
After 1998	\$-	\$-

Undistributed earnings after 1998 does not include the consolidated income from January 1 to June 30, 2006.

23. Earnings per share

	Amount (numerator) after income taxes NT\$	Outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars) after income taxes NT\$
For the six months ended June 30, 2006			
Consolidated income from continuing operations	\$3,934,231	5,068,616	\$0.78
Cumulative effect of changes in accounting principles	3,321,129	5,068,616	0.65
Consolidated income	<u>\$7,255,360</u>	5,068,616	<u>\$1.43</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

	Amount (numerator)	Outstanding number of shares (denominator)	Earnings per share (In dollars)
For the six months ended June 30, 2006	after income taxes US\$	(thousand shares)	after income taxes US\$
Consolidated income from continuing operations	\$121,689	5,068,616	\$0.02
Cumulative effect of changes in accounting principles	102,726	5,068,616	0.02
Consolidated income	<u>\$224,415</u>	5,068,616	<u>\$0.04</u>

24. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Seaward Card 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
Cathay Charity Foundation	Affiliate

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

<u>Name</u>	<u>Relationship</u>
Seaward Leasing Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Lucky Bank Taiwan Inc.	Affiliate
Shanghai China Eastern Media Co., Ltd.	Affiliate
CEA Futures Brokerage Co., Ltd.	Affiliate
CEA Finance Holding Co., Ltd.	Affiliate
CEA Finance Co., Ltd.	Affiliate
China Eastern Airlines Co., Ltd.	Affiliate
Vista Technology Venture Capital Corp.	An equity method investee
Cathay Securities Investment Trust Co., Ltd.	An equity method investee
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
Other related parties	The directors supervisors, managers spouses and second relatives are included

(2) Significant transactions with related parties

A. Property transactions:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(A) Significant transactions with related parties for the six months ended June 30, 2006 are listed below:

Name	Item	For the six months ended June 30, 2006	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay General Hospital	\$5,838	\$181
	Other	66	2
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark	1,500	46
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building	4,398	136
	Li-Yuan Building	10,077	312
	Jhong Jheng Building	7,198	223
	International Building	1,279	40
	World Commercial Building	1,393	43
	Financial Center Hsing-E	2,555	79
	Yuanlin Building	2,902	90
	Changhua 2nd Building	1,431	44
	Central Industrial & Commercial Building	1,406	43
	Taipei Royalty Building	12,607	390
	Jhong Gang Building	9,124	282
	Cathay Building	8,919	276
	Tun Nan Commercial Building	2,618	81
	Min Sheng Chien Kuo Building	1,088	33
	Feng Chia Building	2,326	72
Other	7,638	236	
Total		<u>\$84,363</u>	<u>\$2,609</u>

The total amount of contracted projects for real estate as of June 30, 2006 between the Company and San Ching Engineering Co., Ltd. was NT\$1,233,866 (US\$38,165).

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(B) Real estates acquired from related parties for the six months ended June 30, 2006
are as follows:

Name	Item	For the six months ended June 30, 2006	
		Contract Price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City.	<u>\$5,290,000</u>	<u>\$163,625</u>
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	<u>\$2,470,000</u>	<u>\$76,400</u>

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

Name	Rental income	
	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$5,124	\$159
Cathay Real Estate Development Co., Ltd.	7,925	245
Cathay United Bank	124,531	3,852
Cathay Century Insurance Co., Ltd.	25,910	801
Cathay General Hospital	73,075	2,260
San Ching Engineering Co., Ltd.	3,728	115
Cathay Securities Investment Trust Co., Ltd.	5,994	185
Cathay Securities Investment Co., Ltd.	1,687	52
Cathay Securities Co., Ltd.	7,531	233
Cathay Capital Management Corporation	991	31
Seaward Leasing Co., Ltd.	606	19
Taiwan Asset Management Corporation	6,653	206
Cathay Futures Co., Ltd.	313	10
Total	<u>\$264,068</u>	<u>\$8,168</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Name	Guarantee deposits received	
	June 30, 2006	
	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$3,645	\$113
Cathay United Bank	65,336	2,021
Cathay Century Insurance Co., Ltd.	14,306	442
Cathay General Hospital	6,840	212
San Ching Engineering Co., Ltd.	1,709	53
Cathay Securities Investment Trust Co., Ltd.	2,738	85
Cathay Securities Investment Co., Ltd.	877	27
Cathay Securities Co., Ltd.	3,785	117
Cathay Capital Management Corporation	479	15
Seaward Leasing Co., Ltd.	346	11
Taiwan Asset Management Corporation	3,477	107
Total	<u>\$103,538</u>	<u>\$3,203</u>

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

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

Name	Rental expense	
	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$15,383	\$476
Lin Yuan Investment Co., Ltd.	1,053	33
Yi Ru Corporation	1,684	52
Lucky Bank Taiwan Inc.	2,262	70
Cathay United Bank	462	14
Total	<u>\$20,844</u>	<u>\$645</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Name	Guarantee deposits paid	
	June 30, 2006	
	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$8,926	\$276
Lin Yuan Investment Co., Ltd.	628	19
Yi Ru Corporation	1,190	37
Lucky Bank Taiwan Inc.	1,292	40
Total	<u>\$12,036</u>	<u>\$372</u>

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

B. Cash in banks

Name	Item	For the six months ended June 30, 2006		
		Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United	Time deposit	\$82,580	1.05%~2.02%	\$1,539,960
Bank	Cash in bank	936	0.10%~2.25%	2,800,706
Lucky Bank Taiwan Inc.	Cash in bank	5	0.10%	11,722
CEA Finance Co., Ltd.	Cash in bank	77	0.72%~1.44%	1,666
Total		<u>\$83,598</u>		<u>\$4,354,054</u>

Name	Item	For the six months ended June 30, 2006		
		Interest income		Ending balance
		US\$	Rate	US\$
Cathay United	Time deposit	\$2,554	1.05%~2.02%	\$47,632
Bank	Cash in bank	29	0.10%~2.25%	86,629
Lucky Bank Taiwan Inc.	Cash in bank	-	0.10%	363
CEA Finance Co., Ltd.	Cash in bank	3	0.72%~1.44%	51
Total		<u>\$2,586</u>		<u>\$134,675</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

C. Other financial assets - current

Name	For the six months ended June 30, 2006		
	Interest income		Ending balance
	NT\$	Rate	NT\$
Cathay United Bank	\$4,438	1.80%	\$1,000,000

Name	For the six months ended June 30, 2006		
	Interest income		Ending balance
	US\$	Rate	US\$
Cathay United Bank	\$137	1.80%	\$30,931

D. Secured loans

Name	For the six months ended June 30, 2006			
	Maximum amount	Interest income		Ending balance
	NT\$	NT\$	Rate	NT\$
Cathay General Hospital	\$3,950,612	\$57,340	3.03%~3.23%	\$3,950,205
Other related parties	74,633	975	2.095%~3.14%	71,715
Total	\$4,025,245	\$58,315		\$4,021,920

Name	For the six months ended June 30, 2006			
	Maximum amount	Interest income		Ending balance
	US\$	US\$	Rate	US\$
Cathay General Hospital	\$122,196	\$1,774	3.03%~3.23%	\$122,184
Other related parties	2,309	30	2.095%~3.14%	2,218
Total	\$124,505	\$1,804		\$124,402

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

E. Beneficiary certificates

Name	June 30, 2006	
	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	<u>\$5,850,365</u>	<u>\$180,958</u>

F. Accounts receivable

Name	June 30, 2006	
	NT\$	US\$
Cathay General Hospital	\$476	\$15
Cathay United Bank	91,410	2,827
Cathay Century Insurance Co., Ltd.	4,011	124
Cathay Securities Co., Ltd.	2,540	79
Lin Yuan Property Management Co., Ltd.	740	23
San Ching Engineering Co., Ltd.	356	11
Cathay Securities Investment Trust Co., Ltd.	428	13
Cathay Futures Co., Ltd.	594	18
Cathay Insurance (Bermuda) Co., Ltd.	2,958	92
Cathay Financial Holding Co., Ltd.	18,302	566
Total	<u>\$121,815</u>	<u>\$3,768</u>

G. Guarantee deposits paid

Name	June 30, 2006	
	NT\$	US\$
Cathay Futures Co., Ltd.	<u>\$668,050</u>	<u>\$20,663</u>

As of June 30, 2006, the imputed interest income of guarantee deposits paid deposited in Cathay Futures Co., Ltd. was NT\$189(US\$6).

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

H. Other accounts payable

Name	June 30, 2006	
	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$13,718	\$424
Lin Yuan Property Management Co., Ltd.	26,169	810
Cathay Financial Holding	1,530,763	47,348
Total	<u>\$1,570,650</u>	<u>\$48,582</u>

I. Accounts collected in advance

Name	June 30, 2006	
	NT\$	US\$
Cathay United Bank	\$12,791	\$396
Cathay Century Insurance Co., Ltd.	2,324	72
Total	<u>\$15,115</u>	<u>\$468</u>

J. Prepayment

Name	June 30, 2006	
	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$365	\$11
Cathay Life Insurance Agent Co., Ltd.	1,562	49
Yi Ru Corporation	462	14
Total	<u>\$2,389</u>	<u>\$74</u>

K. Insurance income

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay United Bank	\$206,174	\$6,377
Cathay Financial Holding Co., Ltd.	361	11
Cathay General Hospital	13,371	414
Cathay Real Estate Development Co., Ltd.	736	23
San Ching Engineering Co., Ltd.	596	18

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Century Insurance Co., Ltd.	3,736	116
Cathay Securities Investment Trust Co., Ltd.	447	14
Cathay Securities Co., Ltd.	806	25
Cathay Futures Co., Ltd.	606	19
Shanghai China Eastern Media Co., Ltd.	56	2
CEA Finance Holding Co., Ltd.	304	9
China Eastern Airlines Co., Ltd.	163,726	5,064
Other related parties	14,260	441
Total	<u>\$405,179</u>	<u>\$12,533</u>

L. Insurance expense

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$108,721</u>	<u>\$3,363</u>

Insurance expense was included property and equipment, cash, accident insurance. As of June 30, 2006 the insurance expense which was authorized the Company to insure the fidelity insurance clause by employees was NT\$4,794(US\$148).

M. Indemnity income

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$389</u>	<u>\$12</u>

N. Reinsurance income

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$71,063</u>	<u>\$2,198</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

O. Reinsurance claims payment

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$67,259	\$2,080

P. Reinsurance commission expense

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$7,842	\$243

Q. Miscellaneous income

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$189,128	\$5,850
Cathay United Bank	228,956	7,082
Cathay Securities Investment Trust Co., Ltd.	8,993	278
Lin Yuan Property Management Co., Ltd.	1,033	32
San Ching Engineering Co., Ltd.	348	11
Cathay General Hospital	12,219	378
Cathay Securities Co., Ltd.	3,115	96
Lucky Bank Taiwan Inc.	1,062	33
Cathay Real Estate Development Co., Ltd.	395	12
Cathay Futures Co., Ltd.	1,091	34
Other related parties	303	9
Total	\$446,643	\$13,815

The miscellaneous income was cross-selling income.

R. Commissions expense

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$66,988	\$2,072

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

S. Operating expense

Name	For the six months ended June 30, 2006	
	NT\$	US\$
Cathay Charity Foundation	\$850	\$26
Cathay General Hospital	1,724	53
Lin Yuan Property Management Co., Ltd.	351,605	10,876
Cathay Securities Investment Co., Ltd.	26,250	812
San Ching Engineering Co., Ltd.	2,024	63
Cathay Real Estate Development Co., Ltd.	3,123	97
Cathay Capital Management Corporation	29,107	900
Seaward Leasing Co., Ltd.	3,179	98
Seaward Card Co., Ltd.	577	18
Total	<u>\$418,439</u>	<u>\$12,943</u>

T. Sale of securities

For the six months ended June 30, 2006						
Related party	Securities	shares (thousand)	Amount		Gain on disposal	
			NT\$	US\$	NT\$	US\$
San Ching Engineering Co., Ltd.	Lin Yuan Property Management Co., Ltd.	2,400	\$47,554	\$1,471	\$3,707	\$115

U. Other

As of June 30, 2006, the notional amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	June 30, 2006
Forward foreign exchange contracts	US\$284,789
CCS contracts	US\$793,168

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

25. Pledged assets

(1) The Company

As of June 30, 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 government bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

Item	June 30, 2006	
	NT\$	US\$
Guarantee deposits paid	\$8,126,646	\$251,366
Time deposits	161,600	4,998
Total	<u>\$8,288,246</u>	<u>\$256,364</u>

Pledged assets are based on the carrying amount.

(2) Symphox Information

As of June 30, 2006, the pledged property detail is as follows:

Item	June 30, 2006	
	NT\$	US\$
Other assets-other	\$7,316,223	\$226,298

The pledged assets, such as cash, time deposits or bond funds, are utilized to strengthen the financial operation of electronic gift certificates and to protect the clients' interests.

(3) Cathay Life (Shanghai)

According to the Insurance Law of the People's Republic of China, the guaranteed deposit is 20% of the registered capital. The guaranteed deposits of Cathay Life (Shanghai) are time deposits.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Item	June 30, 2006	
	NT\$	US\$
Guarantee deposits paid	\$648,448	\$20,057

26. Other important matters and contingent liabilities

Cathay Life (Shanghai)

As of June 30, 2006, the major lease agreements Cathay Life (Shanghai) has entered into and the estimated rent expenses for the next 5 years are as follows:

Year	Amount	
	NT\$	US\$
2006/7/1~2007/6/30	\$45,206	\$1,398
2007/7/1~2008/6/30	4,432	137
2008/7/1~2009/6/30	-	-
2009/7/1~2010/6/30	-	-
2010/7/1~2011/6/30	-	-
Total	<u>\$49,638</u>	<u>\$1,535</u>

27. Material disaster losses

None.

28. Subsequent events

None.

29. Other

(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".

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(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 price 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 testing methods, back testing 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 counterparty or a debtor defaulting on their contractual obligations. The Company minimizes the credit risk exposure by performing the following evaluations and controls:

The Company has taken the credit concentration index of each group into the consideration of establishing Lending Policy to prevent over-exposure. Strict credit evaluations are carried out by the Company before committing to any business lending,

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

mortgage lending, policy loan, and security investments. All lending are secured by land, property, plant and equipments or financial guarantees. No defaults have occurred during the current financial year.

Assessments on the mortgage repayment ability and personal credits are performed before the mortgages are granted. The total mortgage amounts granted are limited to 80% of the carrying value of the secured buildings which varies in different regions.

The credit risk level of policy loans is assessed at low, as the policy loan amounts are limited to the net realizable value of the insurance policy and hence are deemed as fully secured investments.

Operational Risk

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

Liquidity Risk

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:

A. The Company

(a) The information of the fair value

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Item	June 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$274,073,943	\$274,073,943	\$8,477,388	\$8,477,388
Receivables	9,380,157	9,380,157	290,138	290,138
Financial assets at fair value through profit and loss - current	113,655,799	113,655,799	3,515,490	3,515,490
Available-for-sale financial assets - current	82,499,190	82,499,190	2,551,784	2,551,784
Held-to-maturity financial assets - current	4,494,949	4,494,949	139,033	139,033
Investments in debt securities with no active market-current	2,669,773	2,669,773	82,579	82,579
Available-for-sale financial assets - noncurrent	138,531,073	138,531,073	4,284,908	4,284,908
Held-to-maturity financial assets - noncurrent	524,773,006	503,393,112	16,231,767	15,570,464
Financial assets carried at cost - noncurrent	20,159,255	20,159,255	623,546	623,546
Investments in debt securities with no active market - noncurrent	43,008,176	41,648,990	1,330,287	1,288,246
Long-term investments in stocks	4,181,686	4,181,686	129,344	129,344
Guarantee deposits paid	8,298,933	8,298,933	256,694	256,694
<u>Assets-derivative</u>				
Financial assets at fair value through profit and loss - current				
Futures	3,689,208	3,689,208	114,111	114,111
Option	875	875	27	27
Forward	4,672,455	4,672,455	144,524	144,524
IRS	158,565	158,565	4,905	4,905
Derivative financial assets for hedging - current				
IRS	326,925	326,925	10,112	10,112
<u>Liabilities-derivative</u>				
Financial liabilities at fair value through profit and loss - current				
Option	\$381	\$381	\$12	\$12
Forward	16,324,495	16,324,495	504,933	504,933

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Item	June 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
IRS	880,621	880,621	27,238	27,238
Derivative financial liabilities for hedging				
- current				
IRS	22,695	22,695	702	702

The methods and assumptions used to determine the fair values of the financial instruments are as follows:

- ① Due to short maturities, the fair values of the short-term financial instruments approximate the book values and therefore the fair values are deemed equal to book values. This applies to cash, cash equivalents, receivables and payables.
- ② The carrying amounts of the guarantee deposits paid and guarantee deposits received is deemed fair values.
- ③ Quoted market prices, if available, are utilized as estimates of the fair value of financial instruments. If no quoted market prices exist for the Company's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at June 30, 2006:

Financial Instruments	June 30, 2006			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit and loss-current	\$107,374,944	\$107,374,944	\$6,280,855	\$6,280,855
Available-for-sale financial assets-current	82,499,190	82,499,190	-	-
Held-to-maturity financial assets-current	4,494,949	4,494,949	-	-
Investments in debt securities with no active market-current	-	-	2,669,773	2,669,773
Available-for-sale financial assets-noncurrent	112,573,718	112,573,718	25,957,355	25,957,355
Held-to-maturity financial assets-noncurrent	80,835,997	81,883,944	443,937,009	421,509,168
Financial assets carried at cost-noncurrent	20,159,255	20,159,255	-	-
Investment in debt securities with no active market-noncurrent	14,617,354	14,617,354	28,390,822	27,031,636
Long-term investments in stocks under the equity method	-	-	4,181,686	4,181,686
<u>Assets derivative</u>				
Financial assets at fair value through profit and loss-current				
Futures	3,689,208	3,689,208	-	-
Option	875	875	-	-
Forward contracts	-	-	4,672,455	4,672,455
IRS	-	-	158,565	158,565
Derivative financial assets for hedging-current				
IRS	-	-	326,925	326,925

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Financial Instruments	June 30,2006			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Liability derivative</u>				
Financial liability at fair value through profit and loss-current				
Option	381	381	-	-
Forward contracts	-	-	16,324,495	16,324,495
IRS	-	-	880,621	880,621
Derivative financial liability for hedging-current				
IRS	-	-	22,695	22,695
Financial Instruments	June 30,2006			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit and loss-current				
	\$3,321,217	\$3,321,217	\$194,273	\$194,273
Available-for-sale financial assets-current	2,551,784	2,551,784	-	-
Held-to-maturity financial assets-current	139,033	139,033	-	-
Investments in debt securities with no active market-current				
	-	-	82,579	82,579
Available-for-sale financial assets-noncurrent				
	3,482,020	3,482,020	802,888	802,888
Held-to-maturity financial assets-noncurrent				
	2,500,340	2,532,754	13,731,427	13,037,710
Financial assets carried at cost-noncurrent				
	623,546	623,546	-	-
Investment in debt securities with no active market-noncurrent				
	452,130	452,130	878,157	836,116

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Financial Instruments	June 30, 2006			
	US\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term investments in stocks under the equity method	-	-	129,344	129,344
<u>Assets-derivative</u>				
Financial assets at fair value through profit and loss-current				
Futures	114,111	114,111	-	-
Option	27	27	-	-
Forward contracts	-	-	144,524	144,524
IRS	-	-	4,905	4,905
Derivative financial assets for hedging-current				
IRS	-	-	10,112	10,112
<u>Liability derivative</u>				
Option	12	12	-	-
Forward contracts	-	-	504,933	504,933
IRS	-	-	27,239	27,239
Derivative financial assets for hedging-current				
IRS	-	-	702	702

(b) Interest rate risks

The following table summarizes the maturities of the Company's financial instruments at June 30, 2006:

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Fixed interest rate non-derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$-	\$-	\$622,883	\$19,266	\$284,270	\$8,793	\$-	\$-

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Available-for-sale financial assets	2,821,039	87,258	1,666,574	51,549	1,080,059	33,407	911,221	28,185
Held-to-maturity financial assets	11,855,458	366,702	7,874,716	243,573	817,629	25,290	14,488,857	448,155
Investments in debt securities with no active market	502,274	15,536	-	-	1,258,431	38,924	447,447	13,840

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$1,068,887	\$33,062	\$28,983,407	\$896,486	\$30,959,447	\$957,607
Available-for-sale financial assets	4,839,715	149,697	84,204,684	2,604,537	95,523,292	2,954,633
Held-to-maturity financial assets	14,773,046	456,945	253,782,734	7,849,760	303,592,440	9,390,425
Investments in debt securities with no active market	615,071	19,025	29,199,429	903,168	32,022,652	990,493

Floating interest rate non-derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value through profit and loss	\$6,818,078	\$210,890	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	43,007,781	1,330,275	-	-	-	-	-	-
Held-to-maturity financial assets	229,307,212	7,092,707	-	-	-	-	-	-
Investments in debt securities with no active market	13,655,296	422,372	-	-	-	-	-	-

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit and loss	\$-	\$-	\$-	\$-	\$6,818,078	\$210,890
Available-for-sale financial						
assets	-	-	-	-	43,007,781	1,330,275

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	-	-	-	-	229,307,212	7,092,707
Investments in debt securities						
with no active market	-	-	-	-	13,655,296	422,372

Derivative financial instruments

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value								
through profit and loss	\$260,750	\$8,066	\$24,868	\$769	\$3,847	\$119	\$7,541	\$233
Derivative financial assets for								
hedging	-	-	34,790	1,076	48,952	1,514	133,728	4,136
Financial liabilities at fair value								
through profit and loss	(117,317)	(3,629)	(15,369)	(475)	(2,085)	(65)	(38,863)	(1,202)
Derivative financial liabilities								
for hedging	-	-	(6,355)	(197)	(6,608)	(204)	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit and loss	\$9,368	\$290	\$100,490	\$3,108	\$406,864	\$12,585
Derivative financial assets for						
hedging	32,839	1,016	76,616	2,370	326,925	10,112
Financial liabilities at fair value						
through profit and loss	(60,073)	(1,858)	(477,749)	(14,777)	(711,456)	(22,006)
Derivative financial liabilities						
for hedging	(9,732)	(301)	-	-	(22,695)	(702)

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

(c) Credit risk

The Company's exposure to credit risk is minimal.

(d) Hedged of derivative financial instruments related information:

Cash flow hedges-IRS

The company utilized interest rate swap contracts to decrease the risks of interest rate fluctuation. The contract terms are as follows:

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$372,500	\$11,522	ARMS	Each quarter	2009/3/24
500,000	15,466	4.0005%-6ML	Yearly	2008/9/26
500,000	15,466	7.6%-90DCP	Half year	2007/10/10
500,000	15,466	7.05%-90DCP	Half year	2007/10/10
300,000	9,279	5.5%-6ML	Half year	2007/12/26
500,000	15,466	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,186	4.003%-6ML	Half year	2008/6/13
500,000	15,466	4%-12ML	Yearly	2008/6/5
300,000	9,279	4.3%-12ML	Yearly	2010/6/20
900,000	27,838	90DCP	Each quarter	2015/2/4
400,000	12,372	90DCP	Each quarter	2015/3/17
50,000	1,547	90DCP	Each quarter	2009/3/15
500,000	15,466	If 6ML<1.1%,6ML If 1.1%<6ML<2.0%,3.8% If 6ML>2.0%,Max(5.50%-6ML,0)	Half year	2011/6/30
200,000	6,186	7.603%-6ML	Half year	2007/7/31
300,000	9,279	7.5%-6ML	Half year	2007/7/31
300,000	9,279	If 6ML<6.9%,3.8% If 6ML>6.9%,0%	Half year	2007/7/31
300,000	9,279	5.1%-6ML	Half year	2007/12/19
200,000	6,186	If 6ML<0.95%,6ML	Half year	2009/1/9

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
		If0.95%<6ML<2.0%,3.5%		
		If2.0%<6ML;4.8%-6ML		
200,000	6,186	4.000%-6ML	Half year	2010/4/7
300,000	9,279	4.0002%-6ML	Half year	2010/4/7
300,000	9,279	If6ML<0.95%,6ML	Half year	2009/1/7
		If0.95%<6ML<2.0%,3.5%		
		If2.0%<6ML;4.8%-6ML		
500,000	15,466	4.0006%-6ML	Half year	2010/4/7
500,000	15,466	4.0007%-6ML	Half year	2010/4/7
200,000	6,186	0~0.5Y:3.8%, 0.5Y+6ML:3.0%	Half year	2011/3/19
		0.5-1.5Y:0.75%-2.0%,		
		1.5-2.5Y:1%-2.5%,		
		2.5-3.5Y:1%-3.0%,		
		3.5-4.5Y:1%-3.5%,		
		4.5-5.5Y:1%-4.0%,		
		5.5-6.5Y:1%-4.5%,		
		6.5-7.0Y:1%-5.0%		
250,000	7,733	90DCP	Each quarter	2008/8/10
900,000	27,838	90DCP	Each quarter	2010/8/18
600,000	18,559	90DCP	Each quarter	2010/8/19
450,000	13,919	90DCP	Each quarter	2008/8/22
330,000	10,207	90DCP	Each quarter	2008/8/24
300,000	9,279	5.35%-6ML	Each quarter	2008/1/8
200,000	6,186	4.0003%-6ML	Half year	2010/4/7
300,000	9,279	5.37%-6ML	Yearly	2011/3/15
200,000	6,186	5.85%-6ML	Half year	2009/1/13
50,000	1,547	4.15%-6ML	Half year	2009/1/16
200,000	6,186	6.3%-6ML	Yearly	2010/11/27

The terms of the interest rate swap contracts are established based on the terms of the bonds.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

As of June 30, 2006, the unrealized gain on the financial instruments is \$433 million under stockholders' equity.

B. Cathay Life (Shanghai)

Item	June 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$1,008,005	\$1,008,005	\$31,179	\$31,179
Financial assets at fair value through profit and loss - current	542,101	542,101	16,768	16,768
Available-for-sale financial assets - noncurrent	224,050	224,050	6,930	6,930
Held-to-maturity financial assets - noncurrent	955,947	955,947	29,568	29,568
Guarantee deposits paid	662,663	662,663	20,497	20,497
<u>Liability-non-derivative</u>				
Guarantee deposits received	574	574	18	18

The fair values of the financial instruments are determined by Cathay Life (Shanghai) using the following methods and assumptions:

- ① Due to short maturities, the fair values of the short-term financial instruments approximate the book values and therefore the fair values are deemed equal to book values. This applies to cash, cash equivalents and other financial assets-current.
- ② Market values are deemed fair values for available for sale financial assets-noncurrent.
- ③ Book values are deemed fair values for guarantee deposits paid and received.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

C. Symphox Information

Item	June 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Cash and cash equivalents	\$83,592	\$83,592	\$2,586	\$2,586
Financial assets at fair value through profit and loss - current	131,116	131,116	4,056	4,056
Receivables	199,284	199,284	6,164	6,164
Guarantee deposits paid	10,970	10,970	339	339
<u>Liability-non-derivative</u>				
Payables	125,767	125,767	3,890	3,890
Guarantee deposits received	87	87	3	3

The fair values of the financial instruments are determined by Symphox using the following methods and assumptions:

- ① Due to short maturities, the fair values of the short-term financial instruments approximate the book values and therefore the fair values are deemed equal to book values. This applies to cash and cash equivalents, financial assets at fair value through profit and loss-current, receivables and payables.
 - ② Book values are deemed fair values for guarantee deposits paid and received.
- (4) Discretionary investments

The Company authorized security investment trust institutions to manage its discretionary accounts. The discretionary investments are as follows:

Item	June 30, 2006			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$5,971,778	\$184,713	\$5,971,778	\$184,713
Repurchase bonds	4,866,991	150,541	4,868,234	150,579
Convertible bonds	27,512	851	27,512	851
Bonds	2,891,806	89,447	2,891,806	89,447
Cash in banks	237,234	7,338	237,242	7,338
Total	<u>\$13,995,321</u>	<u>\$432,890</u>	<u>\$13,996,572</u>	<u>\$432,928</u>

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

As of June 30, 2006, the total amount of discretionary investments of the Company was NT\$12,650,000 (US\$391,277).

(5) Material contract:

None

(6) Eliminated intercompany transactions

Transactions	Companies and amounts							
	The Company		Subsidiary-Symphox Information		Subsidiary-Cathay Venture		Subsidiary-Cathay Life (Shanghai)	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Eliminations of long-term investments under equity method and stockholders' equity								
Eliminations of investment gains/losses on subsidiaries	\$(10,191)	\$(315)	\$(18,978)	\$(587)	\$30,409	\$941	\$(21,622)	\$(669)
Eliminations of stockholders' equity on subsidiaries	(2,416,772)	(74,753)	432,940	13,391	1,763,388	54,543	3,090,786	95,601

Note: The intercompany elimination differences for the first half year of 2006 are as follows:

A. Unamortized intercompany back-flow transactions: NT\$(374) (US\$(11)).

B. Minority interests: NT\$(2,869,968) (US\$(88,771)).

22. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2004, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22.85 million and US\$27.15 million, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2004, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of June 30, 2005, the Company's remittances to this new company totaled approximately US\$48.330 million.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Notes to unaudited consolidated financial statements

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

As of June 30, 2006

23. Segment Information

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