

**Cathay Life Insurance Co., Ltd.**  
**Financial Statements**  
**For the Nine-Month Periods Ended**  
**September 30, 2005 and 2006**  
**With Independent Auditors' Review Report**

The reader is advised that these financial statements have been prepared originally in Chinese. These financial statements do not include additional disclosure information that is required for Chinese-language reports under the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries”. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language financial statements shall prevail.

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## Index to unaudited financial statements

	Page
Independent auditors' review report	3
Unaudited balance sheets as of September 30, 2005 and 2006	4-5
Unaudited statements of income for the nine months ended September 30, 2005 and 2006	6
Unaudited statements of changes in stockholders' equity for the nine months ended September 30, 2005 and 2006	7
Unaudited statements of cash flows for the nine months ended September 30, 2005 and 2006	8-9
Notes to unaudited financial statements	10-75

**English Translation of Review Report Originally Issued in Chinese**

Independent auditors' review Report

Board of Directors  
Cathay Life Insurance Co., Ltd.

We have reviewed the accompanying balance sheets of Cathay Life Insurance Co., Ltd. (the "Company") as of September 30, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a review report based on our reviewed.

We conducted our review in accordance with generally accepted auditing standards No. 36 "Review of Financial Statements" in the Republic of China ("ROC"). 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. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we don't express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements as of and for the nine-month periods ended September 30, 2005 and 2006 in order for them to be in conformity with "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the ROC.

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

Ernst & Young  
Taipei, Taiwan  
Republic of China  
October 19, 2006

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**  
**Unaudited balance sheets**  
**As of September 30, 2005 and 2006**  
**(Expressed in thousands of dollars)**

Assets	Notes	September 30, 2005		September 30, 2006	
		NT\$	US\$	NT\$	US\$
<b>Current assets</b>					
Cash and cash equivalents	2,4	\$253,349,050	\$7,635,595	\$302,443,003	\$9,137,251
Financial assets at fair value through profit or loss - current	2,5	100,239,763	3,021,090	90,454,070	2,732,751
Available-for-sale financial assets - current	2,6	114,956,691	3,464,638	104,195,732	3,147,907
Held-to-maturity financial assets - current	2	3,342,497	100,738	10,458,530	315,968
Derivative financial assets for hedging - current	2,7	-	-	304,329	9,194
Investments in debt securities with no active market - current	2	537,739	16,207	5,517,326	166,687
Notes receivable	2	11,931,050	359,586	10,149,842	306,642
Reinsurance accounts receivable		10,026	302	60,704	1,834
Other accounts receivable	2	29,963,753	903,067	28,334,522	856,028
Other financial assets - current		3,000,000	90,416	16,850,000	509,063
Prepayments		66,823	2,014	25,095	758
Deferred income tax assets - current		-	-	635,459	19,198
Other current assets		3,977,017	119,862	6,327,016	191,149
Subtotal		521,374,409	15,713,515	575,755,628	17,394,430
<b>Loans</b>	2,8				
Policy loans		165,857,073	4,998,706	173,158,563	5,231,377
Secured loans		278,516,801	8,394,117	292,988,270	8,851,609
Subtotal		444,373,874	13,392,823	466,146,833	14,082,986
<b>Funds and investments</b>					
Available-for-sale financial assets - noncurrent	2,9	130,093,565	3,920,843	147,599,794	4,459,208
Held-to-maturity financial assets - noncurrent	2,10	441,158,365	13,295,912	529,790,151	16,005,745
Financial assets carried at cost - noncurrent	2,11	20,417,709	615,362	20,011,317	604,572
Investments in debt securities with no active market - noncurrent	2	46,705,831	1,407,650	42,995,008	1,298,943
Long-term investments in stocks under the equity method	2,13	3,819,458	115,113	4,198,857	126,854
Investments in real estate	2,14	97,963,443	2,952,485	104,943,433	3,170,496
Subtotal		740,158,371	22,307,365	849,538,560	25,665,818
<b>Property and equipment</b>	2,15				
Land		4,865,181	146,630	4,731,609	142,949
Buildings and construction		10,594,620	319,307	9,658,163	291,787
Computer equipment		1,520,143	45,815	1,563,176	47,226
Communication and transportation equipment		68,194	2,055	32,110	970
Other equipment		3,188,469	96,096	3,320,374	100,313
Revaluation increments		2,212	67	1,472	45
Less: Accumulated depreciation		(6,084,181)	(183,369)	(6,330,744)	(191,261)
Less: Accumulated impairment		(85,519)	(2,577)	(85,519)	(2,584)
Construction in progress and prepayment for equipment		-	-	40,141	1,213
Subtotal		14,069,119	424,024	12,930,782	390,658
<b>Intangible assets</b>	2				
Computer software cost		163,527	4,928	331,541	10,016
Subtotal		163,527	4,928	331,541	10,016
<b>Other assets</b>					
Guarantee deposits paid	2	8,253,789	248,758	8,286,274	250,341
Deferred income tax assets - noncurrent	2,22	437,335	13,181	455,368	13,757
Other overdue receivables	2,16	74,286	2,239	30,882	933
Separate account products assets	2	75,685,648	2,281,062	137,949,099	4,167,646
Other assets - other		1,433,744	43,211	4,430,804	133,861
Subtotal		85,884,802	2,588,451	151,152,427	4,566,538
<b>Total assets</b>		<b>\$1,806,024,102</b>	<b>\$54,431,106</b>	<b>\$2,055,855,771</b>	<b>\$62,110,446</b>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2005 and 2006 were NT\$33.18 and NT\$33.10 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**  
**Unaudited balance sheets - (continued)**  
**As of September 30, 2005 and 2006**  
**(Expressed in thousands of dollars)**

Liabilities & stockholders' equity	Notes	September 30, 2005		September 30, 2006	
		NTS	US\$	NTS	US\$
<b>Current liabilities</b>					
Financial liabilities at fair value through profit or loss - current	2,17	\$19,946,803	\$601,170	\$16,822,560	\$508,235
Derivative financial liabilities for hedging - current	2,18	-	-	35,549	1,074
Notes payable		1,459	44	3,523	106
Commissions payable		991,746	29,890	905,200	27,347
Life insurance proceeds payable		5,016	151	468	14
Reinsurance accounts payable		142,086	4,282	191,133	5,774
Other payable		6,090,386	183,556	20,684,668	624,915
Accounts collected in advance		459,754	13,856	155,235	4,690
Deferred income tax liabilities - current	2,22	894,513	26,959	-	-
Subtotal		<u>28,531,763</u>	<u>859,908</u>	<u>38,798,336</u>	<u>1,172,155</u>
<b>Long-term liabilities</b>					
Reserve for land revaluation increment tax		3,726	113	3,582	108
Accrued pension liability	2	1,592,091	47,983	1,664,459	50,286
Subtotal		<u>1,595,817</u>	<u>48,096</u>	<u>1,668,041</u>	<u>50,394</u>
Reserve for operations and liabilities	2				
Unearned premium reserve		9,559,554	288,112	10,257,454	309,893
Reserve for life insurance liabilities		1,566,344,065	47,207,476	1,733,490,954	52,371,328
Special reserve		16,940,638	510,568	17,506,996	528,912
Loss and loss expense provisions		358,043	10,791	1,342,278	40,552
Subtotal		<u>1,593,202,300</u>	<u>48,016,947</u>	<u>1,762,597,682</u>	<u>53,250,685</u>
<b>Other liabilities</b>					
Guarantee deposits received		1,610,004	48,523	1,568,398	47,384
Separate account products liabilities	2	75,685,648	2,281,062	137,949,099	4,167,646
Other miscellaneous liabilities		8,117,235	244,643	6,657,591	201,136
Subtotal		<u>85,412,887</u>	<u>2,574,228</u>	<u>146,175,088</u>	<u>4,416,166</u>
Total liabilities		<u>1,708,742,767</u>	<u>51,499,179</u>	<u>1,949,239,147</u>	<u>58,889,400</u>
<b>Stockholders' equity</b>					
<b>Capital stock</b>					
Common stock	2,19	50,686,158	1,527,612	50,686,158	1,531,304
Capital surplus		10,105	305	9,649	291
<b>Retained earnings</b>					
Legal reserve	2,20	17,891,897	539,237	19,684,163	594,687
Special reserve		11,082,320	334,006	14,133,703	427,000
Unappropriated retained earnings		17,606,428	530,634	10,920,536	329,926
<b>Equity adjustment</b>					
Unrealized (losses) gains on financial instruments	20	(3,176)	(96)	11,140,691	336,577
Unrealized revaluation increments		3,048	92	2,105	64
Cumulative conversion adjustments		4,555	137	39,619	1,197
Total stockholders' equity		<u>97,281,335</u>	<u>2,931,927</u>	<u>106,616,624</u>	<u>3,221,046</u>
Total liabilities and stockholders' equity		<u>\$1,806,024,102</u>	<u>\$54,431,106</u>	<u>\$2,055,855,771</u>	<u>\$62,110,446</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2005 and 2006 were NT\$33.18 and NT\$33.10 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd.

Unaudited statements of income

For the nine months ended September 30, 2005 and 2006

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

Item	Notes	January 1-September 30, 2005		January 1-September 30, 2006	
		NTS	US\$	NTS	US\$
Operating revenues	2,24				
Premiums income		\$190,267,254	\$5,734,396	\$196,999,820	\$5,951,656
Reinsurance commission earned		187,004	5,636	197,423	5,964
Claims recovered from reinsurers		187,040	5,637	145,618	4,399
Recovered premiums reserve		78,842,486	2,376,205	84,912,299	2,565,326
Recovered special reserve		684,748	20,637	536,773	16,217
Handling fees earned		1,239,865	37,368	662,587	20,018
Interest income		40,009,205	1,205,823	46,183,410	1,395,269
Gains from valuation on financial assets		-	-	6,744,637	203,765
Gains on long-term equity investments		45,948	1,385	228,384	6,900
Gains on foreign exchange		1,801,369	54,291	8,202,892	247,822
Gains on disposal of investments		8,330,468	251,069	7,736,357	233,727
Gains on investments - real estate		12,730,114	383,668	6,778,847	204,799
Separate account products revenues		46,267,706	1,394,446	53,205,953	1,607,431
Subtotal		380,593,207	11,470,561	412,535,000	12,463,293
Operating costs	2,24				
Reinsurance premiums ceded		(452,937)	(13,651)	(476,220)	(14,387)
Brokerage expenses		(19,280,210)	(581,079)	(20,526,494)	(620,136)
Commissions expenses		(337,316)	(10,166)	(182,065)	(5,500)
Insurance claims payment		(101,738,974)	(3,066,274)	(108,900,209)	(3,290,037)
Provision for premiums reserve		(188,557,234)	(5,682,858)	(196,150,520)	(5,925,998)
Provision for special reserve		(893,268)	(26,922)	(599,483)	(18,111)
Contribution to the stabilization funds		(190,119)	(5,730)	(196,820)	(5,946)
Provision for claims reserve		(10,009)	(302)	(908,642)	(27,451)
Handling fees paid		(471,050)	(14,197)	(945,978)	(28,579)
Interest expenses		(30,011)	(904)	(96,345)	(2,911)
Losses from valuation on financial liabilities		-	-	(16,795,429)	(507,415)
Separate account products expenses		(46,267,706)	(1,394,446)	(53,205,953)	(1,607,431)
Other operating cost		-	-	(142,240)	(4,297)
Subtotal		(358,228,834)	(10,796,529)	(399,126,398)	(12,058,199)
Operating gross profit		22,364,373	674,032	13,408,602	405,094
Operating expenses	2,24				
Marketing expenses		(1,820,790)	(54,876)	(1,945,435)	(58,775)
Administrative and general expenses		(5,744,497)	(173,131)	(5,672,460)	(171,373)
Subtotal		(7,565,287)	(228,007)	(7,617,895)	(230,148)
Operating income		14,799,086	446,025	5,790,707	174,946
Non-operating revenues & gains	2,24				
Gains on disposal of property and equipment		7,906	238	2,640	80
Other non-operating revenues & gains		2,109,517	63,578	1,117,748	33,769
Subtotal		2,117,423	63,816	1,120,388	33,849
Non-operating expenses & losses	2,24				
Losses on disposal of property and equipment		(1,810)	(55)	(620)	(19)
Impairment loss		(282,772)	(8,522)	-	-
Miscellaneous expenses		(4,681)	(141)	(16,658)	(503)
Subtotal		(289,263)	(8,718)	(17,278)	(522)
Income from continuing operations before income taxes		16,627,246	501,123	6,893,817	208,273
Income taxes benefit	2,22	979,182	29,511	710,864	21,476
Income from continuing operations after income taxes		17,606,428	530,634	7,604,681	229,749
Cumulative effect of changes in accounting principles	3	-	-	3,315,855	100,177
Net income		\$17,606,428	\$530,634	\$10,920,536	\$329,926
Earnings per share (In dollars)	23				
Income from continuing operations after income taxes		\$3.47	\$0.10	\$1.50	\$0.05
Cumulative effect of changes in accounting principles		-	-	0.66	0.02
Net income		\$3.47	\$0.10	\$2.16	\$0.07

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2005 and 2006 were NT\$33.18 and NT\$33.10 to US\$1.00)

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

**Cathay Life Insurance Co., Ltd.**  
**Unaudited statements of changes in stockholders' equity**  
**For the nine months ended September 30, 2005 and 2006**  
**(Expressed in thousands of dollars)**

Summary	Retained earnings										Other stockholders' equity						Total	
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized (losses) gains of financial instruments		Unrealized revaluation increments		Cumulative conversion adjustments			
	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$	NTS	US\$		
Balance on January 1, 2005	\$50,686,158	\$1,527,612	\$9,543	\$288	\$16,330,948	\$492,192	\$8,016,080	\$241,594	\$15,609,488	\$470,449	\$-	\$-	\$3,048	\$92	\$(83,445)	\$(2,515)	\$90,571,820	\$2,729,712
Appropriations and distributions for 2004																		
Legal reserve	-	-	-	-	1,560,949	47,045	-	-	(1,560,949)	(47,045)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,066,240	92,412	(3,066,240)	(92,412)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,906,612)	(328,711)	-	-	-	-	-	-	(10,906,612)	(328,711)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(244)	-	-	-	-	-	-	(8,100)	(244)
Bonus paid to employees	-	-	-	-	-	-	-	-	(67,587)	(2,037)	-	-	-	-	-	-	(67,587)	(2,037)
Capital surplus - long-term equity investments	-	-	562	17	-	-	-	-	-	-	-	-	-	-	-	-	562	17
Unrealized losses on financial instruments	-	-	-	-	-	-	-	-	-	-	(3,176)	(96)	-	-	-	-	(3,176)	(96)
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	88,000	2,652	88,000	2,652
Net income for the nine months ended September 30, 2005	-	-	-	-	-	-	-	-	17,606,428	530,634	-	-	-	-	-	-	17,606,428	530,634
Balance on September 30, 2005	\$50,686,158	\$1,527,612	\$10,105	\$305	\$17,891,897	\$539,237	\$11,082,320	\$334,006	\$17,606,428	\$530,634	\$(3,176)	\$(96)	\$3,048	\$92	\$4,555	\$137	\$97,281,335	\$2,931,927
Balance on January 1, 2006	\$50,686,158	\$1,531,304	\$10,105	\$305	\$17,891,897	\$540,540	\$11,082,320	\$334,813	\$17,922,656	\$541,470	\$-	\$-	\$3,048	\$92	\$(4,119)	\$(124)	\$97,592,065	\$2,948,400
Unrealized gains on financial instruments - for first time adoption	-	-	-	-	-	-	-	-	-	-	9,914,421	299,529	-	-	-	-	9,914,421	299,529
Appropriations and distributions for 2005																		
Legal reserve	-	-	-	-	1,792,266	54,147	-	-	(1,792,266)	(54,147)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,051,383	92,187	(3,051,383)	(92,187)	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(13,057,689)	(394,492)	-	-	-	-	-	-	(13,057,689)	(394,492)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(245)	-	-	-	-	-	-	(8,100)	(245)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,218)	(399)	-	-	-	-	-	-	(13,218)	(399)
Land revaluation increments	-	-	-	-	-	-	-	-	-	-	-	-	(943)	(28)	-	-	(943)	(28)
Capital surplus - long-term equity investments	-	-	(456)	(14)	-	-	-	-	-	-	-	-	-	-	-	-	(456)	(14)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	1,226,270	37,048	-	-	-	-	1,226,270	37,048
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43,738	1,321	43,738	1,321
Net income for the nine months ended September 30, 2006	-	-	-	-	-	-	-	-	10,920,536	329,926	-	-	-	-	-	-	10,920,536	329,926
Balance on September 30, 2006	\$50,686,158	\$1,531,304	\$9,649	\$291	\$19,684,163	\$594,687	\$14,133,703	\$427,000	\$10,920,536	\$329,926	\$11,140,691	\$336,577	\$2,105	\$64	\$39,619	\$1,197	\$106,616,624	\$3,221,046

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2005 and 2006 were NTS33.18 and NTS33.10 to US\$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

**Cathay Life Insurance Co., Ltd.**  
**Unaudited statements of cash flows**  
**For the nine months ended September 30, 2005 and 2006**  
**(Expressed in thousands of dollars)**

	January 1-September 30, 2005		January 1-September 30, 2006	
	NT\$	US\$	NT\$	US\$
Cash flows from operating activities				
Net income for the periods	\$17,606,428	\$530,634	\$10,920,536	\$329,926
Adjustments:				
Recovered bad debt	(1,233,796)	(37,185)	(58,572)	(1,770)
Depreciation	1,663,828	50,146	1,733,051	52,358
Amortization	26,295	792	68,211	2,061
Impairment loss	282,772	8,522	-	-
Provision or recovered for each reserve	109,933,277	3,313,239	112,209,573	3,390,017
Gains on disposal of long-term investments held for disposal	-	-	(3,707)	(112)
Gains on disposal of property and equipment	(6,096)	(184)	(2,021)	(61)
Gains on disposal of real estate	(8,609,326)	(259,473)	(1,004,697)	(30,353)
Unrealized gain on long-term investments	(340)	(10)	(105,799)	(3,196)
Effects of exchange rate changes	(10,687)	(322)	(36,486)	(1,102)
Cumulative effect of changes in accounting principles	-	-	(3,315,855)	(100,177)
Decrease in financial assets at fair value through profit or loss - current	44,826,453	1,351,008	32,390,674	978,570
(Increase) decrease in available-for-sale financial assets - current	(40,341,334)	(1,215,833)	21,421,203	647,166
Decrease (increase) in held-to-maturity financial assets - current	2,467,726	74,374	(5,472,591)	(165,335)
Decrease in derivative financial assets for hedging - current	-	-	129,421	3,910
Increase in investments in debt securities with no active market - current	(537,739)	(16,207)	(5,517,326)	(166,687)
Decrease in notes receivable	429,610	12,948	3,864,790	116,761
Increase in reinsurance accounts receivable	(10,026)	(302)	(60,704)	(1,834)
Increase in other accounts receivable	(15,549,501)	(468,641)	(11,368,036)	(343,445)
Increase in other financial assets - current	(3,000,000)	(90,416)	(10,850,000)	(327,795)
(Increase) decrease in prepayments	(47,350)	(1,427)	20,506	620
Increase in deferred income tax assets - current	-	-	(635,459)	(19,198)
Decrease (increase) in other current assets	950,791	28,655	(2,839,523)	(85,786)
(Increase) decrease in deferred income tax assets - noncurrent	(80,407)	(2,423)	4,752	144
Increase in other assets - other	(329,470)	(9,930)	(2,979,611)	(90,018)
Increase in financial liabilities at fair value through profit or loss - current	19,788,840	596,409	12,685,998	383,263
Increase in derivative financial liabilities for hedging - current	-	-	35,550	1,074
(Decrease) increase in notes payable	(490)	(15)	1,872	56
Decrease in commissions payable	(101,478)	(3,058)	(482,340)	(14,572)
Increase (decrease) in life insurance proceeds payable	2,975	90	(3,541)	(107)
Decrease in reinsurance accounts payable	(27,746)	(836)	(657)	(20)
(Decrease) increase in other payable	(90,853)	(2,738)	15,244,059	460,545
Increase (decrease) in accounts collected in advance	317,094	9,557	(327,750)	(9,902)
Increase (decrease) in deferred income tax liabilities - current	451,713	13,614	(396,408)	(11,976)
Increase in accrued pension liability	164,381	4,954	37,141	1,122
Increase (decrease) in other miscellaneous liabilities	5,906,778	178,022	(4,665,280)	(140,945)
Net cash provided by operating activities	<u>134,842,322</u>	<u>4,063,964</u>	<u>160,640,974</u>	<u>4,853,202</u>
Cash flows from investing activities				
Disposal of long-term investments held for disposal	-	-	47,411	1,432
Decrease (increase) in policy loans	3,472,995	104,671	(6,664,372)	(201,341)
Decrease (increase) in secured loans	4,948,084	149,129	(16,256,369)	(491,129)
Decrease (increase) in available-for-sale financial assets - noncurrent	11,331,199	341,507	(33,290,435)	(1,005,753)
Increase in held-to-maturity financial assets - noncurrent	(119,840,985)	(3,611,844)	(75,625,409)	(2,284,756)
(Increase) decrease in financial assets carried at cost - noncurrent	(9,378,118)	(282,644)	439,530	13,279
(Increase) decrease in investments in debt securities with no active market - noncurrent	(10,109,601)	(304,690)	2,611,552	78,899
Proceeds from disposal of long-term equity investments	24,061	725	-	-
Acquisition of long-term equity investments	(155,000)	(4,671)	-	-
Disposal of investments in real estate	13,878,616	418,283	1,681,819	50,810
Acquisition of investments in real estate	(2,568,638)	(77,415)	(4,534,015)	(136,979)
Disposal of property and equipment	78,311	2,360	10,347	313
Acquisition of property and equipment	(446,354)	(13,452)	(224,375)	(6,779)
Acquisition of intangible assets	(120,900)	(3,644)	(221,544)	(6,693)
Decrease (increase) in guarantee deposits paid	75,197	2,266	(63,665)	(1,923)
Decrease (increase) in other overdue receivables	1,166,721	35,163	(3,074)	(93)
Net cash used in investing activities	<u>(107,644,412)</u>	<u>(3,244,256)</u>	<u>(132,092,599)</u>	<u>(3,990,713)</u>

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2005 and 2006 were NT\$33.18 and NT\$33.10 to US\$1.00)

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



English Translation of Financial Statements Originally Issued in Chinese

**Cathay life insurance Co., Ltd.**  
**Unaudited statements of cash flows - (continued)**  
**For the nine months ended September 30, 2005 and 2006**  
**(Expressed in thousands of dollars)**

	January 1-September 30, 2005		January 1-September 30, 2006	
	NT\$	US\$	NT\$	US\$
Cash flows from financing activities				
Decrease in guarantee deposits received	(37,428)	(1,128)	(75,286)	(2,275)
Cash dividends	(10,906,612)	(328,711)	(13,057,689)	(394,492)
Bonus paid to employees	(67,587)	(2,037)	(13,218)	(399)
Remuneration paid to directors and supervisors	(8,100)	(244)	(8,100)	(245)
Net cash used in financing activities	(11,019,727)	(332,120)	(13,154,293)	(397,411)
Effects of exchange rate changes	10,687	322	36,486	1,102
Increase in cash and cash equivalents	16,188,870	487,910	15,430,568	466,180
Cash and cash equivalents at the beginning of year	237,160,180	7,147,685	287,012,435	8,671,071
Cash and cash equivalents at the end of year	\$253,349,050	\$7,635,595	\$302,443,003	\$9,137,251
Supplemental disclosure of cash flows information				
Interest paid during the year	\$13,440	\$405	\$73,921	\$2,233
Interest paid (excluding capitalized interest)	\$13,440	\$405	\$73,921	\$2,233
Income tax paid	\$736,144	\$22,186	\$893,947	\$27,007

(The exchange rates provided by the Federal Reserve Bank of New York on September 30, 2005 and 2006 were NT\$33.18 and NT\$33.10 to US\$1.00)

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Notes to unaudited financial statements**

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

**As of September 30, 2005 and 2006**

1. Organizations and business scope

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

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of September 30, 2005 and 2006, the total numbers of employees were 26,263 and 27,111, respectively.

2. Summary of significant accounting policies

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

(1) Current and non-current assets and liabilities

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

(2) Cash and cash equivalents

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(3) 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 or 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 or loss”, “derivative financial liabilities for hedging” and “financial liabilities carried at amortized cost”. Financial assets are measured 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 or loss

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

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the intention and ability to hold to maturity. Such investments are subsequently measured at amortized cost. Gains or losses are recognized in the income statement when the investments are derecognized 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 consideration of the effective interest rate calculation.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 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. Gain or losses on available-for-sale financial assets shall be recognized in equity, except for impairment losses and gains or losses on exchange rate of monetary financial assets until the financial assets is derecognized, at which time the cumulative gains or losses previously recognized in equity shall be recognized in profit or loss.

E. Financial assets carried at cost

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

F. Derivative financial assets for hedging

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

The fair value of a listed stock or a 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.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(4) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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.

(5) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

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 through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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

**B. Financial assets measured at cost**

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

**C. Available-for-sale financial assets**

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

**(6) Derivative financial instruments**

The Company takes derivative financial instrument transactions such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. These derivative financial instruments are

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

- A. Fair value hedges: to hedge the exposure to changes in the fair value of a recognized asset or liability.
- B. Cash flow hedges: to hedge the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction. The variation will be recognized in profit or loss.
- 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:

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Fair value hedges

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

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

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

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

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

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



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Foreign Currency Transactions and Translation of Foreign Financial Statements”.

Cash flow hedges

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

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

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

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.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(7) 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.

(8) Long-term investments in stocks under the equity method

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

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

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(9) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

Upon disposal, the related cost, accumulated depreciation and accumulated impairment are eliminated and gains or losses are recorded in operating gains or losses accounts.

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

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

(10) Property and equipment

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

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

Upon the sale or disposal of properties and equipment, their cost, related accumulated depreciation and accumulated impairment are removed from respective accounts. Gain or loss resulting from such sale or disposal is accounted for as non-operating gain or loss.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Depreciation is calculated using the straight-line method over the estimated service lives prescribed by the Executive Yuan Depreciation Table. Property and equipment that are still in use after their useful lives are depreciated on the residual value and the newly estimated remaining useful lives.

(11) Intangible assets

“Computer software costs” are stated at cost and amortized over 3 years using straight-line method.

(12) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the financial statements due to their offsetting nature. From 1993 to September 30, 2006, an aggregate of NT\$1,155,995 (US\$34,924) was appropriated to this fund.

(13) Accounting for Assets Impairment

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

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 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).

(14) Real Estate Investment Trust (REIT)

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

Once the sales process is complete and the transferor has transferred his risk and ownership of the real estate property to the transferee, gain on disposal of real estate shall be recognized under “total amount accrual method”.

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(15) Guaranteed depository insurance payment

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

(16) Reserve for operations

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

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

The Company had a surplus of NT\$14,133,703 (US\$427,000) from the “Special Reserve for the Loss Movement” as of September 30, 2006.

(17) Insurance premium income and expenses

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

(18) Pension plan

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

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

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

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

(19) Foreign currency transactions

A. Conversion of foreign currency transactions

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

**B. Conversion of foreign subsidiaries' financial statements**

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

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

**(20) Income taxes**

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

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

The Company has adopted SFAS No. 12, "Accounting for Income Tax Credits" in dealing with income tax credits. Accordingly, the income tax credits resulting from



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

expenditures on the purchase of equipment and technology, research and development, education training, and investment in equity are accounted for by the flow-through method.

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

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

Effective from January 1, 2006, the Company adopted "Income Basic Tax Act" and "Enforcement Rules of Income Basic Tax Act" to estimate and file joint income basic tax.

(21) Capital expenditure expenses

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

(22) Separate account products

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

The Company has established special journals for assets, liabilities, and revenues and expenses accounts in accordance with accounting regulation of "Accounting standards in separate account". The above accounts are recorded under the line

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

items of “Separate account products assets”, “Separate account products liabilities”, “Separate account products revenues”, and “Separate account products expenses”.

(23) Significant accounting policies used in 2005

A. Short-term investments

Marketable equity securities are stated at the lower of cost or market value. Stock dividends are not recognized as income but treated as an increase in the number of shares. Cost of marketable equity securities sold is determined based on the weighted-average method. Market price is the weighted-average closing price of the month before the balance sheet date.

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

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

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

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

B. Long-term investments

(A) Long-term investments in stocks

Long-term investments in listed companies for which the Company’s ownership interest is less than 20% of the voting stock, and which the

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

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

Investments in equity securities are accounted for under the equity method where the Company's ownership interest is 20% or more of the voting shares and the Company have significant operational influence.

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

**(B) Long-term investments in bonds**

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

**C. Derivative financial products transaction**

**(A) Forward foreign exchange contracts for hedging purposes**

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

**(B) Currency swap (CS)**

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

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

**(C) Cross-currency swap (CCS)**

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

**(D) Interest rate swap agreements (IRS)**

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

**(E) Options**

The premium for an option contract is recorded at cost. When early settled, the cost of options calculated using the first-in first-out method. Options are measured at fair market value at each balance sheet date. Any gain or loss arising from hedging risks associated with the existing asset or liability is

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

recognized as a current period's gain or loss. Gains or losses arising from hedging risks associated with anticipated transactions are deferred until the transaction date, and recognized as an adjustment of the transaction price.

(F) Futures

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

(24) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of September 30, 2005 and 2006 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$33.18 and NT\$33.10 provided by Federal Reserve Bank of New York of September 30, 2005 and 2006 are used for the conversion.

3. Changes in accounting and its effects

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

The above change in accounting principles increased the Company's assets, liability and stockholders' equity-unrealized (losses) gains of financial instruments by NT\$15,291,670 (US\$461,984), NT\$2,061,394 (US\$62,278) and NT\$9,914,421 (US\$299,529) as of January 1, 2006, respectively. It also increased the company's net income and earnings per share by NT\$3,315,855 (US\$100,177) and NT\$0.66 (US\$0.02), respectively, for the nine months ended September 30, 2006.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

The Company adopted the ROC Statement of Financial Accounting Standards No.5, “Accounting for long-term investments in stocks under the equity method” (“SFAS No.5 (r5)”) and No.25, “Business Combinations-Accounting Treatment under Purchase Method” to account for the difference between the acquisitions cost and the Company’s share of net assets of equity investee for its financial statements beginning on and after January 1, 2006 (the “effective date”). Goodwill is not amortized. Such change in accounting principles decreased the Company’s long-term equity investments by NT\$1,401(US\$42) as of September 30, 2006, and decreased the Company’s net income by NT\$1,401(US\$42) for the nine months ended September 30, 2006. The Company considers the effect insignificant.

“Accounting for Asset Impairment” (“SFAS No.35”) to account for the impairment of its assets for its financial statements ended on and after September 30, 2005. No retroactive adjustment is required under SFAS No. 35. Such a change in accounting principles decreased the Company’s investments in real estate and property and equipment by NT\$197,253 (US\$5,945) and NT\$85,519 (US\$2,577) as of September 30, 2005, respectively, and decreased the Company’s net income by NT\$282,772 (US\$8,522) for the nine months ended September 30, 2005. The Company considers such an effect was insignificance.

In the first quarter of 2005, the Company adopted the amended ROC’s Statement of Financial Accounting Standards No. 5, “Long-term Investment in Equity securities” (“SFAS No. 5 (r3)”). Under the SFAS No. 5(r3), a deferred equity pick-up for being unable to obtain the financial statements of equity investees is no longer allowed. No retrospective adjustments are needed. Such a change in accounting principles increased the Company’s long-term investment account by NT\$54,152 (US\$1,632) as of September 30, 2005, cumulative conversion adjustments increased by NT\$347 (US\$10), unrealized valuation losses on long-term equity investments decreased by NT\$27,230 (US\$821) and net income increased by NT\$26,575 (US\$801) for the nine months ended September 30, 2005, respectively. Such an effect is not considered significant.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

4. Cash and cash equivalents

	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$255,790	\$7,709	\$274,941	\$8,306
Cash in banks	7,320,176	220,620	14,342,866	433,319
Time deposits	185,891,826	5,602,526	258,873,306	7,820,946
Cash equivalents	59,881,258	1,804,740	28,951,890	874,680
Total	<u>\$253,349,050</u>	<u>\$7,635,595</u>	<u>\$302,443,003</u>	<u>\$9,137,251</u>

As of September 30, 2005 and 2006, the amounts of time deposits with maturities beyond one year were NT\$776,000 (US\$23,388) and NT\$131,000 (US\$3,958), respectively.

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

	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$17,241,093	\$519,623	\$12,576,905	\$379,967
Overseas stocks	39,277	1,184	1,954,599	59,051
Beneficiary certificates	43,851,246	1,321,617	29,955,705	905,006
Exchange traded funds	1,134,073	34,179	2,003,751	60,536
Overseas bonds	7,742,518	233,349	13,396,488	404,728
Corporate bonds	1,179,564	35,551	571,774	17,274
Government bonds	23,723,239	714,986	18,183,871	549,362
Financial debentures	519,299	15,651	1,516,179	45,806
Derivative financial instruments	4,809,454	144,950	3,547,822	107,185
Subtotal	100,239,763	3,021,090	83,707,094	2,528,915
Add: Adjustment of valuation	-	-	6,746,976	203,836
Total	<u>\$100,239,763</u>	<u>\$3,021,090</u>	<u>\$90,454,070</u>	<u>\$2,732,751</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

6. Available-for-sale financial assets - current

	September 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Listed stocks	\$82,994,378	\$2,501,337	\$76,617,624	\$2,314,732
Overseas stocks	31,935,644	962,497	8,502,781	256,881
Overseas Beneficiary certificates	-	-	6,427,293	194,178
Exchange traded funds	-	-	288,611	8,719
Real estate investment trust	26,669	804	4,029,813	121,747
Subtotal	114,956,691	3,464,638	95,866,122	2,896,257
Add: Adjustment of valuation	-	-	8,329,610	251,650
Total	<u>\$114,956,691</u>	<u>\$3,464,638</u>	<u>\$104,195,732</u>	<u>\$3,147,907</u>

7. Derivative financial assets for hedging - current

	September 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	-	-	304,329	9,194
Total	<u>\$-</u>	<u>\$-</u>	<u>\$304,329</u>	<u>\$9,194</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.



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(2) Secured loans

	September 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Secured loans	\$278,132,549	\$8,382,536	\$292,910,825	\$8,849,270
Less: Allowance for bad debts	(153,263)	(4,619)	(306,159)	(9,250)
Subtotal	277,979,286	8,377,917	292,604,666	8,840,020
Overdue receivables	1,791,717	54,000	1,278,681	38,631
Less: Allowance for bad debts	(1,254,202)	(37,800)	(895,077)	(27,042)
Subtotal	537,515	16,200	383,604	11,589
Total	\$278,516,801	\$8,394,117	\$292,988,270	\$8,851,609

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

9. Available-for-sale financial assets - noncurrent

	September 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Corporate bonds	\$11,989,801	\$361,356	\$18,335,974	\$553,957
Government bonds	15,900,570	479,221	16,331,918	493,411
Financial debentures	14,808,761	446,316	32,878,521	993,309
Collateralized loans obligation and collateralized bonds obligation	1,031,491	31,088	951,336	28,741
Overseas bonds	86,342,942	2,602,259	77,027,314	2,327,109
Real estate asset trusts	20,000	603	-	-
Subtotal	130,093,565	3,920,843	145,525,063	4,396,527
Add: Adjustment of valuation	-	-	2,074,731	62,681
Total	\$130,093,565	\$3,920,843	\$147,599,794	\$4,459,208

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

10. Held-to-maturity financial assets - noncurrent

	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Corporate bonds	\$6,255,474	\$188,531	\$5,320,574	\$160,742
Government bonds	19,253,183	580,265	18,357,525	554,608
Financial debentures	11,482,726	346,074	10,069,872	304,226
Collateralized loans obligation and collateralized bonds obligation	60,417	1,821	9,466,321	285,992
Overseas bonds	412,168,044	12,422,183	494,685,306	14,945,175
Subtotal	449,219,844	13,538,874	537,899,598	16,250,743
Less: securities serving as deposits paid - bonds	(8,061,479)	(242,962)	(8,109,447)	(244,998)
Total	<u>\$441,158,365</u>	<u>\$13,295,912</u>	<u>\$529,790,151</u>	<u>\$16,005,745</u>

11. Financial assets carried at cost - noncurrent

	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Stocks	<u>\$20,417,709</u>	<u>\$615,362</u>	<u>\$20,011,317</u>	<u>\$604,572</u>

12. Structured notes

One of the financial assets investment structured notes, amounted to NT\$60,111,969 (US\$1,811,693) and NT\$89,352,844 (US\$2,699,482) as of September 30, 2005 and 2006, respectively. The details of structured notes are listed below:

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Item	September 30, 2006					
	Cost		Adjustment of valuation		Book value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss -						
current	\$2,939,047	\$88,793	\$(108,910)	\$(3,290)	\$2,830,137	\$85,503
Available-for-sale financial						
assets - noncurrent	14,064,994	424,924	(39,077)	(1,181)	14,025,917	423,743
Held-to-maturity financial						
assets - noncurrent	71,686,987	2,165,770	-	-	71,686,987	2,165,770
Investments in debt securities						
with no active market -						
current	809,803	24,466	-	-	809,803	24,466
Total	<u>\$89,500,831</u>	<u>\$2,703,953</u>	<u>\$(147,987)</u>	<u>\$(4,471)</u>	<u>\$89,352,844</u>	<u>\$2,699,482</u>

13. Long-term investments in stocks under the equity method

(1) Long-term investments in stocks under the equity method are as follows:

Investee	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
WK Technology Fund VI Co., Ltd.	\$361,485	\$10,895	\$391,930	\$11,841
Vista Technology Venture Capital Corp.	44,748	1,349	41,489	1,254
Omnitek Venture Capital Corp.	172,721	5,206	358,908	10,843
WaTech Venture Capital Co., Ltd.	151,074	4,553	167,330	5,055
IBT Venture Capital Corp.	513,926	15,489	596,656	18,026
Cathay Insurance (Bermuda) Co., Ltd.	64,207	1,935	72,200	2,181

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Investee	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
	Book value	Book value	Book value	Book value
Symphox Information Co., Ltd.	259,851	7,831	254,492	7,689
Cathay Securities Investment Trust Co., Ltd.	232,260	7,000	240,546	7,267
Cathay Venture Capital Corp.	380,074	11,455	442,163	13,358
Lin Yuan Property Management Co., Ltd.	46,802	1,410	-	-
Cathay Securities Investment Co., Ltd.	31,829	959	110,989	3,353
Cathay Life Insurance Ltd. (Shanghai)	1,560,481	47,031	1,522,154	45,987
<b>Total</b>	<b>\$3,819,458</b>	<b>\$115,113</b>	<b>\$4,198,857</b>	<b>\$126,854</b>

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

	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Balance as of January 1	\$3,602,793	\$108,583	\$3,883,938	\$117,340
Add: Gain on investments under equity method	45,948	1,385	228,384	6,900
Capital surplus - long-term equity investments	562	17	-	-
Additional investment	155,000	4,671	-	-
Cumulative conversion adjustments	88,000	2,652	43,738	1,321
Unrealized gain or loss on financial instruments - long-term equity investments	-	-	165,838	5,010
Less: Cash dividends	(45,608)	(1,374)	(122,585)	(3,703)

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

	For the nine months ended September 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Unrealized gain or loss on financial instruments - long-term equity investments	(3,176)	(96)	-	-
Recovered proceeds of long-term equity investments	(24,061)	(725)	-	-
Capital surplus - long-term equity investments	-	-	(456)	(14)
Balance as of September 30	<u>\$3,819,458</u>	<u>\$115,113</u>	<u>\$4,198,857</u>	<u>\$126,854</u>

(3) The recognized equity investment gains for the nine months ended September 30, 2005 and 2006 are listed below:

Investee	For the nine months ended September 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
WK Technology Fund VI Co., Ltd.	\$(10,250)	\$(309)	\$11,892	\$359
Vista Technology Venture Capital Corp.	(9,722)	(293)	2,162	66
Omnitek Venture Capital Corp.	21,225	640	104,523	3,158
WaTech Venture Capital Co., Ltd.	(3,760)	(113)	22,087	667
IBT Venture Capital Corp	27,682	834	54,945	1,660
Cathay Insurance (Bermuda) Co., Ltd.	2,102	63	4,102	124
Symphox Information Co., Ltd.	(5,971)	(180)	(12,578)	(380)
Cathay Securities Investment Trust Co., Ltd.	32,814	989	49,610	1,499
Cathay Venture Capital Corp.	20,734	625	33,010	997
Lin Yuan Property Management Co., Ltd.	20,779	626	-	-
Cathay Securities Investment Co., Ltd.	6,168	186	17,253	521

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Investee	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Ltd. (Shanghai)	(55,853)	(1,683)	(58,622)	(1,771)
Total	\$45,948	\$1,385	\$228,384	\$6,900

A. The equity investment gains (losses) were recognized based on their respective reviewed financial statements for the nine months ended September 30, 2006, except for WK Technology Fund VI Co., Ltd. and Wa Tech Venture Capital Co., Ltd were recognized based on the unreviewed financial statement. The financial statements of Omnitek Venture Capital Corp., IBT Venture Capital Corp. and Cathay Securities Investment Trust Co., Ltd. for the nine months ended September 30, 2006, were reviewed by other auditors with explanatory paragraph within the modified unqualified review report except for Cathay Insurance (Bermuda) Co., Ltd., which had an unqualified review report.

B. The equity investment gains (losses) were recognized based on their unreviewed financial statements for the nine months ended September 30, 2005, except for Symphox Information Co., Ltd., Cathay Venture Capital Corp., Lin Yuan Property Management Co., Ltd. and Cathay Life Insurance Ltd. (Shanghai) were recognized based on their respective reviewed financial statement.

14. Investments in real estate

Item	September 30, 2005									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Investments in										
real estate	\$109,233,813	\$3,292,158	\$4,563	\$138	\$(12,603,872)	\$(379,863)	\$(197,253)	\$(5,945)	\$96,437,251	\$2,906,488
Construction	1,526,192	45,997	-	-	-	-	-	-	1,526,192	45,997
Total	\$110,760,005	\$3,338,155	\$4,563	\$138	\$(12,603,872)	\$(379,863)	\$(197,253)	\$(5,945)	\$97,963,443	\$2,952,485

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

September 30, 2006

Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Investments in									
real estate	\$ 118,933,072	\$ 3,593,144	\$ 4,215	\$ 127	\$ (14,389,106)	\$ (434,716)	\$ (196,952)	\$ (5,950)	\$ 104,351,229	\$ 3,152,605
Construction	592,204	17,891	-	-	-	-	-	-	592,204	17,891
<b>Total</b>	<b>\$ 119,525,276</b>	<b>\$ 3,611,035</b>	<b>\$ 4,215</b>	<b>\$ 127</b>	<b>\$ (14,389,106)</b>	<b>\$ (434,716)</b>	<b>\$ (196,952)</b>	<b>\$ (5,950)</b>	<b>\$ 104,943,433</b>	<b>\$ 3,170,496</b>

- (1) The real estate investments are held mainly to generate rental revenue.
- (2) Rents from real estate investment can be paid annually, semi-annually, quarterly, monthly or in a lump sum.
- (3) No investments in real estate were pledged as collateral.
- (4) The Company has securitized its real estate properties such as the Sheraton Taipei Hotel, Taipei Xi-Men Building and Taipei Chung Hua Building in 2005. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The relative information was disclosure as following:

The Company transferred the risk and returns of ownership of the real estate property to the assignee and the gain on disposal of real estates under “total amount accrual method” was NT\$8,627,731 (US\$260,028).

After the REIT was issued, the sponsor and related parties of the Company did not participate in the original offering. Instead, the Company bought the REIT beneficiary securities which were issued within three months and its ownership was over the 20% of the REIT fund’s outstanding should be treated as a part of unsold real estate. The Company had deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the company. As of September 30, 2006, the Company ownership was under the 20% of REIT fund’s outstanding securities. Thus, the amount of deferred gain on disposal of real estate was NT\$1,773,919 (US\$53,593) has been recognized in current.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

15. Property and equipment

September 30, 2005										
Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Land	\$4,865,181	\$146,630	\$2,212	\$67	\$-	\$-	\$(51,331)	\$(1,547)	\$4,816,062
Buildings and construction	10,594,620	319,307	-	-	(3,120,091)	(94,035)	(34,188)	(1,030)	7,440,341	224,242
Computer equipment	1,520,143	45,815	-	-	(1,021,594)	(30,790)	-	-	498,549	15,025
Communication and transportation equipment	68,194	2,055	-	-	(42,638)	(1,285)	-	-	25,556	770
Other equipment	3,188,469	96,096	-	-	(1,899,858)	(57,259)	-	-	1,288,611	38,837
<b>Total</b>	<b>\$20,236,607</b>	<b>\$609,903</b>	<b>\$2,212</b>	<b>\$67</b>	<b>\$(6,084,181)</b>	<b>\$(183,369)</b>	<b>\$(85,519)</b>	<b>\$(2,577)</b>	<b>\$14,069,119</b>	<b>\$424,024</b>
September 30, 2006										
Item	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
	Land	\$4,731,609	\$142,949	\$1,472	\$45	\$-	\$-	\$(51,331)	\$(1,551)	\$4,681,750
Buildings and construction	9,658,163	291,787	-	-	(3,026,018)	(91,420)	(34,188)	(1,033)	6,597,957	199,334
Computer equipment	1,563,176	47,226	-	-	(1,152,022)	(34,804)	-	-	411,154	12,422
Communication and transportation equipment	32,110	970	-	-	(21,797)	(659)	-	-	10,313	311
Other equipment	3,320,374	100,313	-	-	(2,130,907)	(64,378)	-	-	1,189,467	35,935
Subtotal	19,305,432	583,245	1,472	45	(6,330,744)	(191,261)	(85,519)	(2,584)	12,890,641	389,445
Construction in progress and prepayment for equipment	40,141	1,213	-	-	-	-	-	-	40,141	1,213
<b>Total</b>	<b>\$19,345,573</b>	<b>\$584,458</b>	<b>\$1,472</b>	<b>\$45</b>	<b>\$(6,330,744)</b>	<b>\$(191,261)</b>	<b>\$(85,519)</b>	<b>\$(2,584)</b>	<b>\$12,930,782</b>	<b>\$390,658</b>

No properties or plants and equipments were pledged as collaterals as of September 30, 2005 and 2006.



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

16. Other overdue receivables

	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Overdue receivables	\$96,401	\$2,905	\$72,841	\$2,201
Less: Allowance for bad and doubtful debts	(22,115)	(666)	(41,959)	(1,268)
<b>Total</b>	<b>\$74,286</b>	<b>\$2,239</b>	<b>\$30,882</b>	<b>\$933</b>

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

Item	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$19,946,803	\$601,170	\$52,932	\$1,599
Add: Adjustment of valuation	-	-	16,769,628	506,636
<b>Total</b>	<b>\$19,946,803</b>	<b>\$601,170</b>	<b>\$16,822,560</b>	<b>\$508,235</b>

18. Derivative financial liabilities for hedging - current

Item	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Derivative financial instruments	\$-	\$-	\$-	\$-
Add: Adjustment of valuation	-	-	35,549	1,074
<b>Total</b>	<b>\$-</b>	<b>\$-</b>	<b>\$35,549</b>	<b>\$1,074</b>

19. Capital stock

As of September 30, 2005 and 2006, the total authorized thousand shares were 5,068,616 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 shares capital, up to 50% of such excess may be capitalized if authorized by the Board of Directors.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(2) Undistributed retained earnings

- A. According to the Company Law and the Company's articles of incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve. After distributing stock interests and 2% of the total remaining amount as a bonus distribution to employees, the remainder is distributed in accordance with the resolutions of the Board of Directors.
- B. According to applicable regulations, if the assessed undistributed retained earnings prior to 1997 exceeded 100% of the Company's paid-in capital, the Company must distribute cash dividends or stock dividends following the year of the assessment. Otherwise, income tax will be levied on each shareholder's proportion of the total undistributed retained earnings. Alternatively, the Company may pay an extra 10% income tax on the additional undistributed retained earnings.
- C. According to the amended Income Tax Law ("Tax Law") in 1998, the Company has to pay an extra 10% income tax on all undistributed retained earnings generated during the year.
- D. Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized (losses) gains of financial instruments expect for the legal reserve since 2007.

21. Personnel 、 depreciation and amortizations

Item	For the nine months ended September 30, 2005 NT\$			For the nine months ended September 30, 2005 US\$		
	Operating costs	Operating expense	Total	Operating costs	Operating expense	Total
	Personnel expenses					
Salary and wages	\$17,411,270	\$1,878,317	\$19,289,587	\$524,752	\$56,610	\$581,362
Labor & health insurance expenses	782,838	136,606	919,444	23,594	4,117	27,711
Pension expenses	316,735	55,270	372,005	9,546	1,666	11,212
Other expenses	700,099	152,111	852,210	21,100	4,584	25,684
Depreciation	-	1,663,828	1,663,828	-	50,146	50,146
Amortizations	-	26,295	26,295	-	792	792

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Item	For the nine months ended September 30, 2006			For the nine months ended September 30, 2006		
	NT\$			US\$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	\$18,405,021	\$1,960,853	\$20,365,874	\$556,043	\$59,240	\$615,283
Labor & health insurance expenses	830,594	125,066	955,660	25,094	3,778	28,872
Pension expenses	500,825	75,411	576,236	15,131	2,278	17,409
Other expenses	701,492	146,142	847,634	21,193	4,415	25,608
Depreciation	-	1,733,051	1,733,051	-	52,358	52,358
Amortizations	-	68,211	68,211	-	2,061	2,061

22. Estimated income taxes

(1) Income taxes benefit included the following:

	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$16,627,246	\$501,123	\$6,893,817	\$208,273
Adjustments				
Interest income of tax on a separate basis	(1,694,968)	(51,084)	(2,751,543)	(83,128)
Gain on disposal of securities and futures	(6,351,004)	(191,411)	(4,977,532)	(150,379)
Losses from valuation of financial assets and liabilities	-	-	10,050,792	303,650
Gains on disposal of lands	(8,377,560)	(252,488)	(2,830,475)	(85,513)
Unrealized exchange gains	(1,790,682)	(53,969)	(8,166,406)	(246,719)
Impairment loss	282,772	8,522	-	-
Cash dividend	(6,212,939)	(187,249)	(4,992,460)	(150,830)
Pension expense not actually contributed	164,381	4,954	37,141	1,122
Gains on long-term equity investments	(45,948)	(1,385)	(228,384)	(6,900)
Others	823,484	24,819	(1,424,245)	(43,029)
Taxable income	(6,575,218)	(198,168)	(8,389,295)	(253,453)
Multiply by: tax rates	25%	25%	25%	25%
Add: extra 10% income tax on undistributed retained earnings	297,688	8,972	-	-

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Add (less) tax effects under integrated income tax systems	(297,688)	(8,972)	1,559,592	47,118
Subtotal	(1,643,804)	(49,542)	(537,732)	(16,246)
Add: Separation taxes	336,653	10,147	520,300	15,719
Additional taxes assessed by the tax authority	-	-	901	27
Dissimilitude on estimate tax after time	-	-	3,588	108
Beginning deferred income tax assets	364,579	10,988	465,526	14,064
Ending deferred income tax liabilities	898,122	27,068	2,443,416	73,819
Allocation of the cumulative effect of changes in accounting principles	-	-	338,668	10,232
Less: Income tax credit	(25,189)	(759)	(9,473)	(286)
Dissimilitude on estimate tax after time	(18,147)	(547)	-	-
Beginning deferred income tax liabilities	(450,452)	(13,576)	(401,815)	(12,139)
Ending deferred income tax assets	(440,944)	(13,290)	(3,534,243)	(106,774)
Total income taxes benefit	<u>\$ (979,182)</u>	<u>\$ (29,511)</u>	<u>\$ (710,864)</u>	<u>\$ (21,476)</u>

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

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

	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Total deferred tax assets	<u>\$440,944</u>	<u>\$13,290</u>	<u>\$3,534,243</u>	<u>\$106,774</u>
Total deferred tax liabilities	<u>\$898,122</u>	<u>\$27,068</u>	<u>\$2,443,416</u>	<u>\$73,819</u>
Temporary differences:				
Employee benefits	\$2,697	\$81	\$-	\$-
Pension expense	1,592,091	47,983	1,664,459	50,286
Unrealized exchange gains	(3,592,489)	(108,273)	(9,773,664)	(295,277)
Losses from valuation on financial assets and liabilities	-	-	12,293,872	371,416

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

	September 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Impairment loss	157,248	4,740	157,012	4,744
Other	11,739	354	21,627	653
Total	<u><u>\$(1,828,714)</u></u>	<u><u>\$(55,115)</u></u>	<u><u>\$4,363,306</u></u>	<u><u>\$131,822</u></u>
Deferred tax assets - current	\$3,609	\$109	\$3,078,875	\$93,017
Deferred tax liabilities - current	(898,122)	(27,068)	(2,443,416)	(73,819)
Net offset balance of deferred tax liabilities - current	<u><u>\$(894,513)</u></u>	<u><u>\$(26,959)</u></u>	<u><u>\$635,459</u></u>	<u><u>\$19,198</u></u>
Deferred tax assets - noncurrent	\$437,335	\$13,181	\$455,368	\$13,757
Deferred tax liabilities - noncurrent	-	-	-	-
Net balance of deferred tax assets - noncurrent	<u><u>\$437,335</u></u>	<u><u>\$13,181</u></u>	<u><u>\$455,368</u></u>	<u><u>\$13,757</u></u>

(4) Information related to imputation

	September 30,			
	2005		2006	
	NT \$	US\$	NT \$	US\$
Balance of imputation credit account	<u><u>\$824,278</u></u>	<u><u>\$24,843</u></u>	<u><u>\$216,950</u></u>	<u><u>\$6,554</u></u>

	For the nine months ended September 30,	
	2005	2006
	Imputation credit account ratio - actual (May 2, 2005)	9.52%
Imputation credit account ratio - actual (May 15, 2006)	-	7.33%

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(5) Related information on undistributed earnings

Year	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
After 1998	\$-	\$-	\$-	\$-

Undistributed earnings after 1998 did not include the net income from January 1 to September 30, 2005 and 2006.

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

Regulation	Deductible items	Amount of deductible				Expiry Year
		income tax		Remaining balance		
		NT\$	US\$	NT\$	US\$	
Statute for Upgrading Industries	Education training	\$8,946	\$270	\$-	\$-	2010
Statute for Upgrading Industries	Income tax credit	\$527	\$16	\$-	\$-	2009

23. Earnings per share

	For the nine months ended September 30, 2005			
	Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$
Income from continuing operations after income taxes (a)	\$16,627,246	\$501,123	\$17,606,428	\$530,634
Cumulative effect of changes in accounting principles (a)	-	-	-	-
Net income (a)	\$16,627,246	\$501,123	\$17,606,428	\$530,634
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

	For the nine months ended September 30, 2005			
	Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$
Earnings per share (a) / (c) (dollars)				
Income from continuing operations after income taxes	\$3.28	\$0.10	\$3.47	\$0.10
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	<u>\$3.28</u>	<u>\$0.10</u>	<u>\$3.47</u>	<u>\$0.10</u>
	For the nine months ended September 30, 2006			
	Before income taxes		After income taxes	
	NT\$	US\$	NT\$	US\$
Income from continuing operations after income taxes (a)	\$6,893,817	\$208,273	\$7,604,681	\$229,749
Cumulative effect of changes in accounting principles (a)	2,977,187	89,945	3,315,855	100,177
Net income (a)	<u>\$9,871,004</u>	<u>\$298,218</u>	<u>\$10,920,536</u>	<u>\$329,926</u>
Outstanding number of thousand shares at end of periods (b)	5,068,616	5,068,616	5,068,616	5,068,616
Weighted average outstanding number of thousand shares (c)	5,068,616	5,068,616	5,068,616	5,068,616
Earnings per share (a) / (c) (dollars)				
Income from continuing operations after income taxes	\$1.36	\$0.04	\$1.50	\$0.05
Cumulative effect of changes in accounting principles	0.59	0.02	0.66	0.02
Net income	<u>\$1.95</u>	<u>\$0.06</u>	<u>\$2.16</u>	<u>\$0.07</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
Symphox Information Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company
Cathay Life Insurance Ltd. (Shanghai)	Subsidiary of the Company

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

<u>Name</u>	<u>Relationship</u>
Cathay Securities Investment Trust Co., Ltd.	An equity method investee
Cathay Venture Capital Corp.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee
Cathay Real Estate Development Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
San Ching Engineering Co., Ltd.	Affiliate
Cathay Century Insurance Co., Ltd.	Affiliate
Cathay Securities Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Seaward Card Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Cathay Property Insurance Agent Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Seaward Leasing Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Lucky Bank Taiwan Inc.	Affiliate
Cathay Charity Foundation	Their vice-chairman is the Company's chairman
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



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(2) Significant transactions with related parties

A. Property transactions (from related parties)

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

(A) Significant transactions with related parties for the nine months ended September 30, 2005 and 2006 are listed below:

Name	Item	For the nine months ended September 30, 2005	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Ban Ciao Building	\$266,182	\$8,022
	Tianmu Jung Cheng-A	2,769	84
	Cathay Golden & Silver		
	Bldg	3,791	114
	Sheraton Taipei Hotel	44,046	1,328
	Sianyang Building	4,222	127
	Cathay Land Mark	3,000	91
	Financial Center Hsing-E	2,583	78
	Other	281	8
Cathay Real Estate Development Co., Ltd.	Ban Ciao Building	2,062	62
	Cathay Lank Mark	1,000	30
Lin Yuan Property Management Co., Ltd.	Cathay Building		
		699	21
	Total	<u>\$330,635</u>	<u>\$9,965</u>

Name	Item	For the nine months ended September 30, 2006	
		NT\$	US\$
San Ching Engineering Co., Ltd.	Cathay General Hospital	\$5,874	\$177
	Other	638	19
Cathay Real Estate Development Co., Ltd.	Cathay Land Mark		
		1,500	45
Lin Yuan Property Management Co., Ltd.	Cathay Cosmos Building	5,092	154
	Li-Yuan Building	17,639	533

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Name	For the nine months ended September 30, 2006		
	Item	NT\$	US\$
	Jhong Jheng Building	7,663	232
	International Building	2,062	62
	World Commercial Building	2,742	83
	Financial Center Hsing-E	8,095	245
	Yuanlin Second Building	3,109	94
	Changhua Second Building	1,430	43
	Central Industrial & Commercial Building	1,406	42
	Taipei Royalty Building	12,873	389
	Jhong Gang Building	10,352	313
	Cathay Building	16,946	512
	Tun Nan Commercial Building	3,506	106
	Min Sheng Chien Kuo Building	1,088	33
	Wanbon Commercial Building	8,854	268
	Sih Wei Financial Building	2,914	88
	Min Sheng Commercial Building	1,066	32
	Feng Chia Building	2,326	70
	Sianyang Building	1,778	54
	World Building	3,463	105
	Other	11,918	360
Symphox Information Co., Ltd.	World Building	1,890	57
	Total	<u>\$136,224</u>	<u>\$4,116</u>

The total amount of contracted projects for real estate as of September 30, 2005 and 2006 between the Company and San Ching Engineering Co., Ltd. was NT\$1,620,227 (US\$48,831) and NT\$1,233,866 (US\$37,277), respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(B) Real estates acquired from related parties for the nine months ended September 30, 2005 and 2006 are as follows:

Name	Item	For the nine months ended September 30, 2006	
		Contract Price	
		NT\$	US\$
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City	<u>\$5,290,000</u>	<u>\$159,819</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>\$74,622</u>

The Company did not acquire any real estates from its related parties for the nine months ended September 30, 2005.

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

Name	Rental income			
	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$6,701	\$202	\$7,395	\$223
Cathay Real Estate Development Co., Ltd.	11,925	359	11,825	357
Cathay United Bank	202,903	6,115	187,244	5,657
Cathay Century Insurance Co., Ltd.	41,997	1,266	39,307	1,188
Cathay General Hospital	99,020	2,984	110,523	3,339
San Ching Engineering Co., Ltd.	5,677	171	5,592	169
Symphox Information Co., Ltd.	19,238	580	22,446	678
Cathay Securities Investment Trust Co., Ltd.	8,694	262	9,008	272
Cathay Securities Investment Co., Ltd.	2,717	82	2,507	76
Cathay Securities Co., Ltd.	11,168	337	11,366	343
Cathay Capital Management Inc.	1,442	44	1,487	45
Seaward Leasing Co., Ltd.	998	30	909	28
Taiwan Asset Management Corporation	10,756	324	10,463	316
Cathay Futures Co., Ltd.	292	9	494	15
<b>Total</b>	<u>\$423,528</u>	<u>\$12,765</u>	<u>\$420,566</u>	<u>\$12,706</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Name	Guarantee deposits received			
	September 30, 2005		September 30, 2006	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$4,286	\$129	\$3,645	\$110
Cathay United Bank	75,102	2,263	65,336	1,974
Cathay Century Insurance Co., Ltd.	13,957	421	14,036	424
Cathay General Hospital	4,509	136	6,840	207
San Ching Engineering Co., Ltd.	2,009	61	1,709	52
Symphox Information Co., Ltd.	2,718	82	2,718	82
Cathay Securities Investment Trust Co., Ltd.	2,738	83	2,738	83
Cathay Securities Investment Co., Ltd.	877	26	877	27
Taiwan Asset Management Corporation	3,477	105	3,477	105
Cathay Securities Co., Ltd.	3,647	110	3,785	114
Cathay Capital Management Inc.	479	14	479	14
Seaward Leasing Co., Ltd.	346	10	346	10
Total	<u>\$114,145</u>	<u>\$3,440</u>	<u>\$105,986</u>	<u>\$3,202</u>

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

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

Name	Rental expense			
	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$22,190	\$669	\$23,047	\$696
Lin Yuan Investment Co., Ltd.	2,875	87	1,684	51
Yi Ru Corporation	3,062	92	2,757	84
Lucky Bank Taiwan Inc.	-	-	3,447	104
Cathay United Bank	-	-	704	21
Total	<u>\$28,127</u>	<u>\$848</u>	<u>\$31,639</u>	<u>\$956</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Name	Guarantee deposits paid			
	September 30, 2005		September 30, 2006	
	NT\$	US\$	NT\$	US\$
Cathay Real Estate Development Co., Ltd.	\$9,031	\$272	\$8,926	\$270
Yi Ru Corporation	1,190	36	1,190	36
Lin Yuan Investment Co., Ltd.	628	19	628	19
Lucky Bank Taiwan Inc.	-	-	1,292	39
Total	<u>\$10,849</u>	<u>\$327</u>	<u>\$12,036</u>	<u>\$364</u>

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

B. Cash in banks

For the nine months ended September 30, 2005				
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United	Time deposit	\$166,913	0.90%-2.25%	\$3,416,250
Bank	Cash in bank	2,670	0.01%-1.45%	4,022,644
Total		<u>\$169,583</u>		<u>\$7,438,894</u>

For the nine months ended September 30, 2005				
Name	Item	Interest income		Ending balance
		US\$	Rate	US\$
Cathay United	Time deposit	\$5,031	0.90%-2.25%	\$102,961
Bank	Cash in bank	80	0.01%-1.45%	121,237
Total		<u>\$5,111</u>		<u>\$224,198</u>

For the nine months ended September 30, 2006				
Name	Item	Interest income		Ending balance
		NT\$	Rate	NT\$
Cathay United	Time deposit	\$75,657	1.05%-2.02%	\$26,250
Bank	Cash in bank	1,325	0.10%	2,210,568
Lucky Bank Taiwan Inc.	Cash in bank	5	0.10%	13,058
Total		<u>\$76,987</u>		<u>\$2,249,876</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Name	Item	For the nine months ended September 30, 2006		
		Interest income		Ending balance
		US\$	Rate	US\$
Cathay United Bank	Time deposit	\$2,286	1.05%-2.02%	\$793
	Cash in bank	40	0.10%	66,784
Lucky Bank Taiwan Inc.	Cash in bank	-	0.10%	395
<b>Total</b>		<b>\$2,326</b>		<b>\$67,972</b>

C. Other financial assets - current

Name	For the nine months ended September 30, 2005		
	Interest income		Ending balance
	NT\$	Rate	NT\$
Cathay United Bank	\$29,902	0.12%-3.03%	\$-

Name	For the nine months ended September 30, 2005		
	Interest income		Ending balance
	US\$	Rate	US\$
Cathay United Bank	\$901	0.12%-3.03%	\$-

Name	For the nine months ended September 30, 2006		
	Interest income		Ending balance
	NT\$	Rate	NT\$
Cathay United Bank	\$15,369	1.80%-3.00%	\$2,500,000

Name	For the nine months ended September 30, 2006		
	Interest income		Ending balance
	US\$	Rate	US\$
Cathay United Bank	\$464	1.80%-3.00%	\$75,529

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

D. Secured loans

Name	For the nine months ended September 30, 2005			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	<u>\$2,321,146</u>	<u>\$47,480</u>	2.60%-2.84%	<u>\$2,320,813</u>

Name	For the nine months ended September 30, 2005			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	<u>\$69,956</u>	<u>\$1,431</u>	2.60%-2.84%	<u>\$69,946</u>

Name	For the nine months ended September 30, 2006			
	Maximum amount	Interest income	Rate	Ending balance
	NT\$	NT\$		NT\$
Cathay General Hospital	\$4,070,069	\$89,357	3.03%-3.26%	\$4,070,000
Other related parties	72,183	1,385	2.10%-3.14%	68,739
Total	<u>\$4,142,252</u>	<u>\$90,742</u>		<u>\$4,138,739</u>

Name	For the nine months ended September 30, 2006			
	Maximum amount	Interest income	Rate	Ending balance
	US\$	US\$		US\$
Cathay General Hospital	\$122,963	\$2,699	3.03%-3.26%	\$122,961
Other related parties	2,181	42	2.10%-3.14%	2,076
Total	<u>\$125,144</u>	<u>\$2,741</u>		<u>\$125,037</u>

E. Beneficiary certificates

Name		September 30,			
		2005		2006	
		NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust Co., Ltd.	Marker value	<u>\$5,217,312</u>	<u>\$157,243</u>	<u>\$6,011,412</u>	<u>\$181,614</u>
	Cost	<u>\$4,914,740</u>	<u>\$148,124</u>	<u>\$5,529,170</u>	<u>\$167,044</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

F. Receivables

Name	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$-	\$-	\$315,630	\$9,536
Cathay Insurance (Bermuda) Co., Ltd.	3,798	114	14,047	424
Cathay Financial Holding Co., Ltd.	2,086,204	62,875	525,713	15,883
Cathay General Hospital	29,415	887	30,894	933

G. Guarantee deposits paid

Name	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Futures Co., Ltd.	\$431,664	\$13,010	\$642,829	\$19,421

As of September 30, 2005 and 2006, the imputed interest income of guarantee deposits paid deposited in Cathay Futures Co., Ltd. were NT\$245 (US\$7) and NT\$342 (US\$10).

H. Payable

Name	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$6,938	\$209	\$5,953	\$180
Symphox Information Co., Ltd.	28,097	847	34,806	1,052
Lin Yuan Property Management Co., Ltd.	51,513	1,553	45,620	1,378
Cathay United Bank	96,000	2,893	37,800	1,142
Cathay Securities Co., Ltd.	158,000	4,762	37,800	1,142
Seaward Card Co., Ltd.	-	-	555	17



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

I. Accounts collected in advance

Name	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$2,315	\$70	\$2,359	\$71
Taiwan Asset Management Corporation	2,550	77	2,484	75

J. Prepayment

Name	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$3,886	\$117	\$6,428	\$194
Cathay Life Insurance Agent Co., Ltd.	-	-	17,229	521
Yi Ru Corporation	-	-	462	14

K. Insurance income

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay United Bank	\$227,118	\$6,845	\$256,807	\$7,759
Cathay Financial Holding Co., Ltd.	556	17	562	17
Cathay General Hospital	17,805	537	20,295	613
Cathay Real Estate Development Co., Ltd.	996	30	989	30
San Ching Engineering Co., Ltd.	881	27	891	27
Cathay Century Insurance Co., Ltd.	5,198	157	5,607	169
Cathay Securities Investment Trust Co., Ltd.	602	18	612	19
Cathay Securities Co., Ltd.	945	28	1,236	37
Cathay Futures Co., Ltd.	1,711	51	672	20
Symphox Information Co., Ltd.	762	23	1,005	30

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Other related parties	-	-	25,665	776
Total	<u>\$256,574</u>	<u>\$7,733</u>	<u>\$314,341</u>	<u>\$9,497</u>

L. Insurance expense

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$130,218</u>	<u>\$3,925</u>	<u>\$99,673</u>	<u>\$3,011</u>

Insurance expense was included property and equipment, cash, accident insurance. As of September 30, 2005 and 2006 the insurance expense which was authorized the Company to insure the fidelity insurance clause by employees were NT\$7,829 (US\$236) and NT\$8,000 (US\$242).

M. Indemnity income

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	<u>\$8,616</u>	<u>\$260</u>	<u>\$6,781</u>	<u>\$205</u>

N. Reinsurance income

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	<u>\$78,686</u>	<u>\$2,371</u>	<u>\$106,074</u>	<u>\$3,205</u>

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

O.Reinsurance claims payment

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$55,834	\$1,683	\$71,282	\$2,154

P. Reinsurance commission expense

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$10,882	\$328	\$13,305	\$402

Q.Reinsurance handling fee income

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Insurance (Bermuda) Co., Ltd.	\$7,601	\$229	\$579,244	\$17,500

R. Cost of disposal real estate

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Securities Co., Ltd.	\$158,000	\$4,762	\$37,800	\$1,142
Cathay United Bank	96,000	2,893	37,800	1,142
Total	\$254,000	\$7,655	\$75,600	\$2,284

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

S. Miscellaneous income

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Century Insurance Co., Ltd.	\$416,656	\$12,558	\$503,299	\$15,205
Cathay United Bank	97,361	2,934	78,795	2,380
Cathay Securities Investment Trust Co., Ltd.	7,102	214	10,179	308
Symphox Information Co., Ltd.	1,989	60	1,646	50
<b>Total</b>	<b>\$523,108</b>	<b>\$15,766</b>	<b>\$593,919</b>	<b>\$17,943</b>

The miscellaneous income was cross-selling income.

T. Commissions expense

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Agent Co., Ltd.	\$146,102	\$4,403	\$90,881	\$2,746

U. Operating expense

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Charity Foundation	\$-	\$-	\$2,250	\$68
Symphox Information Co., Ltd.	173,310	5,223	158,272	4,782
Cathay General Hospital	212	6	3,069	93
Lin Yuan Property Management Co., Ltd.	593,104	17,875	483,518	14,608
Cathay Securities Investment Co., Ltd.	39,375	1,187	39,375	1,189
San Ching Engineering Co., Ltd.	4,607	139	3,040	92
Cathay Real Estate Development Co., Ltd.	4,844	146	3,661	110
Cathay Capital Management Inc.	10,383	313	19,196	580
Seaward Leasing Co., Ltd.	3,340	101	5,100	154
Seaward Card Co., Ltd.	1,090	33	1,132	34

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Name	For the nine months ended September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Lucky Bank Taiwan Inc.	-	-	431	13
Total	\$830,265	\$25,023	\$719,044	\$21,723

V. Sale of securities

For the nine months ended September 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	\$1,437	\$3,707	\$112

There were no related party transactions of securities for the nine months ended September 30, 2005.

W.Other

As of September 30, 2005 and 2006, the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	September 30,	
	2005	2006
Forward foreign exchange contracts	USD118,601	USD302,316
CCS contracts	USD748,000	USD1,830,344

25. Pledged assets

As of September 30, 2005 and 2006, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Law, the Company is required to deposit long-term investment in government bonds equal to 15% of its capital into the Central Bank as capital guaranteed deposits.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Item	September 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Guarantee deposits paid	\$8,061,479	\$242,962	\$8,109,447	\$244,998
Time deposits	232,450	7,006	195,840	5,917
Total	<u>\$8,293,929</u>	<u>\$249,968</u>	<u>\$8,305,287</u>	<u>\$250,915</u>

Pledged assets are based on the carrying amount.

26. Other important matters and contingent liabilities

None.

27. Serious damages

None.

28. Subsequent events

The Company is planning to securitize parts of its investments in real estate, such as the Min Sheng Commercial Building, AnHe Commercial Building and World Building, in October, 2006. The accounting treatment is conformed to the regulations of the Accounting Research and Development Foundation. The company will transfer the risks and returns of ownership of the investments in real estate to the assignee and the gains on disposal of real estates under “total amount accrual method” will be about NT\$4,120,582 (US\$124,489) in the fourth quarter of 2006.

29. Other important events

(1) Pension related information

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

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 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, 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.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

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**

Item	September 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$253,349,050	\$253,349,050	\$7,635,595	\$7,635,595
Notes receivable	11,931,050	11,931,050	359,586	359,586
Financial assets at fair value through profit or loss - current	95,430,309	95,931,351	2,876,139	2,891,240



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Item	September 30, 2005			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets - current	114,956,691	124,506,267	3,464,638	3,752,449
Held-to-maturity financial assets - current	3,342,497	3,342,497	100,738	100,738
Investments in debt securities with no active market - current	537,739	537,739	16,207	16,207
Available-for-sale financial assets - noncurrent	130,093,565	130,741,885	3,920,843	3,940,382
Held-to-maturity financial assets - noncurrent	441,158,365	441,069,723	13,295,912	13,293,241
Financial assets carried at cost - noncurrent	20,417,709	20,417,709	615,362	615,362
Investments in debt securities with no active market - noncurrent	46,705,831	46,697,534	1,407,650	1,407,400
Long-term investments in stocks under the equity method	3,819,458	3,819,458	115,113	115,113
Guarantee deposits paid	8,253,789	8,253,789	248,758	248,758
<u>Liabilities - non-derivative</u>				
Notes payable	1,459	1,459	44	44
Guarantee deposits received	1,610,004	1,610,004	48,523	48,523
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Futures	2,197,838	2,178,721	66,240	65,664
Option	49,623	50,687	1,496	1,528
Forward	2,618,311	2,618,311	78,912	78,912
IRS	(56,318)	(31,668)	(1,697)	(954)
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Forward	19,924,667	19,924,667	600,503	600,503
IRS	22,136	22,136	667	667

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Item	September 30, 2006			
	NT\$		US\$	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets - non-derivative</u>				
Cash and cash equivalents	\$302,443,003	\$302,443,003	\$9,137,251	\$9,137,251
Notes receivable	10,149,842	10,149,842	306,642	306,642
Financial assets at fair value through profit or loss - current	83,100,332	83,100,332	2,510,584	2,510,584
Available-for-sale financial assets - current	104,195,732	104,195,732	3,147,907	3,147,907
Held-to-maturity financial assets - current	10,458,530	10,458,530	315,968	315,968
Investments in debt securities with no active market - current	5,517,326	5,517,326	166,687	166,687
Available-for-sale financial assets - noncurrent	147,599,794	147,599,794	4,459,208	4,459,208
Held-to-maturity financial assets - noncurrent	529,790,151	522,613,586	16,005,745	15,788,930
Financial assets carried at cost - noncurrent	20,011,317	20,011,317	604,572	604,572
Investments in debt securities with no active market - noncurrent	42,995,008	42,749,992	1,298,943	1,291,541
Long-term investments in stocks under the equity method	4,198,857	4,198,857	126,854	126,854
Guarantee deposits paid	8,286,274	8,286,274	250,341	250,341
<u>Liabilities - non-derivative</u>				
Notes payable	3,523	3,523	106	106
Guarantee deposits received	1,568,398	1,568,398	47,384	47,384
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Futures	3,505,484	3,505,484	105,906	105,906
Option	38,566	38,566	1,165	1,165
Forward	3,409,922	3,409,922	103,019	103,019
IRS	399,766	399,766	12,077	12,077
Derivative financial assets for hedging - current				
IRS	304,329	304,329	9,194	9,194
<u>Liabilities - derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Option	2,383	2,383	72	72
Forward	16,428,852	16,428,852	496,340	496,340
IRS	391,325	391,325	11,823	11,823
Derivative financial liabilities for hedging - current				
IRS	35,549	35,549	1,074	1,074

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

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

- ① The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables.
- ② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.
- ③ Quoted market price, if available, are utilized as estimates of the fair value of 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.
- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at September 30, 2006:

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Financial Instruments	September 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 or loss - current	\$77,430,266	\$77,430,266	\$5,670,066	\$5,670,066
Available-for-sale financial assets - current	104,195,732	104,195,732	-	-
Held-to-maturity financial assets - current	10,458,530	10,458,530	-	-
Investments in debt securities with no active market - current	-	-	5,517,326	5,517,326
Available-for-sale financial assets - noncurrent	133,424,557	133,424,557	14,175,237	14,175,237
Held-to-maturity financial assets - noncurrent	76,898,134	90,646,144	452,892,017	431,967,442
Financial assets carried at cost - noncurrent	20,011,317	20,011,317	-	-
Investment in debt securities with no active market - noncurrent	11,478,875	11,617,884	31,516,133	31,132,108
Long-term investments in stocks under the equity method	-	-	4,198,857	4,198,857
<u>Assets derivative</u>				
Financial assets at fair value through profit or loss - current				
Futures	3,505,484	3,505,484	-	-
Option	38,566	38,566	-	-
Forward contracts	-	-	3,409,922	3,409,922
IRS	-	-	399,766	399,766
Derivative financial assets for hedging - current				
IRS	-	-	304,329	304,329
<u>Liability derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Option	2,383	2,383	-	-
Forward contracts	-	-	16,428,852	16,428,852
IRS	-	-	391,325	391,325
Derivative financial assets for hedging - current				
IRS	-	-	35,549	35,549

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Financial Instruments	September 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 or loss - current	\$2,339,283	\$2,339,283	\$171,301	\$171,301
Available-for-sale financial assets - current	3,147,907	3,147,907	-	-
Held-to-maturity financial assets - current	315,968	315,968	-	-
Investments in debt securities with no active market - current	-	-	166,687	166,687
Available-for-sale financial assets - noncurrent	4,030,953	4,030,953	428,255	428,255
Held-to-maturity financial assets - noncurrent	2,323,207	2,738,554	13,682,538	13,050,376
Financial assets carried at cost - noncurrent	604,572	604,572	-	-
Investment in debt securities with no active market - noncurrent	346,794	350,994	952,149	940,547
Long-term investments in stocks under the equity method	-	-	126,854	126,854
<u>Assets - derivative</u>				
Financial assets at fair value through profit or loss - current				
Futures	105,906	105,906	-	-
Option	1,165	1,165	-	-
Forward contracts	-	-	103,019	103,019
IRS	-	-	12,077	12,077
Derivative financial assets for hedging - current				
IRS	-	-	9,194	9,194
<u>Liability derivative</u>				
Financial liabilities at fair value through profit or loss - current				
Option	72	72	-	-
Forward contracts	-	-	496,340	496,340
IRS	-	-	11,823	11,823
Derivative financial assets for hedging - current				
IRS	-	-	1,074	1,074

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

**(4) Risk of interest rate**

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

**Non-derivative financial instruments of fixed interest rate**

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 or loss	\$363,510	\$10,982	\$539,025	\$16,285	\$159,547	\$4,820	\$223,329	\$6,747
Available-for-sale financial assets	11,144,156	336,681	1,620,299	48,952	1,283,648	38,781	801,015	24,200
Held-to-maturity financial assets	11,723,683	354,190	7,883,815	238,182	3,818,776	115,371	13,411,878	405,193
Investments in debt securities								
with no active market	501,195	15,142	346,991	10,483	1,570,060	47,434	486,942	14,711

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$865,979	\$26,163	\$25,907,666	\$782,709	\$28,059,056	\$847,706
Available-for-sale financial assets	6,349,032	191,814	76,687,946	2,316,856	97,886,096	2,957,284
Held-to-maturity financial assets	14,085,128	425,532	409,004,036	12,356,617	459,927,316	13,895,085
Investments in debt securities						
with no active market	298,832	9,028	31,634,667	955,730	34,838,687	1,052,528

**Non-derivative financial instruments of float interest rate**

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 or loss	\$7,072,195	\$213,661	\$-	\$-	\$-	\$-	\$-	\$-
Available-for-sale financial assets	49,713,698	1,501,924	-	-	-	-	-	-
Held-to-maturity financial assets	88,430,813	2,671,626	-	-	-	-	-	-
Investments in debt securities								
with no active market	13,673,648	413,101	-	-	-	-	-	-

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$-	\$-	\$-	\$-	\$7,072,195	\$213,661
Available-for-sale financial						
assets	-	-	-	-	49,713,698	1,501,924
Held-to-maturity financial assets	-	-	-	-	88,430,813	2,671,626
Investments in debt securities						
with no active market	-	-	-	-	13,673,648	413,101

**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 or loss	\$258,199	\$7,801	\$109,200	\$3,299	\$17,483	\$528	\$3,825	\$115
Derivative financial assets for								
hedging	4,965	150	46,432	1,403	13,462	407	124,287	3,755
Financial liabilities at fair value								
through profit or loss	(63,329)	(1,913)	(2,308)	(70)	(310)	(9)	(1,335)	(40)
Derivative financial liabilities								
for hedging	(1,109)	(33)	(5,283)	(160)	(29,157)	(881)	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Financial assets at fair value						
through profit or loss	\$857	\$26	\$275,024	\$8,309	\$664,588	\$20,078
Derivative financial assets for						
hedging	63,863	1,929	51,320	1,550	304,329	9,194
Financial liabilities at fair value						
through profit or loss	(25,071)	(758)	(301,355)	(9,105)	(393,708)	(11,895)
Derivative financial liabilities						
for hedging	-	-	-	-	(35,549)	(1,074)

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(5) Credit risk

The Company's exposure to credit risk is minimal.

(6) Hedged of derivative financial instruments related information

Cash flow hedges - IRS

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
\$187,500	\$5,665	ARMS	Each quarter	2009/3/24
185,000	5,589	ARMS	Each quarter	2009/3/24
350,000	10,574	4.0005%-6ML	Yearly	2008/9/26
500,000	15,106	7.6%-90DCP	Half year	2007/10/10
500,000	15,106	7.05%-90DCP	Half year	2007/10/10
300,000	9,063	5.5%-6ML	Half year	2007/12/26
500,000	15,106	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,042	4.003%-6ML	Half year	2008/6/13
500,000	15,106	4%-12ML	Yearly	2008/6/5
300,000	9,063	4.3%-12ML	Yearly	2010/6/20
900,000	27,190	90DCP	Each quarter	2015/2/4
50,000	1,511	90DCP	Each quarter	2009/3/15
200,000	6,042	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
300,000	9,063	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	6,042	7.603%-6ML	Half year	2007/7/31
300,000	9,063	7.75%-6ML	Half year	2007/7/31
300,000	9,063	If 6ML<6.9%,3.8% If 6ML>6.9%,0%	Half year	2007/7/31



**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

Par value		Exchange rate	Frequency	Maturity date
NT\$	US\$			
200,000	6,042	0~0.5Y:3.8%,0.5Y+6ML :3.0% 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%	Half year	2011/3/19
300,000	9,063	5.1%-6ML	Half year	2007/12/19
200,000	6,042	If 6ML<0.95%,6ML If 0.95%<6ML<2.0%,3.5% If 2.0%<6ML;4.8%-6ML	Half year	2009/1/9
300,000	9,063	If 6ML<0.95%,6ML If 0.95%<6ML<2.0%,3.5% If 2.0%<6ML;4.8%-6ML	Half year	2009/1/7
200,000	6,042	4.000%-6ML	Half year	2010/4/7
300,000	9,063	4.0002%-6ML	Half year	2010/4/7
400,000	12,085	4.0006%-6ML	Half year	2010/4/7
400,000	12,085	4.0007%-6ML	Half year	2010/4/7
250,000	7,553	90DCP	Each quarter	2008/8/10
900,000	27,190	90DCP	Each quarter	2010/8/18
600,000	18,127	90DCP	Each quarter	2010/8/19
100,000	3,021	4.0006%-6ML	Half year	2010/4/7
100,000	3,021	4.0007%-6ML	Half year	2010/4/7
450,000	13,595	90DCP	Each quarter	2008/8/22
330,000	9,970	90DCP	Each quarter	2008/8/24
300,000	9,063	5.35%-6ML	Each quarter	2008/1/8
200,000	6,042	4.0003%-6ML	Half year	2010/4/7
300,000	9,063	5.37%-6ML	Yearly	2011/3/15
200,000	6,042	5.85%-6ML	Half year	2009/1/13
50,000	1,511	4.15%-6ML	Half year	2009/1/16
200,000	6,042	6.3%-6ML	Yearly	2010/11/27

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

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

The Company's interest rate swap agreements for cash flow hedges have passed the effectiveness testing. Unrealized gains on financial instruments were recognized in equity by NT\$416,550 (US\$12,585) as of September 30, 2006.

(7) Discretionary account management

Item	September 30, 2005			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$3,030,828	\$91,345	\$3,210,091	\$96,748
Repurchase bonds	3,977,017	119,862	3,977,937	119,890
Convertible bonds	33,867	1,021	34,776	1,048
Government Bonds	4,893,829	147,493	4,907,530	147,906
Cash in bank	153,436	4,624	153,468	4,625
Total	<u>\$12,088,977</u>	<u>\$364,345</u>	<u>\$12,283,802</u>	<u>\$370,217</u>

  

Item	September 30, 2006			
	Carrying amount		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$5,147,193	\$155,504	\$5,147,193	\$155,504
Repurchase bonds	6,327,016	191,149	6,329,588	191,226
Convertible bonds	28,415	858	28,415	858
Government Bonds	2,674,479	80,800	2,674,479	80,800
Cash in banks	162,637	4,914	162,697	4,916
Total	<u>\$14,339,740</u>	<u>\$433,225</u>	<u>\$14,342,372</u>	<u>\$433,304</u>

As of September 30, 2005 and 2006, the Company had discretionary account management contracts in the amount of NT\$10,950,000 (US\$330,018) and NT\$12,450,000 (US\$376,133), respectively.

**English Translation of Financial Statements Originally Issued in Chinese**

**Cathay Life Insurance Co., Ltd.**

**Note to unaudited financial statements-continued**

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

**As of September 30, 2005 and 2006**

(8) Material contract

None.

(9) Presentation of financial statements

Certain accounts in the financial statements for the nine months ended September 30, 2005 have been reclassified in order to be comparable with those in the financial statements for the nine months ended September 30, 2006.

(10) Other

None.

30. Information regarding investment in Mainland China

On December 25, 2002 and July 24, 2003, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US\$22,850 and US\$27,150, respectively, as the registered capital to establish a China-based company named Cathay Life Insurance Co., Ltd. (Guangzhou). On September 25, 2003, MOEAIC authorized Cathay Life Insurance Co., Ltd. (Guangzhou) to change its location from Guangzhou to Shanghai. The Company's subsidiary, Cathay Life Insurance Ltd. (Shanghai) has acquired a business license of an enterprise as legal person on December 29, 2004. As of September 30, 2006, the Company's remittances to this company totaled approximately US\$48,330.

31. Segment Information

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