Cathay Century Insurance Co., Ltd.
Financial statements
Together with
Independent auditor's report
As of December 31, 2005 and 2006

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", "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance" and "Bussiness Entity Accounting Acts". 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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English Translation of Independent Auditor's Report Originally Issued in Chinese

Independent auditor's report

Board of Directors
Cathay Century Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") as of December 31, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audited.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of December 31, 2005 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with "Bussiness Entity Accounting Acts", "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

As discussed in Note 3 to the financial statements, effective from January 1, 2006, the Company adopted the Republic of China 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
January 18, 2007

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 Century Insurance Co., Ltd.

Balance sheets

As of December 31, 2005 and 2006

(Expressed in thousands of dollars)

		December 31,2005		December 31,2006	
Assets	Notes	NT$	US$	NT$	US$
Current assets					
Cash and cash equivalents	2,4	$2,619,412	79,860	$1,971,694	$60,500
Financial assets at fair value through profit or loss - current	2,5	545,483	16,631	511,683	15,701
Available-for-sale financial assets - current	2,6	1,695,811	51,702	2,548,140	78,188
Investments in debt securities with no active market - current	2,7	254,121	7,748	76,981	2,362
Notes receivable	2	196,685	5,996	218,140	6,693
Premiums receivable	2,8	1,177,114	35,888	1,497,647	45,954
Claims recoverable from reinsurers		215,775	6,578	170,371	5,228
Due from reinsurers and ceding companies		80,499	2,454	76,565	2,349
Accounts receivable-reinsurance		19,294	588	23,900	733
Other accounts receivable	2	34,950	1,065	225,215	6,911
Prepayments		2,839	87	2,808	86
Deferred income tax assets - current	2,19	37,988	1,158	53,568	1,644
Subtotal		6,879,971	209,755	7,376,712	226,349
Loans	2,9				
Secured loans		1,321,212	40,281	2,095,268	64,292
Subtotal		1,321,212	40,281	2,095,268	64,292
Funds and investments	2				
Held-to-maturity financial assets - noncurrent	10	3,153,954	96,157	3,749,347	115,046
Financial assets carried at cost - noncurrent	11	36,000	1,098	60,000	1,841
Investments in debt securities with no active market - noncurrent	12	307,799	9,384	229,220	7,033
Long-term investments under equity method	13	382,522	11,662	449,041	13,779
Subtotal		3,880,275	118,301	4,487,608	137,699
Fixed assets	14				
Communication and transportation equipments		15,743	480	13,975	429
Other equipments		180,783	5,512	190,957	5,859
Subtotal		196,526	5,992	204,932	6,288
Less: Accumulated depreciation		(144,696)	(4,411)	(165,401)	(5,075)
Prepayments for equipments		3,853	117	6,047	186
Subtotal		55,683	1,698	45,578	1,399
Intangible assets	2				
Computer software cost		13,351	407	7,085	217
Deferred pension cost		3,464	106	-	-
Subtotal		16,815	513	7,085	217
Other assets					
Guarantee deposits paid		383,859	11,703	509,527	15,634
Funds held by ceding companies		8	-	8	-
Overdue receivables	2	140,660	4,288	137,214	4,210
Other assets-others		14,123	431	16,966	521
Subtotal		538,650	16,422	663,715	20,365
Total assets		$12,692,606	$386,970	$14,675,966	$450,321

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT$32.80 and NT$32.59 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets - (Continued)

As of December 31, 2005 and 2006

(Expressed in thousands of dollars)

		December 31,2005		December 31,2006	
Liabilities & stockholders' equity	Notes	NT$	US$	NT$	US$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2	$2,256	$69	$61,846	$1,898
Commissions payable		7,273	222	2,921	89
Claims outstanding		628	19	19,550	600
Due to reinsurers and ceding companies		224,011	6,829	260,583	7,996
Accounts payable-reinsurance		610,984	18,628	817,288	25,078
Other payables		446,376	13,609	585,401	17,962
Subtotal		1,291,528	39,376	1,747,589	53,623
Long-term liabilities	2				
Accrued pension liabilities		6,869	209	3,405	105
Subtotal		6,869	209	3,405	105
Operating and liability reserve	2,15				
Unearned premiums reserve		4,449,253	135,648	4,955,218	152,047
Special reserve		2,747,793	83,774	3,186,280	97,769
Claims reserve		927,006	28,262	1,151,903	35,345
Subtotal		8,124,052	247,684	9,293,401	285,161
Other liabilities					
Funds held for reinsurers		184	6	185	6
Other liabilities-others		75,756	2,310	59,800	1,835
Subtotal		75,940	2,316	59,985	1,841
Total liabilities		9,498,389	289,585	11,104,380	340,730
Stockholders' equity					
Capital stock	16				
Common stock		2,317,006	70,640	2,317,006	71,096
Capital surplus		2,021	62	1,929	59
Retained earnings	17				
Legal reserve		284,803	8,683	343,857	10,551
Unappropriated retained earnings		590,545	18,005	729,766	22,392
Equity adjustment					
Unrealized gains or losses on financial instruments		-	-	179,028	5,493
Cumulative conversion adjustments		(158)	(5)	-	-
Total stockholders' equity		3,194,217	97,385	3,571,586	109,591
Total liabilities and stockholders' equity		$12,692,606	$386,970	$14,675,966	$450,321

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT$32.80 and NT$32.59 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of income

For the years ended December 31, 2005 and 2006

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

Items	Notes	2005 NT$	2005 US$	2006 NT$	2006 US$
Operating revenues	2				
Premiums income		$8,912,225	$271,714	$9,896,535	$303,668
Reinsurance commission earned		401,410	12,238	223,651	6,863
Claims recovered from reinsurers		3,182,845	97,038	1,139,383	34,961
Recovered unearned premiums reserve		4,031,204	122,903	4,449,253	136,522
Recovered special claim reserve		345,774	10,542	168,339	5,165
Recovered claims reserve		51,941	1,583	60,170	1,846
Handling fee earned		52	2	60	2
Interest revenues		263,419	8,031	318,471	9,772
Gains from valuation on financial assets		14,579	443	27,846	854
Gains on investments recognized under the equity method		12,981	396	27,198	835
Exchanges gains		3,933	120	4,197	129
Gains on disposal of investments		12,918	395	65,411	2,007
Subtotal		17,233,281	525,405	16,380,514	502,624
Operating costs	2				
Reinsurance premiums ceded		(2,988,545)	(91,114)	(3,098,527)	(95,076)
Commissions expenses		(172,254)	(5,252)	(180,181)	(5,529)
Insurance claims payment		(6,281,481)	(191,508)	(4,145,145)	(127,191)
Provision for unearned premiums reserve		(4,449,253)	(135,648)	(4,955,218)	(152,047)
Provision for special claim reserve		(523,113)	(15,949)	(606,826)	(18,620)
Contribution to the stabilization funds		(16,654)	(508)	(18,411)	(565)
Provision for claims reserve		(60,170)	(1,834)	(268,728)	(8,246)
Handling fee paid		(215,979)	(6,585)	(241,499)	(7,410)
Losses from valuation on financial liabilities		-	-	(61,846)	(1,898)
Exchanges losses		(64,083)	(1,954)	(27,569)	(846)
Other operating costs		(2,704)	(82)	(4,154)	(127)
Subtotal		(14,774,236)	(450,434)	(13,608,104)	(417,555)
Operating gross profit		2,459,045	74,971	2,772,410	85,069
Operating expenses	2				
Marketing expenses		(1,464,132)	(44,638)	(1,664,155)	(51,063)
Management and general affairs expenses		(255,671)	(7,795)	(263,601)	(8,088)
Operating income		739,242	22,538	844,654	25,918
Non-operating revenues					
Gains on disposal of fixed assets		905	28	566	17
Other non-operating revenues		11,197	341	3,086	95
Subtotal		12,102	369	3,652	112
Non-operating expenses					
Losses on disposal of fixed assets		(5)	-	(7)	-
Miscellaneous expenses		(18)	-	(58)	(2)
Subtotal		(23)	-	(65)	(2)
Income from continuing operations before income taxes		751,321	22,907	848,241	26,028
Income taxes	2,19	(160,776)	(4,902)	(178,616)	(5,481)
Income from continuing operations after income taxes		590,545	18,005	669,625	20,547
Cumulative effect of changes in accounting principles	3	-	-	60,141	1,845
Net income		$590,545	$18,005	$729,766	$22,392
Earning per share (In dollars)	20				
Income before income taxes		$3.24	$0.10	$3.92	$0.12
Net income		$2.55	$0.08	$3.15	$0.10

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT$32.80 and NT$32.59 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of changes in stockholders' equity

For the year ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

	Capital stock				Retained earnings				Equity adjustment					
	Common stock		Capital surplus		Legal reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative conversion adjustments		Total	
Summary	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2005	$2,317,006	$70,640	$1,909	$59	$220,741	$6,730	$640,617	$19,531	$-	$-	$(148)	$(5)	$3,180,125	$96,955
Appropriations and distributions for 2004														
Legal reserve					64,062	1,953	(64,062)	(1,953)					-	-
Cash dividends							(571,975)	(17,438)					(571,975)	(17,438)
Bonus paid to employees							(4,580)	(140)					(4,580)	(140)
Capital surplus- long-term equity investment			112	3									112	3
Cumulative conversion adjustments											(10)	-	(10)	-
Net Income for the year ended December 31, 2005							590,545	18,805					590,545	18,005
Balance on December 31, 2005	$2,317,006	$70,640	$2,021	$62	$284,803	$8,683	$590,545	$18,005	$-	$-	$(158)	$(5)	$3,194,217	$97,385
Balance on January 1, 2006	$2,317,006	$71,096	$2,021	$62	$284,803	$8,739	$590,545	$18,120	$-	$-	$(158)	$(5)	$3,194,217	$98,012
Unrealized gains or losses on financial instruments - first time adoption									(24,734)	(759)			(24,734)	(759)
Appropriations and distributions for 2005														
Legal reserve					59,054	1,812	(59,054)	(1,812)					-	-
Cash dividends							(527,812)	(16,195)					(527,812)	(16,195)
Bonus paid to employees							(3,679)	(113)					(3,679)	(113)
Capital surplus- long-term equity investment			(92)	(3)									(92)	(3)
Changes in unrealized gains or losses on financial instruments									203,762	6,252			203,762	6,252
Cumulative conversion adjustments											158	5	158	5
Net Income for the year ended December 31, 2006							729,766	22,392					729,766	22,392
Balance on December31, 2006	$2,317,006	$71,096	$1,929	$59	$343,857	$10,551	$729,766	$22,392	$179,028	$5,493	$-	$-	$3,571,586	$109,591

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT$32.80 and NT$32.59 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows

For the years ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

		2005		2006	
Items	Notes	NT$	US$	NT$	US$
Cash flows from operating activities					
Net income		$590,545	$18,005	$729,766	$22,392
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		7,247	221	7,267	223
Depreciation		24,403	744	23,800	730
Provision for reserve for operations		5,032,536	153,431	5,830,772	178,913
Recovered unearned premiums reserve		(4,031,204)	(122,903)	(4,449,253)	(136,522)
Recovered special claim reserve		(345,774)	(10,542)	(168,339)	(5,165)
Recovered claims reserve		(51,941)	(1,583)	(60,170)	(1,846)
Losses on disposal of fixed assets		5	-	7	-
Gaines on disposal of fixed assets		(905)	(28)	(566)	(17)
Unrealized gain on investments recognized under the equity method		(12,981)	(396)	(27,198)	(835)
Effects of exchange rate changes		60,150	1,834	23,372	717
Effects of changes in accounting principles		-	-	(60,141)	(1,845)
Decrease in financial assets at fair value through profit or loss - current		391,691	11,942	93,941	2,882
(Increase) decrease in notes receivable		(56,365)	(1,718)	(21,455)	(658)
(Increase) decrease in premiums receivable		(241,473)	(7,362)	(320,533)	(9,835)
(Increase) decrease in claims recoverable from reinsurers		37,194	1,134	45,404	1,393
Increase in due from reinsurers and ceding companies		(76,160)	(2,322)	40,505	1,243
(Increase) decrease in reinsurance accounts receivable		51,012	1,555	201,699	6,189
Increase in other accounts receivable		(7,323)	(223)	(190,265)	(5,838)
(Increase) decrease in prepayments		(23)	(1)	31	1
(Increase) decrease in deferred income tax assets-current		1,785	55	(15,580)	(478)
Increase in overdue receivables		(56,947)	(1,736)	3,445	106
Increase in other assets-others		(7,085)	(216)	(2,843)	(87)
Increase in financial liabilities at fair value through profit or loss - current		2,256	68	59,590	1,828
Decrease in commissions payable		5,437	166	(4,352)	(134)
Increase in claims outstanding		(5)	-	18,922	581
(Decrease) increase in other payables		37,414	1,140	143,619	4,407
Increase in accrued pension liabilities		497	15	-	-
Increase (decrease) in other liabilities-others		43,721	1,333	(15,956)	(490)
Increase in claims reserve		284,604	8,677	16,339	501
Net cash provided by (used in) operating activities		1,682,311	51,290	1,901,828	58,356

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT$32.80 and NT$32.59 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows-(Continued)

For the years ended December 31, 2005 and 2006

(Expressed in thousands of dollars)

		2005		2006	
Items	Notes	NT$	US$	NT$	US$
Cash flows from investing activities					
Increase in available-for-sale financial assets - current		(613,872)	(18,715)	(712,554)	(21,864)
Increase in investments in debt securities with no active market - current		-	-	254,122	7,797
Increase in secured loans		(519,389)	(15,835)	(774,056)	(23,751)
Increase in held-to-maturity financial assets - noncurrent		(876,413)	(26,720)	(595,393)	(18,269)
(Increase) Decrease in investments in debt securities with no active market - noncurrent		(100,428)	(3,062)	1,597	49
(Increase) decrease in financial assets carried at cost - noncurrent		39,000	1,189	(24,000)	(737)
Acquisition of long-term investment under equity method		(151,000)	(4,604)	-	-
Disposal of fixed assets		2,608	80	608	19
Acquisition of fixed assets		(15,022)	(458)	(13,758)	(422)
Acquisition of intangible assets		(5,577)	(170)	(1,001)	(31)
Increase in guarantee deposits paid		(7,452)	(227)	(125,668)	(3,856)
Net cash provided by (used in) investing activities		(2,247,545)	(68,522)	(1,990,103)	(61,065)
Cash flows from financing activities					
Bonus to employees		(7,888)	(241)	(8,259)	(253)
Cash dividends		(571,975)	(17,438)	(527,812)	(16,196)
Net cash provided by (used in) financing activities		(579,863)	(17,679)	(536,071)	(16,449)
Effects of exchange rate changes		(60,150)	(1,834)	(23,372)	(717)
Decrease in cash and cash equivalents		(1,205,247)	(36,745)	(647,718)	(19,875)
Cash and cash equivalents at the beginning of periods		3,824,659	116,605	2,619,412	80,375
Cash and cash equivalents at the end of periods		$2,619,412	$79,860	$1,971,694	$60,500
Supplemental disclosure of cash flows information					
Income tax paid		$134,457	$4,099	$141,771	$4,350
Partial cash investing and financing activities					
Equipment		$16,791	$512	$13,743	$422
Other payable at the year-began		5,313	162	7,082	217
Other payable at the year-end		(7,082)	(216)	(7,067)	(217)
Cash paid		$15,022	$458	$13,758	$422

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2005 and 2006 were NT$32.80 and NT$32.59 to US$1.00)

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

1. Organization and business scope

Cathay Century Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on July 19, 1993, under the provisions of the Company Law (the “Company Law”) of the Republic of China (“ROC”). The Company mainly engaged in the business of property and casualty insurance. On April 22, 2002, the Company became a subsidiary of Cathay Financial Holding Co., Ltd. by adopting the stock conversion method under the ROC Financial Holding Company Act (“Financial Holding Company Act”) and other pertinent laws of the ROC. On August 2, 2002, the Company officially changed its name from “Tong-Tai Insurance Co., Ltd.” to “Cathay Century Insurance Co., Ltd.”.

As of December 31, 2005 and 2006, the total numbers of employees were 866 and 940, respectively.

2. Summary of significant accounting policies

We prepared the financial statement, in accordance with generally accepted accounting principles, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers”, “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance” and “Bussiness Entity Accounting Act”. A summary of significant accounting policies follows:

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

Current assets are assets which can be liquidated or disposed within one year. Assets that do not belong to current assets are classified as non-current assets. Current liabilities are debts which must be paid-off within one year. Debts do not belong to current liabilities are classified as non-current liabilities.

(2) Cash and cash equivalents

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

(3) Financial assets and financial liabilities

The Company adopted the Statements of Financial Accounting Standards of the ROC ("ROC SFAS") No.34 "Accounting for Financial Instruments" and "Criteria Governing the Preparation of Financial Reports by Property and Casualty Insurance". Financial assets are categorized as the "financial assets at fair value through profit or loss", "investments in debt securities with no active market", "held-to-maturity financial assets" or "available-for-sale financial assets", and accordingly, recognized at fair value initially. Financial liabilities are categorized as the "financial liabilities at fair value through profit or loss" or "financial liabilities measured at cost".

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, impaired, or amortized. The amortized cost is computed as the cost (amount initially recognized) minus principle repayments, plus or minus the cumulative amortization using the effective interest method of any difference between cost and the maturity amount, and less the impairment. The contracts related to the financial assets, transactions costs, fees and premiums/ discounts have been taken into the consideration of the effective interest rate calculation.

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any forementioned categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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.

The Company uses amortized cost for subsequent valuation of financial liabilities, except for “financial liabilities at fair value through profit or loss” and “derivative financial liabilities for hedging” which are measured at fair value.

(4) Allowance for bad debts

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

(5) Long – term investments under equity method

Long-term investments in equity securities are accounted for under the equity method where the Company owns more than 20% of the investee's voting stocks or the Company has significant influence over the investee company. The difference between the investment cost and the Company's share of net assets of the investee company was amortized over 5 years. However, started from January 1, 2006, such difference is no longer amortized. Newly acquired difference is analyzed and accounted for in inconformity 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.

If the adjustment stated above is to debit the additional paid-in capital account and the amount 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 to income over the economic service life of the asset. Gains or losses from other types of intercompany transactions are recognized when realized.

(6) Fixed assets

Fixed assets are carried at cost. Improvements and major renovation of properties are capitalized, while repairs and maintenances are expensed when occurred. Upon the sale or disposal of fixed assets, the related cost and accumulated depreciation and accumulated depletion are eliminated. Gain or loss resulting from such sale or disposal is recorded as non-operating gain or loss. Depreciation on depreciable assets is calculated on the straight-line method over the estimated service lives prescribed by the "Estimated Useful Life of Fixed Assets Table" published by the ROC Executive Yuan (the "Executive Yuan Depreciation Table"). Fixed assets that are still in use after their useful lives are depreciated based on their residual values and the newly estimated remaining useful lives.

(7) Intangible assets

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

(8) Accounting for Asset Impairment

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

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

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

(a) first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and

(b) if the goodwill has been written off, reduce the carrying amounts of other assets of the CGU proportionately.

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

(9) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is then 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 that is not carried at fair value because its fair value cannot be reliably measured, 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 measured 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.

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.

(10) Operating and liability reserves

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

(11) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(12) Premiums income

Direct premiums are recognized on the date when the policies became effective. Policy related expenses are recognized when incurred.

Reinsurance premiums and reinsurance commission expenses are recognized upon the assumption of reinsurance. Claim expenses for assumed reinsurance policies are recognized upon notification that claim payments are due. Adjustments are made at year-end and are made based on past experience.

(13) Contribution to the stabilization funds

The Company makes a monthly contribution based on 2‰ of the gross premiums to the stabilization funds and deposits it in “Property Insurance Stabilization Fund Committees”. It is reported as “Contribution to the Stabilization funds” in the income statement.

(14) Pension plan

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

The Labor Pension Act of 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 as of the balance sheet date, and a minimum pension liability is recorded in the financial statements based on the difference between the accumulated benefit obligations and the fair value of the plan assets.

(15) 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.

(16) Income Taxes

The Company adopted SFAS No. 22, " Accounting for Income Taxes", which requires inter-period and intra-period taxes allocations in addition to computing current period income tax payable. Furthermore, it requires recognition of temporary differences in deferred income tax liabilities, deferred income tax assets, prior year's loss carry-forwards and investment tax credits. The realization of deferred income tax assets should be further assessed and a valuation allowance will be estimated, if needed. The prior year's income tax expense adjustment should be recorded as current period income tax expenses in the year of adjustment.

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

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

The Company adopted SFAS No. 12, "Accounting for Income Tax Credits" for income tax credits. The income tax credits resulting from the expenditures on the purchases of equipments, R & D, education trainings, and investments in equity shall be recognized at the current period.

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

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

(17) Capital expenditure expenses

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

(18) Derivative financial instruments

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

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

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

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

B. Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or

C. Hedge of a net investment in a foreign operation.

Hedges of the foreign currency risk and stock fluctuation of a firm commitment are belong to fair value hedges. The Company adopted SFAS No. 34, Accounting for Financial Instruments categorized as financial assets at fair value through profit or loss are recognized in earnings.

(19) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2005 and 2006 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$32.80 and NT$32.59 provided by Federal Reserve Bank of New York of December 31, 2005 and 2006 are used for the conversion.

(20) Significant accounting policies used in 2005

A. Short-term investments

Equity securities are recorded at cost initially and stated at the lower of cost or market value as of the balance sheet date. Stock dividends are treated as an increase in the number of shares, not investment income. The cost of equity securities sold is determined by the moving weighted-average method.

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

Short-term notes are recorded at cost initially and stated at the lower of cost or market value as of the balance sheet date. Disposal gains and losses are calculated and recognized individually.

Bonds and convertible bonds are recorded at cost initially and stated at the lower of cost or market value. Disposal gains or losses are calculated and recognized individually.

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

B. Long – term investments

(a) Long-term investments in stocks

Long-term investments in stocks are investments in stocks of unlisted companies or stocks in listed companies with the intention to hold for long-term. Long-term investments in listed companies in which the Company's ownership interest is less than 20% of the voting stock with no significant influence over the investee company are stated at the lower of cost or market value. Unrealized loss 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. If there is objective evidence that the investment is impaired and the chance of recovery is remote, the carrying amount of the investment is reduced and an impairment loss is recognized. Stock dividends are not recognized as income but treated as an increase in the number of shares held.

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 recorded at cost at the time of purchase. Premiums or discounts are amortized over the period.

C. Derivative financial products transaction

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

3. Changes in accounting and their 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”).

At the effective date, the Company shall remeasure and reclassify financial assets and liabilities that should be measured at fair value or at amortized cost as appropriate according to ROC SFAS No.34. Any resulting adjustment shall be recognized. Adjustments for “financial assets/liabilities at fair value through profit and loss” are recognized as cumulative effects of changes in accounting principles. Adjustments for “Available-for-sale financial assets” are recognized as changes of stockholders’ equity.

The above changes in accounting principles increased the Company’s assets, by NT$33,715 (US$1,043) and decreased the Company’s liabilities and stockholders’ equity-unrealized gains or losses on financial instruments by NT$1,692 (US$52) and NT$24,734 (US$765) as of January 1, 2006, respectively. The company’s net income and earnings per share increased by NT$60,141 (US$1,860) and NT$0.26 (US$0.01), respectively, for the year ended December 31, 2006.

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

The adoption of ROC SFAS No.5 did not effect the financial statement under the equity method and investment gain or loss for the year period ended December 31, 2005.

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

4. Cash and cash equivalents

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Cash on hand	$6,685	$204	$7,883	$242
Cash in banks	386,799	11,792	517,833	15,889
Time deposits	1,973,970	60,182	1,435,974	44,062
Cash equivalents	251,958	7,682	10,004	307
Total	$2,619,412	$79,860	$1,971,694	$60,500

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

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Common stock	$371,088	$11,314	$253,991	$7,794
Beneficiary certificates	165,410	5,043	122,028	3,744
Corporate bonds	-	-	98,034	3,008
Derivative financial instruments	8,985	274	9,784	300
Subtotal	545,483	16,631	483,837	14,846
Add: Valuation adjustment	-	-	27,846	855
Total	$545,483	$16,631	$511,683	$15,701

6. Available-for-sale financial assets-current

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Common stock	$839,127	$25,583	$795,741	$24,417
Beneficiary certificates	213,254	6,502	710,390	21,798
Corporate bonds	242,370	7,389	400,916	12,302
Financial debentures	401,060	12,228	501,319	15,382
Subtotal	1,695,811	51,702	2,408,366	73,899
Add: Valuation adjustment	-	-	139,774	4,289
Total	$1,695,811	$51,702	$2,548,140	$78,188

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

7. Investments in debt securities with no active market-current

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Financial debentures	$254,121	$7,748	$76,981	$2,362

8. Premiums receivable

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Premiums receivable	$1,189,004	$36,250	$1,512,775	$46,418
Less: Allowance for bad debts	(11,890)	(362)	(15,128)	(464)
Net	$1,177,114	$35,888	$1,497,647	$45,954

9. Loans

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Secured loans	$1,447,421	$44,129	$2,218,273	$68,066
Less: Allowance for bad debts	(126,209)	(3,848)	(123,005)	(3,774)
Net	$1,321,212	$40,281	$2,095,268	$64,292

Secured loans are secured by real estate.

10. Held-to-maturity financial assets - noncurrent

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Overseas investments in bonds	$3,153,954	$96,157	$3,749,347	$115,046

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

11. Financial assets carried at cost - noncurrent

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
KGEX. Com Co., Ltd.	$36,000	1,098	$36,000	$1,105
Tong Lung Metal Industry Co., Ltd. – preferred stock	-	-	24,000	736
Total	$36,000	1,098	$60,000	$1,841

12. Investments in debt securities with no active market - noncurrent

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Financial debentures	$561,920	$17,132	$306,201	$9,395
Less: Financial debentures by payable with in one year	(254,121)	(7,748)	(76,981)	(2,362)
Total	$307,799	$9,384	$229,220	$7,033

13. Long-term investments under equity method

	December 31,			
	2005		2006	
Investee	NT$	US$	NT$	US$
Cathay Venture Capital Corp.	$374,725	$11,424	$441,067	$13,534
Vista Technology Venture Capital Corp.	7,797	238	7,974	245
Total	$382,522	$11,662	$449,041	$13,779

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

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

	For the years ended December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Balance on Jan. 1	$218,439	$6,660	$382,522	$11,737
Add (less): Additional investment	151,000	4,603	-	-
Investment income by equity method recognized	12,981	396	27,198	835
Cumulative conversion adjustments by equity method recognized	(10)	-	158	5
Capital surplus by equity method recognized	112	3	(92)	(3)
Net gains or losses not recognized as retirement fund costs on long-term equity investment	-	-	39,255	1,205
Balance on December 31	$382,522	$11,662	$449,041	$13,779

b. The investment gains (losses) recognized by the equity method for the years ended December 31, 2005 and 2006 are listed below:

	For the years ended December 31,			
	2005		2006	
Investee	NT$	US$	NT$	US$
Cathay Venture Capital Corp.	$15,922	$485	$27,093	$832
Vista Technology Venture Capital Corp.	(2,941)	(89)	105	3
Total	$12,981	$396	$27,198	$835

c. The accounting treatment for the investment in Vista Technology Venture Capital Corp.(VTVCC) is changed from the cost method to the equity method. The investment gains of VTVCC for the years ended December 31, 2005 and 2006 were recognized under the equity method based on the respective audited financial statements of VTVCC.

d. The investment gains of Cathay Venture Capital Corp. for the years ended December 31, 2005 and 2006 were recognized under the equity method based on the respective audited financial statements of Cathay Venture Capital Corp.

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

14. Fixed assets

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

	December 31, 2006					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Communication and						
transportation equipments	$13,975	$429	$9,518	$292	$4,457	$137
Other equipments	190,957	5,859	155,883	4,783	35,074	1,076
Subtotal	204,932	6,288	165,401	5,075	39,531	1,213
Prepayments for equipments	6,047	186	-	-	6,047	186
Total	$210,979	$6,474	$165,401	$5,075	$45,578	$1,399

There was no collaterized or pledged property and equipment of the Company as of December 31, 2005 and 2006.

15. Operating and liability reserve

	January 1, 2005		Provision		Recovered		December 31, 2005	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Unearned premiums								
reserve	$4,031,204	$122,903	$4,449,253	$135,648	$4,031,204	$122,903	$4,449,253	$135,648
Special reserve	2,570,454	78,367	523,113	15,949	345,774	10,542	2,747,793	83,774
Claims reserve	634,173	19,335	927,006	28,262	634,173	19,335	927,006	28,262
Total	$7,235,831	$220,605	$5,899,372	$179,859	$5,011,151	$152,780	$8,124,052	$247,684

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

	January 1, 2006		Provision		Recovered		December 31, 2006	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Unearned premiums reserve	$4,449,253	$136,522	$4,955,218	$152,047	$4,449,253	$136,522	$4,955,218	$152,047
Special reserve	2,747,793	84,314	606,826	18,620	168,339	5,165	3,186,280	97,769
Claims reserve	927,006	28,445	1,151,903	35,345	927,006	28,445	1,151,903	35,345
Total	$8,124,052	$249,281	$6,713,947	$206,012	$5,544,598	$170,132	$9,293,401	$285,161

16. Capital stock and capital increment

As of December 31, 2005 and 2006, the Company has issued 231,701 thousand shares with a par value of NT$10.

17. Retained Earnings

(1) Legal reserve

Pursuant to the Company Law, 10% of the annual after-tax net income of the Company shall be appropriated as a legal reserve until the total amount of the legal reserve equals to the amount of issued capital stock. This legal reserve can only be used to offset deficit but not for cash dividend distributions. However, if the total legal reserve is greater than 50% of the issued share capital, up to 50% of such excess can be capitalized if it approves by the Board of Directors.

(2) Unappropriated retained earnings

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

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

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

(3) According to the regulations issued by Securities and Futures Commission, the Company should assume the dividends of year 2005 would be appropriated to the employees, directors and supervisors, and pro-forma earnings per share for the current year.

	For the year ended December 31,	
	2005	
	NT$	US$
a. Distribution		
Bonus paid to employees-Cash	$3,679	$113
Bonus paid to employees-Stock	-	-
Remuneration paid to directors and supervisors	-	-
B. Earnings per share after income taxes (expressed in dollars)	$2.55	$0.08
Pro-forma earnings per share (expressed in dollars)	$2.53	$0.08

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

(5) Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments expect for the legal reserve since 2007.

18. Personnel, depreciation, depletion and amortization expenses

Item	For the year ended December 31, 2005 (NT$)			For the year ended December 31, 2006 (NT$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	$-	$744,753	$744,753	$-	$821,408	$821,408
Labor & health insurance expenses	-	38,567	38,567	-	43,430	43,430
Pension expenses	-	37,984	37,984	-	42,084	42,084
Other expenses	-	25,020	25,020	-	29,175	29,175
Depreciation	-	24,403	24,403	-	23,800	23,800
Depletion	-	-	-	-	-	-
Amortization	-	7,247	7,247	-	7,267	7,267

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

Item	For the year ended December 31, 2005 (US$)			For the year ended December 31, 2006 (US$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	$-	$22,706	$22,706	$-	$25,204	$25,204
Labor & health insurance expenses	-	1,176	1,176	-	1,333	1,333
Pension expenses	-	1,158	1,158	-	1,291	1,291
Other expenses	-	763	763	-	895	895
Depreciation	-	744	744	-	730	730
Depletion	-	-	-	-	-	-
Amortization	-	221	221	-	223	223

19. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the year ended December 31, 2005 NT$	2005 US$	2006 NT$	2006 US$
Income before taxes				
Adjustments:	$751,321	$22,907	$848,241	$26,028
Interest income of tax on a separate basis	(5,034)	(153)	(7,105)	(218)
Gains (losses) on appraising financial assets (liabilities)	(14,579)	(445)	34,000	1,043
Realized valuation losses on securities	39,000	1,189	-	-
Bad debts recovery	(8,741)	(266)	(17,233)	(529)
Gains on trading securities	(54,294)	(1,656)	(103,244)	(3,168)
Realized losses on reducing capital by investee	-	-	(31,429)	(964)
Investment gains recognized by the equity method	(12,981)	(396)	(27,198)	(835)
Unrealized losses on foreign exchanges	359	11	19,477	598
Realized loss on foreign exchanges	(1,804)	(55)	(359)	(11)
Unrealized pension expenses recovery	3,405	104	-	-
Others	220	6	750	23
Taxable Income	696,872	21,246	715,900	21,967

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

	For the year ended December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Time; taxes rate less: progressive difference	25%	25%	25%	25%
Subtotal	174,218	5,311	178,975	5,492
Extra 10% income tax on unappropriated retained earnings	-	-	-	-
Tax effects under integrated income tax systems	-	-	17,958	551
Income tax credit	(16,872)	(514)	(2,887)	(89)
Subtotal	157,346	4,797	194,046	5,954
Tax on a separate basis	1,007	31	1,421	44
Adjustment of prior year's income tax	638	20	(274)	(8)
Deferred income tax expenses (benefits)	1,785	54	(15,580)	(478)
Share the cumulative effect of changes in accounting principles	-	-	(997)	(31)
Total income tax expenses	$160,776	$4,902	$178,616	$5,481

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

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
A. Total deferred income tax assets	$37,988	$1,158	$53,921	$1,655
Total deferred income tax liabilities	$-	$-	$353	$11
B. Temporary differences:				
Bad debts exceeding legal limitation	$148,187	$4,518	$130,955	$4,018
Unrealized losses on foreign exchanges	-	-	19,477	598
Unrealized gains on valuation financial assets	-	-	(1,411)	(43)
Unrealized gains on valuation financial liabilities	-	-	61,846	1,898
Others	3,764	115	3,405	104
Total	$151,951	$4,633	$214,272	$6,575
C. Deferred income tax assets-current	$37,988	$1,158	$53,921	$1,655
Deferred income tax liabilities	-	-	(353)	(11)
Net between current deffered income tax assets and liabilities	$37,988	$1,158	$53,568	$1,644

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

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
D. Deferred income tax assets-non current	$-	$-	$-	$-

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

Law of income tax credits	The credits items	The amount of income tax credits	The remaining balance	Expiry year
Statute for Upgrading Industries	Education training	$2,887 (US$89)	$-	2010

(4) The Company's income tax returns have been filed and examined by the Tax Authorities through 2002; and the tax authority has informed the Company to pay additional corporate income taxes on the bond premium amortization for the tax returns of 2002, 2001 and 1999. The company has filed a dispute.

(5) Information related to imputation:

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Balance of imputation credit account	$8,898	$271	$4,361	$134

	December 31, 2005 (Actual)	December 31, 2006 (Estimated)
Imputation credit account ratio	1.73%	0.60%

(6) Information relating of unappropriated earnings:

	December 31,			
	2005		2006	
Year	NT$	US$	NT$	US$
Prior to 1997	$-	$-	$-	$-
After 1998	590,545	18,005	729,766	22,392
Total	$590,545	$18,005	$729,766	$22,392

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

Net income after tax for the years ended December 31, 2005 and 2006 are not included in the unappropriated earnings after 1998 expressed above.

20. Earnings per share

	For the year ended December 31, 2005		For the year ended December 31, 2006	
	NT$	US$	NT$	US$
Net income (loss) from continuing operations (A)	$590,545	$18,005	$669,625	$20,547
Cumulative effect of changes in accounting principles(B)	-	-	60,141	1,845
Net income (loss) (C)	$590,545	$18,005	$729,766	$22,392
Outstanding number of shares at end of period	231,701	231,701	231,701	231,701
Weighted average outstanding number of shares(D)	231,701	231,701	231,701	231,701
Earnings per share of net income (loss) from continuing operations (A)/(D) (dollars)	$2.55	$0.08	$2.89	$0.09
Earnings per share of cumulative effect of changes in accounting principles(B)/(D) (dollars)	-	-	0.26	0.01
Earnings per share of net income (loss) (C)/(D) (dollars)	$2.55	$0.08	$3.15	$0.10

21. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
Cathay Securities Corp.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Venture Capital Corp.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee

Name	Relationship
San Ching Engineering Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Lucky Bank	Affiliate
Cathay General Hospital	Affiliate
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Futures Corp.	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate
Wan Pao Development Co., Ltd.	Affiliate
Cathay Securities Investment Co., Ltd.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Cathay Bank Property Agency of Association	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Cathay Insurance (Bermuda) Co., Ltd.	Affiliate
Cathay Life Insurance Co., Ltd.(Shanghai)	Affiliate
Cathay Bank Life Insurance Agency of Association	Affiliate
Seaward Card Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
China England Company Ltd.	Affiliate
Pao Shin Securities Co., Ltd.	Affiliate
Cathay Charity Foundation	Affiliate
Wu Ming-Yang	Vice-president of the Company
Que Ming-Huang	Manager of the Company
Chang Zhao-Yang	Manager of the Company
Yang Zhi-Quan	Manager of the Company
Jian Jie	Internal audit manager of the Company

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

(2) Transactions with related parties

A. Premiums income

	For the year ended December 31,			
	2005		2006	
	Direct written premiums		Direct written premiums	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$136,317	$4,156	$105,526	$3,238
Cathay United Bank	184,297	5,619	125,396	3,848
Cathay Securities Corp.	529	16	308	9
Lucky Bank	4,680	143	3,226	99
Cathay General Hospital	6,603	201	6,227	191
Seaward Leasing Ltd.	5,690	174	9,680	297
Cathay Real Estate Development Co., Ltd.	1,277	39	1,027	31
San Ching Engineering Co., Ltd.	1,623	49	-	-
Lin Yuan Investment Co., Ltd.	329	10	-	-
Lin Yuan Property Management Co., Ltd.	2,113	64	2,019	62
Symphox Information Co., Ltd.	84	3	616	19
Wam Pao Development Co., Ltd.	-	-	938	29
Total	$343,542	$10,474	$254,963	$7,823

B. Premiums receivable

	For the year ended December 31,			
	2005		2006	
	Premiums receivable		Premiums receivable	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$8,670	$264	$2,237	$69
Cathay United Bank	1,100	34	5,459	168
Cathay General Hospital	1,024	31	823	25
Lucky Bank	745	23	322	10
Lin Yan Property Management Co., Ltd.	1,482	45	1,760	54
Seaward Leasing Ltd.	313	10	170	5
Total	$13,334	$407	$10,771	$331

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

C. Insurance claims payment

	For the year ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$14,877	$454	$6,882	$211
Cathay United Bank	254,412	7,756	27,110	832
Seaward Leasing Ltd.	-	-	387	12
Total	$269,289	$8,210	$34,379	$1,055

D. Cash in banks

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

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

		December 31, 2006		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$404,793	0.10%	$180
	Time deposits	$400,655	1.93%~2.21%	$7,112
Lucky Bank	Cash in banks	$2,826	0.10%	$2
	Time deposits	$10,000	1.97%	$102

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

		December 31, 2006		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	$12,421	0.10%	$6
	Time deposits	$12,294	1.93%~2.21%	$218
Lucky Bank	Cash in banks	$87	0.10%	$-
	Time deposits	$307	1.97%	$3

E. Loans

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

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

	For the year ended December 31, 2006			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Wu Ming-Yang	$1,536	$-	2.37%	$5
Que Ming-Huang	$7,596	$5,800	2.37%	$165
Chang Zhao-Yang	$3,569	$3,475	2.37%	$101
Jian Jie	$1,548	$1,461	2.37%	$45
Yan Zhi-Quan	$5,000	$5,000	1.93%	$40

	For the year ended December 31, 2006			
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Wu Ming-Yang	$47	$-	2.37%	$-
QueMing-Huang	$233	$178	2.37%	$5
ChangZhao-Yang	$110	$107	2.37%	$3
Jian Jie	$47	$45	2.37%	$1
Yan Zhi-Quan	$153	$153	1.93%	$1

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

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

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$203,176	$6,195	$66,016	$2,026
Cathay Futures Corp.	7,385	225	5,249	161
Total	$210,561	$6,420	$71,265	$2,187

G. Available-for-sale financial assets-current

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$-	$-	$50,000	$1,534

H. Prepaid rents

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$2,299	$70	$2,413	$74

I. Guarantee deposits paid

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$13,832	$422	$17,798	$546

J. Commissions expenses

	For the year ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Bank Property Agency of Association	$32,968	$1,005	$17,616	$541

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

K. Handling fee paid

	For the year ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$5,214	$159	$4,915	$151

L. Accrued marketing expense

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$54,399	$1,659	$115,027	$3,530

M. Other payables

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$100,943	$3,078	$154,364	$4,737

N. Operating expenses

		For the year ended December 31,			
		2005		2006	
Name	Summary	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Rental expenses	$57,481	$1,752	$58,074	$1,782
	Marketing expenses	559,521	17,059	638,141	19,581
	Party premium expenses	5,991	183	6,050	186
	Training expenses	-	-	1,561	48
Seaward Leasing Ltd.	Rental expenses	443	14	1,669	51
Total		$623,436	$19,008	$705,495	$21,648

O. Other expenses

	For the year ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$8,262	$252	$10,650	$327
Cathay Lin Yuan Security Co., Ltd.	-	-	1,193	37
Seaward Card Co., Ltd.	-	-	1,051	32
Total	$8,262	$252	$12,894	$396

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

22. Pledged assets

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Government bonds	$356,051	$10,855	$450,866	$13,834

According to Article 141 of the ROC Insurance Law, the Company should deposit government bonds at an amount equal to 15% of its paid-in capital in the Central Bank of China as capital guarantee deposit. The above assets were stated at book value.

23. Other important matters and contingent liabilities

A. The Company and Itanara Import Export Company have a dispute on cargo insurance benefits. The Itanara flied a lawsuit against the Company and it claimed for US$773 with related notarization expenses. The Taiwan Taipei District Court ruled in favor of Intanara in the lawsuit except the notarization expenses. The Company appealed to the higher court and the lawsuit is still in progress.

B. As of December 31, 2006, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	Amount (NT$)	Amount (US$)
January 01, 2006 ~ December 31, 2007	$65,378	$2,006
January 01, 2008 ~ December 31, 2008	66,629	2,045
January 01, 2009 ~ December 31, 2009	68,583	2,104
January 01, 2010 ~ December 31, 2010	70,595	2,166
January 01, 2011 ~ December 31, 2011	72,668	2,230
Total	$343,853	$10,551

24. Serious damages

None

25. Subsequent events

None

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

26. Other important events

(1) Pension related information

A. Pension funded status:

	For the years ended December 31,			
	2005		2006	
	NT$	US$	NT$	US$
(1) Vested benefit obligation	$(49,136)	$(1,498)	$(52,604)	$(1,614)
(2) Non-vested benefit obligation	(141,786)	(4,323)	(148,299)	(4,551)
(3) Accumulated benefit obligation	(190,922)	(5,821)	(200,903)	(6,165)
(4) Additional benefits based on future salaries	(65,708)	(2,003)	(65,615)	(2,013)
(5) Projected benefit obligation	(256,630)	(7,824)	(266,518)	(8,178)
(6) Fair value of plan assets	184,053	5,611	204,043	6,261
(7) Vested benefit	165,592	5,049	174,634	5,359
(8) Funded status=(5)+(6)	(72,577)	(2,213)	(62,475)	(1,917)
(9) Unrecognized transitional net benefit obligation (net assets)	7,543	230	6,963	213
(10) Unrecognized prior service cost	-	-	-	-
(11) Unrecognized pension gain and loss	61,629	1,879	52,107	1,599
(12) Additional accrued pension liability	(3,464)	(105)	-	-
(13) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12)	$(6,869)	$(209)	$(3,405)	$(105)

B. Net periodic pension cost:

	For the years ended December 31,			
	2005		2006	
	NT$	US$	NT$	US$
(1) Service cost	$28,622	$872	$19,408	$595
(2) Interest cost	9,016	275	9,142	281
(3) Projected return on plan assets	(6,240)	(190)	(6,935)	(213)
(4) Amortization of unrealized transit on obligation (asset)	580	18	580	18
(5) Amortization of prior service cost	-	-	-	-
(6) Amortization of gain or loss	2,601	79	1,635	50
(7) Net periodic pension cost	$34,579	$1,054	$23,830	$731

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

C. Actuarial assumptions

	For the years ended December 31,	
	2005	2006
(1) Discount rate	3.70%	3.70%
(2) Rate of increase in future salaries	1.08%~8.69%	1.08%~8.69%
(3) Expected return on pension plan assets	3.70%	3.70%

(2) Risk management policies and hedge strategies

The Company's primary financial instruments other than derivatives consists cash and cash equivalents, current and non current investments. The main purpose of holding these financial instruments is to manage cash flow. The Company has other financial assets and liabilities such as notes receivable, due to and from reinsurers and ceding companies, reinsurance account, receivable and payable and secured loans, etc.

The Company also conducts derivative transactions, primarily including futures, option contracts and forward currency contracts. The purpose is to manage the stock price fluctuation and currency exchange risks arising from the Company's investment activities. The company does not conduct derivative transactions based on trading purpose.

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

Market Risk

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

As a result of significant overseas designated purpose pecuniary trust funds, the Company's balance sheet can be affected significantly by the fluctuation of the US$/NT$ exchange rates. The Company utilizes forward currency contracts to hedge this exposure.

The Company also has transactional currency exposures. Such exposure arise from reinsurance transactions. These transactions with foreign reinsurance company usually receive on time and the fluctuation of exchange rate is not significant. Thus the Company did not seek to hedge this exposure.

Credit risk

The company only conducts business with recognized and creditworthy third parties. Customers are subject to credit verification procedures, and the collection of premium receivable and notes receivable are subsequently assessed. In addition, once the credit of the third party is impaired, the Company will freeze the related contracts until the credit of the third party recovers. Thus the Company has minimal bad debts.

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

The company's exposure to liquidity risk is minimal.

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

(3) Financial instruments related information:

	December 31, 2005			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$2,619,412	$2,619,412	$79,860	$79,860
Financial assets at fair value through profit or loss - current	536,498	536,498	16,357	16,357
Available-for-sale financial assets - current	1,695,811	1,695,811	51,702	51,702
Investments in debt securities with no active market-current	254,121	254,121	7,748	7,748
Receivables	1,373,799	1,373,799	41,884	41,884
Claims recoverable from reinsurers	215,775	215,775	6,578	6,578
Due from reinsurers and ceding Companies	80,499	80,499	2,454	2,454
Secured loans	1,321,212	1,321,212	40,281	40,281
Held-to-maturity financial assets - noncurrent	3,153,954	3,153,954	96,157	96,157
Financial assets carried at cost - noncurrent	36,000	36,000	1,098	1,098
Investments in debt securities with no active market – noncurrent	307,799	307,799	9,384	9,384
Long-term investments under equity method	382,522	382,522	11,662	11,662
Guarantee deposits paid	383,859	383,859	11,703	11,703
Derivative financial instruments:				
Financial assets at fair value through profit or loss - current				
Futures Contract	8,854	8,854	270	270
Options Contract	131	131	4	4

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

	December 31, 2005			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities				
Non-derivative financial instrument：				
Claims outstanding	$628	$628	$19	$19
Due to reinsurers and ceding companies	224,011	224,011	6,829	6,829
Operating and debt reserve	8,124,052	8,124,052	247,684	247,684
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss - current				
Foreign exchange SWAP	2,256	2,256	69	69

	December 31, 2006			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$1,971,694	$1,971,694	$60,500	$60,500
Financial assets at fair value through profit or loss - current	502,961	502,961	15,433	15,433
Available-for-sale financial assets - current	2,548,140	2,548,140	78,188	78,188
Investments in debt securities with no active market-current	76,981	76,981	2,362	2,362
Receivables	1,715,787	1,715,787	52,647	52,647
Claims recoverable from reinsurers	170,371	170,371	5,228	5,228
Due from reinsurers and ceding companies	76,565	76,565	2,349	2,349
Secured loans	2,095,268	2,095,268	64,292	64,292
Held-to-maturity financial assets - noncurrent	3,749,347	3,749,347	115,046	115,046
Financial assets carried at cost - noncurrent	60,000	60,000	1,841	1,841
Investments in debt securities with no active market – noncurrent	229,220	229,220	7,033	7,033
Long-term investments under equity method	449,041	449,041	13,779	13,779
Guarantee deposits paid	509,527	509,527	15,634	15,634

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

	December 31, 2006			
	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Derivative financial instruments:				
Financial assets at fair value through profit or loss - current				
Futures Contract	8,437	8,437	259	259
Options Contract	285	285	9	9
Foreign exchange SWAP	-	-	-	-
Liabilities				
Non-derivative financial instrument:				
Claims outstanding	$19,550	$19,550	600	600
Due to reinsurers and ceding companies	260,583	260,583	7,996	7,996
Operating and debt reserve	9,293,401	9,293,401	285,161	285,161
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss - current				
Foreign exchange SWAP	61,846	61,846	1,898	1,898

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, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.

② The fair value of the guarantee deposits paid and guarantee deposits received is based on the carrying amount.

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

③ Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for the Company's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.

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 December 31, 2006:

	December 31,2006			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Financial assets at fair value through profit or loss-current	$502,961	$502,961	$-	$-
Available-for-sale financial assets-current	2,548,140	2,548,140	-	-
Investment in debt securities with no active market-current	-	-	76,981	-
Held-to-maturity financial assets-noncurrent	-	-	3,749,347	-
Financial assets carried at cost-noncurrent	-	-	60,000	-
Investment in debt securities with no active market-noncurrent	-	-	229,220	-
Long-term investments in stocks under the equity method	-	-	449,041	-

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

	December 31,2006			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	Carrying amount	Fair value	Carrying amount	Fair value
Assets- derivative				
Financial assets at fair value through profit or loss-current				
Futures	8,437	8,437	-	-
Option	285	285	-	-
Liability-derivative				
Financial liability at fair value through profit or loss-current				
Forward contracts	61,846	61,846	-	-

	December 31,2006			
	US$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Financial assets at fair value through profit or loss-current	$15,433	$15,433	$-	$-
Available-for-sale financial assets-current	78,188	78,188	-	-
Investment in debt securities with no active market-current	-	-	2,362	-
Held-to-maturity financial assets-noncurrent	-	-	115,046	-
Financial assets carried at cost-noncurrent	-	-	1,841	-
Investment in debt securities with no active market-noncurrent	-	-	7,033	-
Long-term investments in stocks under the equity method	-	-	13,779	-

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

	December 31,2006			
	US$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	Carrying amount	Fair value	Carrying amount	Fair value
Assets-derivative				
Financial assets at fair value through profit or loss-current				
Futures	259	259	-	-
Option	9	9	-	-
Liability- derivative				
Financial liability at fair value through profit or loss-current				
Forward contracts	1,898	1,898	-	-

(4) Risk of interest rate

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

Fixed interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Held-to-maturity financial assets	$-	$-	$49,504	$1,519	$849,233	$26,058	$357,990	$10,985
Investments in debt securities with no active market	76,981	2,362	125,889	3,863	103,331	3,170	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Held-to-maturity financial assets	$461,154	$14,150	$2,031,466	$62,334	$3,749,347	$115,046
Investments in debt securities with no active market	-	-	-	-	306,201	9,395

(5) Credit risk

The Company's exposure to credit risk in minimal.

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

(6) Fair value hedges

Hedged item	Financial instruments of designated as hedging instruments	Fair value December 31, 2005 NT$	Fair value December 31, 2005 US$	Fair value December 31, 2006 NT$	Fair value December 31, 2006 US$
Overseas investments in bonds	Foreign exchange SWAP	$(2,256)	$(69)	$(61,846)	$(1,898)

(7) Discretionary account management

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

Item	December 31, 2006 Book value NT$	Book value US$	Fair value NT$	Fair value US$
Listed stocks	$178,489	$5,477	$178,489	$5,477
Short-term notes	10,004	307	10,004	307
Cash in banks	220,077	6,753	220,077	6,753
Net other assets less liabilities	1,284	39	1,284	39
Total	$409,854	$12,576	$409,854	$12,576

As of December 31, 2005 and 2006, the Company had discretionary account management contracts in the amount of NT$100,000(US$3,049) and NT$350,000(US$10,739), respectively.

(8) Material Contract

None.

(9) Presentation of Financial Statements:

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

27. Information for investment in Mainland China

None.

28. Segment information

None.