Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated Financial Statements
As of December 31, 2005 and 2006
With Independent Auditors' Report

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

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English Translation of Report Originally Issued in Chinese

Independent Auditors' Report

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its Subsidiaries as of December 31, 2005 and 2006, and the results of its operations and their cash flows for the years then ended in conformity with "Business Entity Accounting Act", "Guidelines Governing the Preparation of Financial Reports by Personal Insurance Industries", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

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

Ernst & Young
Taipei, Taiwan
The Republic of China
January 22, 2007

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated 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. and Subsidiaries
Consolidated balance sheets
As of December 31, 2005 and 2006
(Expressed in thousands of dollars)

Assets	Notes	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 US$
Current assets					
Cash and cash equivalents	2,4	$287,924,880	$8,778,198	$272,020,393	$8,346,744
Financial assets at fair value through profit or loss - current	2,5	118,092,185	3,600,371	98,795,499	3,031,467
Available-for-sale financial assets - current	2,6	117,805,848	3,591,642	155,826,026	4,781,406
Held-to-maturity financial assets - current	2	11,916,287	363,302	13,355,010	409,789
Derivative financial assets for hedging - current	2,7	-	-	251,901	7,729
Investments in debt securities with no active market - current	2	977,811	29,811	5,001,829	153,478
Notes receivable	2	14,019,186	427,414	12,544,382	384,915
Premiums receivable	2	-	-	1,087	33
Reinsurance accounts receivable		-	-	19,229	590
Other accounts receivable	2	16,869,212	514,305	27,297,869	837,615
Other financial assets - current		426,390	13,000	7,045,144	216,175
Prepayments		68,238	2,080	36,644	1,125
Deferred income tax assets - current	2	-	-	2,286,028	70,145
Assets of subsidiary for sale		186,004	5,671	-	-
Other current assets		3,766,906	114,845	403,868	12,392
Subtotal		572,052,947	17,440,639	594,884,909	18,253,603
Loans	2,8				
Policy loans		166,494,190	5,076,042	175,772,355	5,393,445
Secured loans		276,612,537	8,433,309	307,141,660	9,424,414
Subtotal		443,106,727	13,509,351	482,914,015	14,817,859
Funds and investments					
Available-for-sale financial assets - noncurrent	2,9	112,724,430	3,436,720	175,830,529	5,395,229
Held-to-maturity financial assets - noncurrent	2,10	448,054,349	13,660,194	524,459,414	16,092,648
Financial assets carried at cost - noncurrent	2,11	20,954,615	638,860	20,317,893	623,440
Investments in debt securities with no active market - noncurrent	2	44,628,749	1,360,633	43,985,893	1,349,675
Long-term investments in stocks under the equity method	2,13	1,728,041	52,684	2,089,636	64,119
Investments in real estate	2,14	101,579,250	3,096,928	102,344,171	3,140,355
Other financial assets - noncurrent		6,000,000	182,927	10,350,000	317,582
Subtotal		735,669,434	22,428,946	879,377,536	26,983,048
Property and equipment	2,15				
Land		4,863,208	148,269	4,722,055	144,893
Buildings and construction		10,584,805	322,708	9,746,781	299,073
Computer equipment		1,568,536	47,821	1,664,590	51,077
Communication and transportation equipment		54,223	1,653	29,641	909
Other equipment		3,661,094	111,619	3,444,881	105,704
Revaluation increments		2,212	67	1,054	32
Less: Accumulated depreciation		(6,515,730)	(198,650)	(6,543,045)	(200,769)
Less: Accumulated impairment		(85,519)	(2,607)	(85,519)	(2,624)
Construction in progress and prepayment for equipment		6,970	212	22,816	700
Subtotal		14,139,799	431,092	13,003,254	398,995
Intangible assets	2				
Computer software cost		185,828	5,665	340,381	10,444
Subtotal		185,828	5,665	340,381	10,444
Other assets					
Guarantee deposits paid	2	8,864,211	270,250	8,875,063	272,325
Deferred income tax assets - noncurrent	2	460,119	14,028	460,048	14,116
Other overdue receivables	2,16	64,271	1,960	42,160	1,293
Separate account products assets	2	95,450,418	2,910,074	161,880,392	4,967,180
Other assets - other		1,461,759	44,566	4,179,720	128,252
Subtotal		106,300,778	3,240,878	175,437,383	5,383,166
Total assets		$1,871,455,513	$57,056,571	$2,145,957,478	$65,847,115

(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 consolidated financial statements.

Cathay Life Insurance Co., Ltd. and Subsidiaries

Consolidated balance sheets - (continued)

As of December 31, 2005 and 2006

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	December 31, 2005 NT$	December 31, 2005 US$	December 31, 2006 NT$	December 31, 2006 US$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,17	$2,075,168	$63,268	$11,575,477	$355,185
Derivative financial liabilities for hedging - current	2,18	-	-	23,867	732
Notes payable		26,957	822	4,231	130
Commissions payable		1,387,540	42,303	990,066	30,379
Life insurance proceeds payable		8,080	246	17,212	528
Due to reinsurers and ceding companies		301	9	-	-
Reinsurance accounts payable		191,789	5,847	196,488	6,029
Other payable		5,510,636	168,007	15,242,199	467,696
Liabilities of subsidiary for sale		127,287	3,881	-	-
Accounts collected in advance		530,022	16,159	209,358	6,424
Deferred income tax liabilities - current	2	396,408	12,086	-	-
Other current liabilities		25,981	792	46,522	1,427
Subtotal		10,280,169	313,420	28,305,420	868,530
Long-term liabilities					
Reserve for land revaluation increment tax	2	3,726	114	3,581	110
Accrued pension liability	2,29	1,627,318	49,613	1,683,182	51,647
Subtotal		1,631,044	49,727	1,686,763	51,757
Reserve for operations and liabilities	2				
Unearned premium reserve		10,213,424	311,385	10,970,795	336,631
Reserve for life insurance liabilities		1,622,772,458	49,474,770	1,787,158,447	54,837,633
Special reserve		17,444,286	531,838	17,722,533	543,803
Loss and loss expense provisions		434,579	13,249	1,305,768	40,066
Subtotal		1,650,864,747	50,331,242	1,817,157,543	55,758,133
Other liabilities					
Guarantee deposits received		1,641,931	50,059	1,465,092	44,955
Separate account products liabilities	2	95,450,418	2,910,074	161,880,392	4,967,180
Other liabilities - other		11,326,917	345,333	12,794,624	392,594
Subtotal		108,419,266	3,305,466	176,140,108	5,404,729
Total liabilities		1,771,195,226	53,999,855	2,023,289,834	62,083,149
Stockholders' equity					
Capital stock					
Common stock	2,19	50,686,158	1,545,310	50,686,158	1,555,267
Capital surplus	2	10,105	308	9,648	296
Retained earnings	2,20				
Legal reserve		17,891,897	545,485	19,684,163	603,994
Special reserve		11,082,320	337,876	14,133,703	433,682
Unappropriated retained earnings		17,922,656	546,422	15,047,432	461,719
Equity adjustment					
Unrealized gains on financial instruments	2,20	-	-	20,222,726	620,520
Unrealized revaluation increments	2	3,048	93	2,105	65
Cumulative conversion adjustments	2	(4,119)	(126)	34,973	1,073
Minority interests		2,668,222	81,348	2,846,736	87,350
Total stockholders' equity		100,260,287	3,056,716	122,667,644	3,763,966
Total liabilities and stockholders' equity		$1,871,455,513	$57,056,571	$2,145,957,478	$65,847,115

(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 consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of income
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars, except earnings per share)

Item	Notes	2005 NT$	2005 US$	2006 NT$	2006 US$
Operating revenues	2,24				
Premiums income		$276,490,721	$8,429,595	$288,620,613	$8,856,110
Reinsurance commission earned		199,294	6,076	204,285	6,268
Claims recovered from reinsures		219,911	6,705	217,144	6,663
Recovered premiums reserve		115,899,690	3,533,527	131,971,772	4,049,456
Recovered special reserve		727,229	22,172	693,802	21,289
Recovered claims reserve		348,034	10,611	435,804	13,372
Handling fees earned		2,085,722	63,589	1,139,177	34,955
Interest income		54,580,240	1,664,031	62,757,098	1,925,655
Gains from valuation on financial assets		1,343	41	12,608,168	386,872
Gains on long-term equity investments		128,572	3,920	281,392	8,634
Gains on disposal of investments		11,916,781	363,316	7,842,835	240,652
Gains on investments - real estate		12,294,828	374,842	12,272,838	376,583
Separate account products revenues		71,581,377	2,182,359	88,937,722	2,728,988
Other operating income		665,049	20,276	672,527	20,636
Subtotal		547,138,791	16,681,060	608,655,177	18,676,133
Operating costs	2,24				
Reinsurance premiums ceded		(632,249)	(19,276)	(648,474)	(19,898)
Brokerage expenses		(25,878,329)	(788,973)	(27,230,032)	(835,533)
Commissions expenses		(458,948)	(13,992)	(260,795)	(8,002)
Insurance claims payment		(136,965,328)	(4,175,772)	(157,619,994)	(4,836,453)
Provision for premiums reserve		(282,679,943)	(8,618,291)	(297,081,300)	(9,115,719)
Provision for special reserve		(1,439,396)	(43,884)	(972,049)	(29,827)
Contribution to the stabilization funds		(275,791)	(8,408)	(287,402)	(8,819)
Provision for claims reserve		(434,782)	(13,256)	(1,308,740)	(40,158)
Handling fees paid		(761,692)	(23,222)	(1,405,756)	(43,134)
Interest expenses		(41,496)	(1,265)	(103,297)	(3,170)
Losses from valuation on financial liabilities		-	-	(11,552,803)	(354,489)
Losses on foreign exchange		(205,170)	(6,255)	(1,194,654)	(36,657)
Separate account products expenses		(71,581,377)	(2,182,359)	(88,937,722)	(2,728,988)
Other operating cost		(1,409,093)	(42,961)	(930,171)	(28,542)
Subtotal		(522,763,594)	(15,937,914)	(589,533,189)	(18,089,389)
Operating gross profit		24,375,197	743,146	19,121,988	586,744
Operating expenses	2,24				
Marketing expenses		(2,480,429)	(75,623)	(2,773,103)	(85,091)
Administrative and general expenses		(7,203,154)	(219,608)	(7,805,090)	(239,493)
Research and development expenses		(9,139)	(279)	(18,886)	(579)
Subtotal		(9,692,722)	(295,510)	(10,597,079)	(325,163)
Operating income		14,682,475	447,636	8,524,909	261,581
Non-operating revenues & gains	2,24				
Gains on disposal of property and equipment		10,131	309	3,192	98
Other non-operating revenues & gains		2,294,597	69,957	1,670,612	51,261
Subtotal		2,304,728	70,266	1,673,804	51,359
Non-operating expenses & losses	2,24				
Losses on disposal of property and equipment		(2,439)	(74)	(766)	(23)
Impairment loss		(282,471)	(8,612)	(222,651)	(6,832)
Miscellaneous expenses		(5,491)	(167)	(24,602)	(755)
Subtotal		(290,401)	(8,853)	(248,019)	(7,610)
Income from continuing operations before income taxes		16,696,802	509,049	9,950,694	305,330
Income taxes benefit	2,22	1,206,779	36,792	1,806,239	55,423
Income from continuing operations after income taxes		17,903,581	545,841	11,756,933	360,753
Cumulative effect of changes in accounting principles	3	-	-	3,321,185	101,908
Consolidated income		$17,903,581	$545,841	$15,078,118	$462,661
Include:					
Parent company		$17,922,656	$546,422	$15,047,432	$461,719
Minority interests		(19,075)	(581)	30,686	942
Consolidated income		$17,903,581	$545,841	$15,078,118	$462,661
Earnings per share (In dollars)	23				
Income from continuing operations after income taxes		$3.53	$0.11	$2.32	$0.07
Cumulative effect of changes in accounting principles		-	-	0.65	0.02
Consolidated income		$3.53	$0.11	$2.97	$0.09

(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 consolidated financial statements.

English Translation of Financial Statements Originally Issued in Chinese

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of changes in stockholders' equity
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars)

					Retained earnings						Equity adjustment									
	Common stock		Capital surplus		Legal reserve		Special reserve		Unappropriated retained earnings		Unrealized (losses) gains of financial instruments		Unrealized revaluation		Cumulative conversion		Minority interests		Total	
Summary	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2005	$50,686,158	$1,545,310	$9,543	$291	$16,330,948	$497,895	$8,016,080	$244,393	$15,609,488	$475,899	$-	$-	$3,048	$93	$(83,445)	$(2,544)	$-	$-	$90,571,820	$2,761,337
Appropriations and distributions for 2004																				
Legal reserve	-	-	-	-	1,560,949	47,590	-	-	(1,560,949)	(47,590)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,066,240	93,483	(3,066,240)	(93,483)	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(10,906,612)	(332,519)	-	-	-	-	-	-	-	-	(10,906,612)	(332,519)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(247)	-	-	-	-	-	-	-	-	(8,100)	(247)
Bonus paid to employees	-	-	-	-	-	-	-	-	(67,587)	(2,060)	-	-	-	-	-	-	-	-	(67,587)	(2,060)
Capital surplus - long-term equity investments	-	-	562	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	562	17
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	79,326	2,418	-	-	79,326	2,418
Consolidated income for the years ended December 31, 2005	-	-	-	-	-	-	-	-	17,922,656	546,422	-	-	-	-	-	-	(19,075)	(581)	17,903,581	545,841
Effect of initial consolidation of minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,687,297	81,929	2,687,297	81,929
Balance on December 31, 2005	$50,686,158	$1,545,310	$10,105	$308	$17,891,897	$545,485	$11,082,320	$337,876	$17,922,656	$546,422	$-	$-	$3,048	$93	$(4,119)	$(126)	$2,668,222	$81,348	$100,260,287	$3,056,716
Balance on January 1, 2006	$50,686,158	$1,555,267	$10,105	$310	$17,891,897	$549,000	$11,082,320	$340,053	$17,922,656	$549,943	$-	$-	$3,048	$94	$(4,119)	$(126)	$2,668,222	$81,872	$100,260,287	$3,076,413
Unrealized gains on financial instruments - for first time adoption	-	-	-	-	-	-	-	-	-	-	9,914,421	304,217	-	-	-	-	-	-	9,914,421	304,217
Appropriations and distributions for 2005																				
Legal reserve	-	-	-	-	1,792,266	54,994	-	-	(1,792,266)	(54,994)	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	3,051,383	93,629	(3,051,383)	(93,629)	-	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(13,057,689)	(400,665)	-	-	-	-	-	-	-	-	(13,057,689)	(400,665)
Remuneration paid to directors and supervisors	-	-	-	-	-	-	-	-	(8,100)	(249)	-	-	-	-	-	-	-	-	(8,100)	(249)
Bonus paid to employees	-	-	-	-	-	-	-	-	(13,218)	(406)	-	-	-	-	-	-	-	-	(13,218)	(406)
Land revaluation increments	-	-	-	-	-	-	-	-	-	-	-	-	(943)	(29)	-	-	-	-	(943)	(29)
Capital surplus - long-term equity investments	-	-	(457)	(14)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(457)	(14)
Changes in unrealized gains on financial instruments	-	-	-	-	-	-	-	-	-	-	10,308,305	316,303	-	-	-	-	-	-	10,308,305	316,303
Cumulative conversion adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39,092	1,199	-	-	39,092	1,199
Consolidated income for the years ended December 31, 2006	-	-	-	-	-	-	-	-	15,047,432	461,719	-	-	-	-	-	-	30,686	942	15,078,118	462,661
Minority interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	147,828	4,536	147,828	4,536
Balance on December 31, 2006	$50,686,158	$1,555,267	$9,648	$296	$19,684,163	$603,994	$14,133,703	$433,682	$15,047,432	$461,719	$20,222,726	$620,520	$2,105	$65	$34,973	$1,073	$2,846,736	$87,350	$122,667,644	$3,763,966

(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 consolidated financial statements.

Cathay Life Insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars)

	2005		2006	
	NT$	US$	NT$	US$
Cash flows from operating activities				
Consolidated income	$17,903,581	$545,841	$15,078,118	$462,661
Adjustments:				
Gains from valuation on financial assets	(1,343)	(41)	(12,608,168)	(386,872)
Losses from valuation on financial liabilities	-	-	11,552,803	354,489
Property and equipment turn into contribution expenses	-	-	6,887	211
Recovered bad debt	(1,337,280)	(40,771)	(81,135)	(2,490)
Depreciation	2,319,330	70,711	2,487,753	76,335
Amortization	47,042	1,434	102,868	3,156
Impairment loss	282,471	8,612	222,651	6,832
Provision or recovered for each reserve	167,578,933	5,109,114	166,292,796	5,102,571
Gains on disposal of subsidiary for sale	-	-	(3,707)	(114)
Gains on disposal of property and equipment	(7,679)	(234)	(1,785)	(55)
Gains on disposal of investments in real estate	(8,626,766)	(263,011)	(5,172,771)	(158,723)
Unrealized gain on long-term investments	(91,065)	(2,776)	(154,924)	(4,754)
Effects of exchange rate changes	(6,044)	(184)	(74,440)	(2,284)
Cumulative effect of changes in accounting principles	-	-	(3,321,185)	(101,908)
Decrease in financial assets at fair value through profit or loss - current	27,199,084	829,240	37,287,434	1,144,137
Increase in available-for-sale financial assets - current	(43,185,459)	(1,316,630)	(20,528,556)	(629,903)
Increase in held-to-maturity financial assets - current	(6,106,065)	(186,160)	(1,438,723)	(44,146)
Decrease in derivative financial assets for hedging - current	-	-	175,785	5,394
Increase in investments in debt securities with no active market - current	(977,811)	(29,811)	(4,024,018)	(123,474)
(Increase) decrease in notes receivable	(1,657,078)	(50,521)	1,474,804	45,253
Increase in premiums receivable	-	-	(1,087)	(33)
Increase in reinsurance accounts receivable	-	-	(19,229)	(590)
Increase in other accounts receivable	(2,639,282)	(80,466)	(10,439,197)	(320,319)
Increase in other financial assets - current	(411,368)	(12,542)	(6,618,754)	(203,091)
(Increase) decrease in prepayments	(38,345)	(1,169)	29,814	915
Increase in deferred income tax assets - current	-	-	(2,286,028)	(70,145)
Decrease in other current assets	1,455,163	44,365	3,365,339	103,263
(Increase) decrease in deferred income tax assets - noncurrent	(103,039)	(3,141)	71	2
Increase in other assets - other	(351,027)	(10,702)	(2,719,893)	(83,458)
Increase (decrease) in financial liabilities at fair value through profit or loss - current	1,917,205	58,451	(4,113,888)	(126,232)
Increase in derivative financial liabilities for hedging - current	-	-	23,867	732
Increase (decrease) in notes payable	10,108	308	(22,726)	(697)
Increase (decrease) in commissions payable	294,316	8,973	(397,474)	(12,196)
Increase in life insurance proceeds payable	5,895	180	9,132	280
Decrease in due to reinsurers and ceding companies	-	-	(301)	(9)
Increase in reinsurance accounts payable	22,248	678	4,699	144
(Decrease) increase in other payable	(750,569)	(22,883)	9,732,142	298,624
Increase (decrease) in accounts collected in advance	361,290	11,015	(320,664)	(9,839)
Decrease in deferred income tax liabilities - current	(46,392)	(1,414)	(396,408)	(12,163)
Increase in other current liabilities	11,394	347	20,541	630
Increase in accrued pension liability	199,608	6,085	55,864	1,714
Increase in other liabilities - other	9,109,937	277,742	1,467,707	45,036
Net cash provided by operating activities	162,380,993	4,950,640	174,646,014	5,358,884
Cash flows from investing activities				
Disposal of subsidiary for sale	-	-	47,411	1,455
Decrease (increase) in policy loans	2,835,878	86,460	(9,278,165)	(284,694)
Decrease (increase) in secured loans	6,939,214	211,561	(30,371,404)	(931,924)
Decrease (increase) in available-for-sale financial assets - noncurrent	28,851,161	879,609	(60,880,998)	(1,868,088)
Increase in held-to-maturity financial assets - noncurrent	(126,708,083)	(3,863,051)	(76,405,065)	(2,344,433)
(Increase) decrease in financial assets carried at cost - noncurrent	(9,371,884)	(285,728)	419,533	12,873
(Increase) decrease in investments in debt securities with no active market	(8,032,520)	(244,894)	642,856	19,726
Proceeds from disposal of long-term equity investments	24,061	733	-	-
Acquisition of long-term equity investments	(65,000)	(1,982)	-	-
Disposal of investments in real estate	13,867,487	422,789	8,808,468	270,281
Acquisition of investments in real estate	(6,529,830)	(199,080)	(5,333,633)	(163,658)
Increase in other financial assets - noncurrent	(6,000,000)	(182,927)	(4,350,000)	(133,477)
Disposal of property and equipment	85,122	2,595	12,179	374
Acquisition of property and equipment	(633,887)	(19,326)	(441,100)	(13,535)
Acquisition of intangible assets	(153,547)	(4,681)	(251,075)	(7,704)
Increase in guarantee deposits paid	(495,804)	(15,116)	(10,852)	(333)
Decrease (increase) in other overdue receivables	1,193,356	36,383	(43,932)	(1,348)
Net cash used in investing activities	(104,194,276)	(3,176,655)	(177,435,777)	(5,444,485)

(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 consolidated financial statements.

Cathay life insurance Co., Ltd. and Subsidiaries
Consolidated statements of cash flows - (continued)
For the years ended December 31, 2005 and 2006
(Expressed in thousands of dollars)

	2005		2006	
	NT$	US$	NT$	US$
Cash flows from financing activities				
Decrease in short-term debts	(70,000)	(2,134)	-	-
Decrease in guarantee deposits received	(5,593)	(171)	(176,839)	(5,426)
Capital increase from cash	450,000	13,720	-	-
Cash dividends	(10,907,512)	(332,546)	(13,057,689)	(400,665)
Bonus paid to employees	(67,587)	(2,060)	(13,218)	(406)
Remuneration paid to directors and supervisors	(8,100)	(247)	(8,100)	(249)
Net cash used in financing activities	(10,608,792)	(323,438)	(13,255,846)	(406,746)
Effects of exchange rate changes	82,266	2,508	141,122	4,330
Cash of subsidiary for sale	(83,960)	(2,560)	-	-
Cash and cash equivalents - first consolidated subsidiaries	3,188,470	97,210	-	-
Increase (decrease) in cash and cash equivalents	50,764,701	1,547,705	(15,904,487)	(488,017)
Cash and cash equivalents at the beginning of year	237,160,179	7,230,493	287,924,880	8,834,761
Cash and cash equivalents at the end of year	$287,924,880	$8,778,198	$272,020,393	$8,346,744
Supplemental disclosure of cash flows information				
Interest paid during the year	$19,520	$595	$73,656	$2,260
Interest paid (excluding capitalized interest)	$19,520	$595	$73,656	$2,260
Income tax paid	$1,111,128	$33,876	$1,264,811	$38,810

(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 consolidated financial statements.

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

1. Organizations and business scope

Cathay Life Insurance Co., Ltd. (the “Company”) was incorporated in Taiwan on October 23, 1962, under the provisions of the Company Act (the “Company Act”) 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 acts of the ROC.

The parent company and ultimate parent company of the Company is Cathay Financial Holding. As of December 31, 2005 and 2006, the total numbers of employees were 26,486 and 27,377, respectively.

2. Summary of significant accounting policies

We prepared the consolidated financial statements in accordance with generally accepted accounting principles, “Business Entity Accounting Act”, “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) Principles of consolidation

A. Effective from January 1, 2005, the Company adopted SFAS No.7 “Consolidated Financial Statements” which was revised on December 9, 2004. As of and for the years ended December 31, 2005 and 2006, the consolidated financial statements include the followings:

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2005 and 2006

Investors	Investees	Business	Ownership interest		Notes
			2005.12.31	2006.12.31	
The Company and Cathay Venture capital Co., Ltd.	Symphox Information Co., Ltd. ("Symphox Information")	Type II telecom service, data processing service, information supply service	99.53%	99.53%	Symphox Information was incorporated in Taiwan on December 12, 1999, under the provisions of the Company Act. Cathay Life and Cathay Venture's ownership interests are 60.12% and 39.41% of the common stock, respectively. As of December 31, 2005 and 2006, the total numbers of employees were 140 and 166, respectively.
The Company	Lin Yuan Property Management Co., Ltd. ("Lin Yuan Property Management")	Property management services	90.00%	10.00%	Lin Yuan Property Management was incorporated in Taiwan on July 1, 1990, under the provisions of the Company Act. On May 22, 2002, it changed its name from "San Ching Property Management Co., Ltd." to "Lin Yuan Property Management Co., Ltd.". As of December 31, 2005, the total numbers of employees was 275.
The Company	Cathay Venture Capital Co., Ltd. ("Cathay Venture")	Venture capital investment	25.00%	25.00%	Cathay Venture was incorporated in Taiwan on September 13, 2000, under the provisions of the Company Act, 67% ownership interests are held by the Company, Cathay Financial Holding Co., Ltd., Cathay United Bank and Cathay Century Insurance Co., Ltd.
The Company	Cathay Life Insurance Ltd. (Shanghai) ("Cathay Life (Shanghai)")	Life insurance	50.00%	50.00%	Cathay Life (Shanghai) acquired an operation license of an enterprise as a juristic person on December 29, 2004. The Company and China Eastern Airlines Corporation Limited ownership interests are 50% of the common stock, respectively. As of December 31, 2005 and 2006, the total numbers of employees were 288 and 506, respectively.

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

As of and for the years ended December 31, 2005 and 2006, the consolidated financial statements excluded:

Investors	Investees	Business	Ownership interest		Notes
			2005.12.31	2006.12.31	
The Company	Cathay Insurance (Bermuda) Co., Ltd.	Class3 general business insurers and a Long-term insurer	100.00%	100.00%	The consolidated financial statements of the Company as of and for the years ended December 31, 2005 and 2006 excluded Cathay Insurance (Bermuda) because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.
The Company	Cathay Securities Investment Co., Ltd.	Securities investment research analysis	100.00%	100.00%	The consolidated financial statements of the Company as of and for the years ended December 31, 2005 and 2006 excluded Cathay Securities Investment because its total assets and operating revenues were insignificant to the total assets and operating revenues of the Company.

B. All material inter-company transactions were eliminated in the consolidated financial statements.

(2) 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.

(3) Cash and cash equivalents

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

(4) Recognition of financial assets and liabilities

The Company and Subsidiaries 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 and Subsidiaries commit 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 and Subsidiaries have 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.

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.

(5) 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 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.

(6) Accounting for impairment of financial assets

The Company and Subsidiaries assess 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 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.

(7) 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 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:

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 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.

(8) Allowance for bad and doubtful debts

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

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

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

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

Long-term investments in equity securities are accounted for under the equity method where the investor company owns more than 20% of the investee's voting stocks or the investor company has significant influence over the investee company. The difference between the investment cost and the investor 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 investor 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.

(10) Investments in real estate

Investments in real estate are stated at cost when acquired.

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

Upon disposal, the related cost, accumulated depreciation and accumulated impairment are eliminated and gains 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.

(11) Property and equipment

Property and equipment are stated at cost or cost plus appreciation. When reevaluating property and equipment, land and other properties shall be reevaluated separately. Property increments shall be recorded at "unrealized reevaluation increments" under stockholders' equity.

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

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

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

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

(12) Intangible assets

A. The Company

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

B. Cathay Life (Shanghai)

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

(13) Deferred charges

According to the regulations established by the ROC Ministry of Finance (the “MOF”), the Company created a “stabilization fund” and an offsetting account “stabilization fund reserve”. These two accounts are not listed in the consolidated financial statements due to their offsetting nature. From 1993 to December 31, 2006, an aggregate of NT$1,246,576 (US$38,250) was appropriated to this fund.

(14) Accounting for assets impairment

Pursuant to SFAS No. 35, the Company and Subsidiaries assess 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 and Subsidiaries 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 and Subsidiaries 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 and Subsidiaries have 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 and Subsidiaries shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

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

A. first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and

B. if the goodwill has been written off, to reduce the other assets of the CGU or group of CGUs pro rata to their carrying amount.

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

(15) 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.

(16) Guaranteed depository insurance payment

A. The Company

According to Article 141 of the ROC Insurance Act (the "Insurance Act"), 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".

B. Cathay Life (Shanghai)

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

(17) Reserve for operations

A. The Company

Reserves for operations are organized according to the Insurance Act. 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.

B. Cathay Life (Shanghai)

In accordance with the Insurance Act of the People's Republic of China, the operating reserves (including unearned premium reserves, claim reserves and life policy reserves) are required and are calculated based on the actuarial reports.

(18) Insurance premium income and expenses

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

(19) Pension plan

The Company and Subsidiaries have 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 and Subsidiaries 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 Act. For employees subject to the Act, the Company and Subsidiaries 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 and Subsidiaries 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 consolidated financial statements based on the difference between the accumulated benefit obligation and the fair value of plan assets.

(20) Foreign currency transactions

A. Conversion of foreign currency transactions

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

B. Conversion of foreign subsidiaries' 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.

(21) Income taxes

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

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

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

Effective from January 1, 2006, the Company and Subsidiaries adopted "Income Basic Tax Act" and "Enforcement Rules of Income Basic Tax Act" to estimate income basic tax except for the Cathay life (Shanghai).

(22) Capital expenditure expenses

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

(23) Separate account products

A. The Company

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

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

"Separate account products assets", "Separate account products liabilities", "Separate account products revenues" and "Separate account products expenses".

B. Cathay Life (Shanghai)

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

The assets, liabilities, revenues and expenses of separate accounts are recorded under the line items of "Separate account products assets", "Separate account products liabilities", "Separate account products revenues", and "Separate account products expenses" in accordance with the ROC "Accounting standards of separate account products by life insurance company".

(24) 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 investor company's ownership interest is less than 20% of the voting stock, and which the investor 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 investor 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 investor company's ownership interest is 20% or more of the voting shares and the investor company have significant operational influence.

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

(B) Long-term investments in bonds

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

C. Derivative financial products transaction

(A) Forward foreign exchange contracts for hedging purposes

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

(B) Currency swap (CS)

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

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

(C) Cross-currency swap (CCS)

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

(D) Interest rate swap agreements (IRS)

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

(E) Options

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

(F) Futures

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

(25) Conversion to U.S. dollars

The consolidated 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.

3. Changes in accounting and its effects

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

The above change in accounting principles increased the Company and its Subsidiaries' assets, liability and stockholders' equity - unrealized (losses) gains of financial instruments by NT$15,492,162 (US$475,365), NT$2,061,394 (US$63,252) and NT$10,109,583 (US$310,205) as of January 1, 2006, respectively. It also increased the Company and its Subsidiaries' before taxes income and earnings per share by NT$3,321,185 (US$101,908) and NT$0.65 (US$0.02), respectively, for the year ended December 31, 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$43) as of December 31, 2006, and decreased the Company's net income by NT$1,401(US$43) for the year ended December 31, 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 December 31, 2005. No retroactive adjustment is required under SFAS No. 35. Such a change in accounting principles decreased the

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

Company's investments in real estate and property and equipment by NT$196,952 (US$6,005) and NT$85,519 (US$2,607) as of December 31, 2005, respectively, and decreased the Company's net income by NT$282,471 (US$8,612) for the year ended December 31, 2005. The Company considers such an effect was insignificance.

In the first quarter of 2005, the Company adopted the amended ROC's Statement of Financial Accounting Standards No. 5, "Long-term Investment in Equity securities" ("SFAS No. 5 (r3)"). Under the SFAS No. 5(r3), a deferred equity pick-up for being unable to obtain the financial statements of equity investees is no longer allowed. No retrospective adjustments are needed. Such a change in accounting principles increased the Company's long-term investment account by NT$122,713 (US$3,741) as of December 31, 2005, cumulative conversion adjustments increased by NT$3,970 (US$121), unrealized valuation losses on long-term equity investments decreased by NT$30,405 (US$927) and net income increased by NT$88,338 (US$2,693) for the year ended December 31, 2005, respectively. Such an effect is not considered significant.

From 2005, Lin Yuan Property Management has adopted the ROC Statement of Financial Accounting Standards ("SFAS") No. 18 "Accounting for Pensions". The net pension cost was recognized on January 1, 2006. According to this rule, as of December 31, 2005, both of the deferred pension cost and accrued pension liabilities were recorded with NT$46,405 (US$1,415).

4. Cash and cash equivalents

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Cash on hand	$255,076	$7,777	$274,288	$8,416
Cash in banks	34,466,908	1,050,820	14,214,097	436,149
Time deposits	200,857,229	6,123,696	211,618,643	6,493,361
Cash equivalents	52,345,667	1,595,905	45,913,365	1,408,818
Total	$287,924,880	$8,778,198	$272,020,393	$8,346,744

As of December 31, 2005 and 2006, the amounts of time deposits with maturities beyond one year were NT$1,263,844 (US$38,532) and NT$2,254,927 (US$69,191), respectively.

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

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

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Listed stocks	$25,767,159	$785,584	$11,636,234	$357,049
Overseas stocks	2,968,379	90,499	1,996,182	61,251
Beneficiary certificates	52,342,046	1,595,794	39,725,235	1,218,939
Exchange traded funds	1,751,636	53,404	2,414,255	74,080
Overseas bonds	8,487,394	258,762	13,443,769	412,512
Corporate bonds	1,573,649	47,977	3,493,086	107,183
Government bonds	20,760,851	632,953	9,906,160	303,963
Financial debentures	518,779	15,816	1,516,180	46,523
Derivative financial instruments	3,922,292	119,582	2,018,623	61,940
Subtotal	118,092,185	3,600,371	86,149,724	2,643,440
Add:Adjustment of valuation	-	-	12,645,775	388,027
Total	$118,092,185	$3,600,371	$98,795,499	$3,031,467

As of December 31, 2005, financial assets at fair value through profit or loss - current were stated at the lower of cost or market value.

6. Available-for-sale financial assets - current

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Listed stocks	$80,250,578	$2,446,664	$108,872,106	$3,340,660
Overseas stocks	33,716,859	1,027,953	10,671,028	327,433
Beneficiary certificates	655,285	19,978	575,572	17,661
Overseas beneficiary certificates	-	-	7,975,773	244,731
Exchange traded funds	-	-	1,027,934	31,541
Real estate investment trust	3,183,126	97,047	8,587,150	263,490
Overseas bonds	-	-	607,961	18,655
Subtotal	117,805,848	3,591,642	138,317,524	4,244,171
Add: Adjustment of valuation	-	-	17,508,502	537,235
Total	$117,805,848	$3,591,642	$155,826,026	$4,781,406

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

As of December 31, 2005, available-for-sale financial assets - current were stated at the lower of cost or market value.

7. Derivative financial assets for hedging - current

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Adjustment of valuation	-	-	251,901	7,729
Total	$-	$-	$251,901	$7,729

8. Loans

(1) Policy loans

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

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 and Subsidiaries pay the premium and interest payable by using the Company and Subsidiaries' "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 and Subsidiaries by writing to stop paying such installments.

(2) Secured loans

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Secured loans	$276,533,357	$8,430,895	$307,088,698	$9,422,789
Less: Allowance for bad debts	(340,755)	(10,389)	(311,791)	(9,567)
Subtotal	276,192,602	8,420,506	306,776,907	9,413,222
Overdue receivables	1,399,780	42,676	1,215,843	37,307

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

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Less: Allowance for bad debts	(979,845)	(29,873)	(851,090)	(26,115)
Subtotal	419,935	12,803	364,753	11,192
Total	$276,612,537	$8,433,309	$307,141,660	$9,424,414

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

9. Available-for-sale financial assets – noncurrent

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Corporate bonds	$12,625,889	$384,935	$18,321,961	$562,196
Government bonds	15,882,255	484,215	17,243,804	529,113
Financial debentures	24,160,539	736,602	60,900,417	1,868,684
Internal stocks	123,070	3,752	135,174	4,148
Overseas stocks	-	-	13,768	423
Collateralized loans obligation and collateralized bonds obligation	1,031,360	31,444	5,768,785	177,011
Overseas bonds	58,901,317	1,795,772	71,221,580	2,185,381
Subtotal	112,724,430	3,436,720	173,605,489	5,326,956
Add: Adjustment of valuation	-	-	2,225,040	68,273
Total	$112,724,430	$3,436,720	$175,830,529	$5,395,229

As of December 31, 2005, available-for-sale financial assets - noncurrent were stated at cost method and the lower of cost or market value.

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

10. Held-to-maturity financial assets - noncurrent

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Corporate bonds	$5,669,646	$172,855	$5,076,761	$155,777
Government bonds	18,857,055	574,910	18,318,725	562,097
Financial debentures	12,538,440	382,270	11,836,892	363,206
Collateralized loans obligation and collateralized bonds obligation	1,859,654	56,697	17,456,930	535,653
Overseas bonds	417,176,828	12,718,806	479,912,873	14,725,770
Subtotal	456,101,623	13,905,538	532,602,181	16,342,503
Less: securities serving as deposits paid - bonds	(8,047,274)	(245,344)	(8,142,767)	(249,855)
Total	$448,054,349	$13,660,194	$524,459,414	$16,092,648

11. Financial assets carried at cost - noncurrent

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Internal stocks	$20,859,576	$635,963	$20,153,377	$618,392
Overseas stocks	95,039	2,897	164,516	5,048
Total	$20,954,615	$638,860	$20,317,893	$623,440

12. Structured notes

One of the financial assets investment structured notes, amounted to NT$60,710,951 (US$1,850,944) and NT$84,141,752 (US$2,581,827) as of December 31, 2005 and 2006, respectively. The details of structured notes are listed below:

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

	December 31, 2006					
Item	Cost		Adjustment of valuation		Book value	
	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss - current	$2,278,527	$69,915	$(33,065)	$(1,015)	$2,245,462	$68,900
Available-for-sale financial assets	14,948,231	458,675	(142,749)	(4,380)	14,805,482	454,295
Held-to-maturity financial assets	66,290,808	2,034,084	-	-	66,290,808	2,034,084
Investments in debt securities with no active market - current	800,000	24,548	-	-	800,000	24,548
Total	$84,317,566	$2,587,222	$(175,814)	$(5,395)	$84,141,752	$2,581,827

As of December 31, 2005, structured notes were stated at the lower of cost or market value.

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

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Investee	Book value	Book value	Book value	Book value
WK Technology Fund VI Co., Ltd.	$384,610	$11,726	$433,755	$13,309
Vista Technology Venture Capital Corp.	39,356	1,200	40,249	1,235
Omnitek Venture Capital Corp.	169,019	5,153	334,511	10,264
Wa Tech Venture Capital Co., Ltd.	155,291	4,734	204,470	6,274
IBT Venture Capital Corp.	564,610	17,214	602,317	18,482
Cathay Insurance (Bermuda) Co., Ltd.	67,504	2,058	73,730	2,262
Cathay Securities Investment Trust Co., Ltd.	253,915	7,741	280,544	8,609
Cathay Securities Investment Co., Ltd.	93,736	2,858	120,060	3,684
Total	$1,728,041	$52,684	$2,089,636	$64,119

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

14. Investments in real estate

December 31, 2005

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

December 31, 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	$115,783,294	$3,552,725	$4,632	$142	$(13,933,607)	$(427,543)	$(196,952)	$(6,043)	$101,657,367	$3,119,281
Construction	680,772	20,889	-	-	-	-	-	-	680,772	20,889
Prepayments for buildings and land	6,032	185	-	-	-	-	-	-	6,032	185
Total	$116,470,098	$3,573,799	$4,632	$142	$(13,933,607)	$(427,543)	$(196,952)	$(6,043)	$102,344,171	$3,140,355

(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 Min Sheng Commercial Building, An He Commercial Building and World Building in 2006. The accounting treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The gain on disposal of real estates under "total amount accrual method" was NT$4,168,073 (US$127,894) in 2006.

(5) 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

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

treatment of these transactions is conformed to the regulations of the Accounting Research and Development Foundation. The relative information was disclosed 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$263,041).

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 has deferred gain on disposal of real estate by percentage of REIT outstanding securities holding by the Company. As of December 31, 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$54,431) and has been recognized in current period.

15. Property and equipment

	December 31, 2005									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$4,863,208	$148,269	$2,212	$67	$-	$-	$(51,331)	$(1,565)	$4,814,089	$146,771
Buildings and construction	10,584,805	322,708	-	-	(3,162,936)	(96,431)	(34,188)	(1,042)	7,387,681	225,235
Computer equipment	1,568,536	47,821	-	-	(1,076,194)	(32,811)	-	-	492,342	15,010
Communication and transportation equipment	54,223	1,653	-	-	(32,036)	(976)	-	-	22,187	677
Other equipment	3,661,094	111,619	-	-	(2,244,564)	(68,432)	-	-	1,416,530	43,187
Subtotal	20,731,866	632,070	2,212	67	(6,515,730)	(198,650)	(85,519)	(2,607)	14,132,829	430,880
Construction in progress and prepayment for equipment	6,970	212	-	-	-	-	-	-	6,970	212
Total	$20,738,836	$632,282	$2,212	$67	$(6,515,730)	$(198,650)	$(85,519)	$(2,607)	$14,139,799	$431,092

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

	December 31, 2006									
	Cost		Revaluation increments		Accumulated depreciation		Accumulated impairment		Net value	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Land	$4,722,055	$144,893	$1,054	$32	$-	$-	$(51,331)	$(1,575)	$4,671,778	$143,350
Buildings and construction	9,746,781	299,073	-	-	(3,093,630)	(94,926)	(34,188)	(1,049)	6,618,963	203,098
Computer equipment	1,664,590	51,077	-	-	(1,209,115)	(37,101)	-	-	455,475	13,976
Communication and transportation equipment	29,641	909	-	-	(21,030)	(645)	-	-	8,611	264
Other equipment	3,444,881	105,704	-	-	(2,219,270)	(68,097)	-	-	1,225,611	37,607
Subtotal	19,607,948	601,656	1,054	32	(6,543,045)	(200,769)	(85,519)	(2,624)	12,980,438	398,295
Construction in progress and prepayment for equipment	22,816	700	-	-	-	-	-	-	22,816	700
Total	$19,630,764	$602,356	$1,054	$32	$(6,543,045)	$(200,769)	$(85,519)	$(2,624)	$13,003,254	$398,995

No properties or plants and equipments were pledged as collaterals as of December 31, 2005 and 2006.

16. Other overdue receivables

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Overdue receivables	$70,119	$2,138	$114,051	$3,499
Less: Allowance for bad and doubtful debts	(5,848)	(178)	(71,891)	(2,206)
Total	$64,271	$1,960	$42,160	$1,293

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

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

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$2,075,168	$63,268	$48,423	$1,486
Add: Adjustment of valuation	-	-	11,527,054	353,699
Total	$2,075,168	$63,268	$11,575,477	$355,185

18. Derivative financial liabilities for hedging - current

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Adjustment of valuation	-	-	23,867	732
Total	$-	$-	$23,867	$732

19. Capital stock

As of December 31, 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 Act, 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.

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

(2) Undistributed retained earnings

A. According to the Company Act 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 Act ("Tax Act") 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.

E. According to the regulations issued by SFC, the Company should assume that dividends for year 2005 would be appropriated to the employee, directors and supervisors, and pro forma earnings per share for the current year.

	For the year ended December 31,	
	2005(NT$)	2005(US$)
A. Distribution		
Bonus paid to employees - Cash	$13,218	$403
Remuneration paid to directors and supervisors	8,100	247
B. After income tax earnings per share (expressed in dollars)	$3.54	$0.11
Pro forma earnings per share (expressed in dollars)	3.53	0.11

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

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

The surplus appropriation act of 2006 has not yet passed by the board of directors of the Company as the date of this audit report is issued.

21. Personnel expenses、depreciation and amortizations

Item	For the year ended December 31, 2005 NT$			For the year ended December 31, 2005 US$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$23,553,718	$2,400,320	$25,954,038	$718,101	$73,181	$791,282
Labor & health insurance expenses	1,047,938	197,961	1,245,899	31,949	6,036	37,985
Pension expenses	401,128	75,446	476,574	12,230	2,300	14,530
Other expenses	979,412	224,161	1,203,573	29,860	6,834	36,694
Depreciation	53,478	2,265,852	2,319,330	1,630	69,081	70,711
Amortizations	5,097	41,945	47,042	155	1,279	1,434

Item	For the year ended December 31, 2006 NT$			For the year ended December 31, 2006 US$		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel expenses						
Salary and wages	$24,417,967	$2,492,867	$26,910,834	$749,247	$76,492	$825,739
Labor & health insurance expenses	1,130,920	175,509	1,306,429	34,702	5,385	40,087
Pension expenses	701,419	106,738	808,157	21,523	3,275	24,798
Other expenses	986,519	221,329	1,207,848	30,271	6,791	37,062
Depreciation	59,372	2,428,381	2,487,753	1,822	74,513	76,335
Amortizations	3,444	99,424	102,868	105	3,051	3,156

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

22. Estimated income taxes

(1) Income tax expenses include the following:

	For the years ended December 31,			
	2005		2006	
	NT$	US$	NT$	US$
Estimated income tax expense	$(1,488,804)	$(45,391)	$(110,619)	$(3,394)
Add: Separation taxes	493,370	15,042	647,990	19,883
Assessed tax payable for year 2001	-	-	901	28
Allocation of the cumulative effect of changes in accounting principles	-	-	338,668	10,392
Alternative minimum tax payable	-	-	12,741	391
Less: Income tax credit	(43,768)	(1,334)	(12,764)	(392)
Deferred income tax expense	(149,413)	(4,555)	(2,682,365)	(82,307)
Estimated tax difference - prior years	(18,164)	(554)	(791)	(24)
Income taxes benefit	$(1,206,779)	$(36,792)	$(1,806,239)	$(55,423)

(2) Income tax returns

	December 31, 2006	
	Income tax returns assessed	Notes
The Company	Through 2003	-
Symphox Information	Through 2004	-
Cathay Venture	Through 2004	-
Cathay Life (Shanghai)	-	-

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

(3) Information related to imputation

A. Balance of imputation credit account

	December 31,			
	2005		2006	
	NT$	US$	NT$	US$
The Company	$998,420	$30,440	$764,057	$23,445
Symphox Information	-	-	-	-
Lin Yuan Property Management	17,333	528	-	-
Cathay Venture	15,545	474	18,381	564

B. Imputation credit account ratio

	For the years ended December 31,	
	2005	2006
	Actual	Actual
The Company	9.52%	7.33%
Symphox Information	-	-
Lin Yuan Property Management	33.33%	-
Cathay Venture	-	-

(4) Related information on undistributed earnings

	December 31,			
	2005		2006	
Year	NT$	US$	NT$	US$
After 1998	$17,922,656	$546,422	$15,047,432	$461,719

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

23. Earnings per share

For the year ended December 31, 2005	Amount (numerator) After tax NT$	Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars) After tax NT$
Income from continuing operations after income taxes	$17,903,581	5,068,616	$3.53
Cumulative effect of changes in accounting principles	-	5,068,616	-
Consolidated income	$17,903,581	5,068,616	$3.53

For the year ended December 31, 2005	Amount (numerator) After tax US$	Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars) After tax US$
Income from continuing operations after income taxes	$545,841	5,068,616	$0.11
Cumulative effect of changes in accounting principles	-	5,068,616	-
Consolidated income	$545,841	5,068,616	$0.11

For the year ended December 31, 2006	Amount (numerator) After tax NT$	Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars) After tax NT$
Income from continuing operations after income taxes	$11,756,933	5,068,616	$2.32
Cumulative effect of changes in accounting principles	3,321,185	5,068,616	0.65
Consolidated income	$15,078,118	5,068,616	$2.97

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

For the year ended December 31, 2006	Amount (numerator) After tax US$	Weighted average outstanding number of shares (denominator) (thousand shares)	Earnings per share (In dollars) After tax US$
Income from continuing operations after income taxes	$360,753	5,068,616	$0.07
Cumulative effect of changes in accounting principles	101,908	5,068,616	0.02
Consolidated income	$462,661	5,068,616	$0.09

24. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Insurance (Bermuda) Co., Ltd.	Subsidiary of the Company
Cathay Securities Investment Co., Ltd.	Subsidiary of the Company
Vista Technology Venture Capital Corp.	An equity method investee
Cathay Securities Investment Trust Co., Ltd.	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
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Cathay Real Estate Management Co., Ltd.	Affiliate
Cathay property Insurance Agent Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
Pao Shin Securities Co., Ltd.	Affiliate
China England Company Ltd.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate

Name	Relationship
Seaward Leasing Co., Ltd.	Affiliate
Cathay Life Insurance Agent Co., Ltd.	Affiliate
Cathay Futures Co., Ltd.	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Pai Hsing Investment Co., Ltd.	Affiliate
Lucky Bank Taiwan Inc.	Affiliate
Shanghai China Eastern Media Co., Ltd.	Affiliate
CEA Futures Brokerage Co., Ltd.	Affiliate
CEA Finance Holding Co., Ltd.	Affiliate
CEA Finance Co., Ltd.	Affiliate
China Eastern Airlines Co., Ltd.	Affiliate
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	Affiliate
Shanghai East Fly Service Co., Ltd.	Affiliate
China Eastern Aviation IMP./EXP. Corp.	Affiliate
Yi Ru Corporation	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
Taiwan Asset Management Corporation	Their chairman is Cathay United Bank
Other related parties	The directors supervisors, mangers sponges and second relatives are included

(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.

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2005 and 2006

(A) Significant transactions with related parties for the years ended December 31, 2005 and 2006 are listed below:

	For the year ended December 31,2005		
Name	Item	NT$	US$
San Ching Engineering Co., Ltd.	Tianmu Jung Cheng-A	$2,769	$84
	Cathay Golden & Silver Bldg	3,791	116
	Ban Ciao Building	359,060	10,947
	Sheraton Taipei Hotel	53,742	1,638
	Sianyang Building	4,222	129
	Cathay Land Mark	3,000	91
	Financial Center Hsing-E	2,609	80
	Other	293	9
Cathay Real Estate	Ban Ciao Building	3,537	108
Development Co., Ltd.	Cathay Land Mark	1,000	30
	Total	$434,023	$13,232

	For the year ended December 31, 2006		
Name	Item	NT$	US$
San Ching Engineering Co.,	Cathay General Hospital	$6,488	$199
Ltd.	Cathay Lank Mark	2,240	69
	Other	1,074	33
Cathay Real Estate			
Development Co., Ltd.	Cathay Land Mark	1,500	46
Lin Yuan Property	Cathay Cosmos Building	5,315	163
Management Co., Ltd.	Li-Yuan Building	18,206	559
	Jhong Jheng Building	9,033	277
	International Building	2,560	79
	World Commercial Building	2,742	84
	Financial Center Hsing-E	8,889	273
	Yuanlin Second Building	3,109	95
	Changhua Second Building	1,431	44
	Central Industrial &		
	Commercial Building	1,406	43
	Taipei Royalty Building	14,485	444
	Jhong Gang Building	12,005	368

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2005 and 2006

	For the year ended December 31, 2006		
Name	Item	NT$	US$
	Cathay Building	$21,201	$651
	Tun Nan Commercial Building	6,119	188
	Min Sheng Chien Kuo Building	1,268	39
	Wanbon Commercial Building	10,557	324
	Sih Wei Financial Building	3,467	106
	Sih Wei Building	2,086	64
	Min Sheng Commercial Building	1,135	35
	Feng Chia Building	3,163	97
	Sianyang Building	1,950	60
	World Building	3,906	120
	Central Commercial Building	2,885	88
	Shezi Building	2,582	79
	Tamsui Education Center	1,468	45
	Xinying Zhong Zheng Building	1,300	40
	Other	19,715	605
	Total	$173,285	$5,317

The total amounts of contracted projects for real estate as of December 31, 2005 and 2006 between the Company and San Ching Engineering Co., Ltd. were NT$1,620,227 (US$49,397) and NT$22,435 (US$688), respectively.

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

		For the year ended December 31, 2006	
		Contract Price	
Name	Item	NT$	US$
Wan Pao Development Co., Ltd.	No. 658 Simen Rd, Tainan City.	$5,290,000	$162,320
Cathay Real Estate Development Co., Ltd.	Tianmu E.Rd., and Sec. 2 Zhong Cheng Rd., Shilin District, Taipei City.	$2,470,000	$75,790

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

The Company did not acquire any real estates from its related parties for the year ended December 31, 2005.

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

	Rental income			
	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Financial Holding Co., Ltd.	$8,934	$272	$9,666	$297
Cathay Real Estate Development Co., Ltd.	15,819	482	15,756	483
Cathay United Bank	264,035	8,050	249,486	7,655
Cathay Century Insurance Co., Ltd.	54,948	1,675	55,586	1,706
Cathay General Hospital	133,356	4,066	145,666	4,470
San Ching Engineering Co., Ltd.	7,569	231	7,455	229
Cathay Securities Investment Trust Co., Ltd.	11,612	354	12,062	370
Cathay Securities Investment Co., Ltd.	3,639	111	3,343	102
Cathay Securities Co., Ltd.	15,024	458	15,243	468
Cathay Capital Management Inc.	1,928	59	1,988	61
Seaward Leasing Co., Ltd.	1,450	44	1,212	37
Taiwan Asset Management Corporation	14,342	437	13,963	428
Cathay Futures Co., Ltd.	442	14	640	20
Total	$533,098	$16,253	$532,066	$16,326

	Guarantee deposits received			
	December 31, 2005		December 31, 2006	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$3,645	$111	$3,645	$112
Cathay United Bank	65,845	2,007	63,017	1,934
Cathay Century Insurance Co., Ltd.	13,832	422	17,647	541
Cathay General Hospital	4,509	137	7,324	225
San Ching Engineering Co., Ltd.	2,009	61	1,709	52
Cathay Securities Investment Trust Co., Ltd.	2,738	84	2,738	84
Cathay Securities Investment Co., Ltd.	877	27	877	27
Taiwan Asset Management Corporation	3,477	106	3,477	107

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

	Guarantee deposits received			
	December 31, 2005		December 31, 2006	
Name	NT$	US$	NT$	US$
Cathay Securities Co., Ltd.	$3,647	$111	$3,785	$116
Cathay Capital Management Inc.	479	15	479	15
Seaward Leasing Co., Ltd.	346	11	346	10
Total	$101,404	$3,092	$105,044	$3,223

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)：

	Rental expense			
	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$29,586	$902	$29,248	$897
Lin Yuan Investment Co., Ltd.	3,476	106	2,512	77
Yi Ru Corporation	4,082	124	4,292	132
Lucky Bank Taiwan Inc.	-	-	4,740	145
Cathay United Bank	-	-	968	30
Total	$37,144	$1,132	$41,760	$1,281

	Guarantee deposits paid			
	December 31, 2005		December 31, 2006	
Name	NT$	US$	NT$	US$
Cathay Real Estate Development Co., Ltd.	$9,031	$276	$8,926	$274
Yi Ru Corporation	1,190	36	1,190	36
Lin Yuan Investment Co., Ltd.	628	19	628	19
Lucky Bank Taiwan Inc.	-	-	1,292	40
Total	$10,849	$331	$12,036	$369

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

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

B. Cash in banks

Name	Item	For the year ended December 31, 2005 Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	Time deposit	$176,827	0.85%~1.85%	$596,250
	Cash in bank	3,298	0.01%~2.35%	3,261,330
Lucky Bank Taiwan Inc.	Cash in bank	6	0.10%	14,450
CEA Finance Co., Ltd.	Cash in bank	1,609	0.72%~1.44%	-
Total		$181,740		$3,872,030

Name	Item	For the year ended December 31, 2005 Interest income US$	Rate	Ending balance US$
Cathay United Bank	Time deposit	$5,391	0.85%~1.85%	$18,178
	Cash in bank	101	0.01%~2.35%	99,431
Lucky Bank Taiwan Inc.	Cash in bank	-	0.10%	441
CEA Finance Co., Ltd.	Cash in bank	49	0.72%~1.44%	-
Total		$5,541		$118,050

Name	Item	For the year ended December 31, 2006 Interest income NT$	Rate	Ending balance NT$
Cathay United Bank	Time deposit	$83,733	1.05%~2.16%	$106,460
	Cash in bank	1,944	0.10%~2.35%	2,609,848
Lucky Bank Taiwan Inc.	Cash in bank	20	0.10%	6,188
CEA Finance Co., Ltd.	Cash in bank	248	0.72%~1.44%	-
Total		$85,945		$2,722,496

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2005 and 2006

		For the year ended December 31, 2006		
		Interest income		Ending balance
Name	Item	US$	Rate	US$
Cathay United	Time deposit	$2,569	1.05%~2.16%	$3,267
Bank	Cash in bank	60	0.10%~2.35%	80,081
Lucky Bank Taiwan Inc.	Cash in bank	1	0.10%	190
CEA Finance Co., Ltd.	Cash in bank	7	0.72%~1.44%	-
Total		$2,637		$83,538

C. Other financial assets

	For the year ended December 31, 2005		
	Interest income		Ending balance
Name	NT$	Rate	NT$
Cathay United Bank	$29,902	0.12%~3.03%	$-

	For the year ended December 31, 2005		
	Interest income		Ending balance
Name	US$	Rate	US$
Cathay United Bank	$912	0.12%~3.03%	$-

	For the year ended December 31, 2006		
	Interest income		Ending balance
Name	NT$	Rate	NT$
Cathay United Bank	$24,945	1.80%~2.27%	$2,100,000

	For the year ended December 31, 2006		
	Interest income		Ending balance
Name	US$	Rate	US$
Cathay United Bank	$765	1.80%~2.27%	$64,437

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

D. Secured loans

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

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

	For the year ended December 31, 2006			
Name	Maximum amount NT$	Interest income NT$	Rate	Ending balance NT$
Cathay General Hospital	$4,070,069	$122,444	3.14%~3.37%	$4,069,793
Other related parties	81,792	2,036	2.97%~4.63%	74,664
Total	$4,151,861	$124,480		$4,144,457

	For the year ended December 31, 2006			
Name	Maximum amount US$	Interest income US$	Rate	Ending balance US$
Cathay General Hospital	$124,887	$3,757	3.14%~3.37%	$124,879
Other related parties	2,510	63	2.97%~4.63%	2,291
Total	$127,397	$3,820		$127,170

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

E. Beneficiary certificates

		December 31,			
		2005		2006	
Name		NT$	US$	NT$	US$
Cathay Securities					
Investment Trust Co., Ltd.	Market value	$6,244,126	$190,370	$6,928,756	$212,604
	Cost	$5,791,697	$176,576	$6,430,536	$197,316

F. Receivables

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$1,102	$34	$111,705	$3,428
Cathay Insurance (Bermuda) Co., Ltd.	17,491	533	8,303	255
Cathay Financial Holding Co., Ltd.	2,171,620	66,208	757,004	23,228
Cathay General Hospital	7,981	243	361	11
Cathay United Bank	29,985	914	70,030	2,149

G. Prepayment

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Lin Yuan Investment Co., Ltd.	$-	$-	$419	$13

H. Other current assets

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Lucky Bank Taiwan Inc.	$-	$-	$500	$15

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

I. Guarantee deposits paid

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Futures Co., Ltd.	$317,156	$9,669	$377,481	$11,583
Cathay Century Insurance Co., Ltd.	-	-	400	12
Total	$317,156	$9,669	$377,881	$11,595

As of December 31, 2005 and 2006, the imputed interest income of guarantee deposits paid deposited in Cathay Futures Co., Ltd. were NT$369 (US$11) and NT$442 (US$14), respectively.

J. Payable

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$10,152	$310	$2,237	$69
Lin Yuan Property Management Co., Ltd.	-	-	5,926	182
San Ching Engineering Co., Ltd.	54,164	1,651	2,572	79
Cathay Real Estate Development Co., Ltd.	947	29	1,200	37

K. Accounts collected in advance

	December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$2,225	$68	$3,141	$96
Taiwan Asset Management Corporation	-	-	2,484	76
Cathay United Bank	12,105	369	34,696	1,065
Cathay Securities Co., Ltd.	21	1	386	12

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

L. Insurance income

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay United Bank	$301,670	$9,197	$412,680	$12,663
Cathay Financial Holding Co., Ltd.	683	21	774	24
Cathay General Hospital	21,883	667	27,384	840
Cathay Real Estate Development Co., Ltd.	1,350	41	1,367	42
San Ching Engineering Co., Ltd.	1,178	36	1,198	37
Cathay Century Insurance Co., Ltd.	7,071	216	7,585	233
Cathay Securities Investment Trust Co., Ltd.	817	25	954	29
Cathay Securities Co., Ltd.	1,348	41	1,696	52
Cathay Futures Co., Ltd.	2,291	70	723	22
Cathay Securities Investment Co., Ltd.	-	-	338	10
Shanghai China Eastern Media Co., Ltd.	1,457	44	1,741	53
CEA Finance Holding Co., Ltd.	2,587	79	4,168	128
China Eastern Airlines Co., Ltd.	198,583	6,054	347,500	10,663
CNDFMC (SCEA) Duty Free Merchandise Co., Ltd.	368	11	457	14
Other related parties	-	-	48,943	1,502
Total	$541,286	$16,502	$857,508	$26,312

M. Insurance expense

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$136,317	$4,156	$105,526	$3,238

The insurance expenses were insurance expenses for fixed assets, cash, public accident and etc. Amounts of NT$14,877 (US$454) and NT$11,383 (US$349) paid by the Company on behalf the employees for fidelity bond insurance were included in insurance expenses for the years ended December 31, 2005 and 2006.

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

N. Insurance claims payment

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
China Eastern Airlines Co., Ltd.	$-	$-	$813	$25

O. Indemnity income

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$14,877	$454	$6,882	$211

Amounts of NT$7,829 (US$239) and NT$6,530 (US$200) paid by the Company on behalf the employees for fidelity bond insurance were included in indemnity income for the years ended December 31, 2005 and 2006.

P. Reinsurance income

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$139,957	$4,267	$136,465	$4,187

Q. Reinsurance claims payment

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$68,743	$2,096	$87,991	$2,700

R. Reinsurance commission expense

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$18,355	$560	$13,895	$426

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

S. Reinsurance handling fee income

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Insurance (Bermuda) Co., Ltd.	$4,779	$146	$571	$18

T. Other operating revenues

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Lin Yuan Property management Co., Ltd.	$-	$-	$1,479	$45
San Ching Engineering Co., Ltd.	2,176	66	790	24
Cathay Century Insurance Co., Ltd.	8,085	246	10,234	314
Cathay General Hospital	99,997	3,049	16,975	521
Cathay United Bank	139,601	4,256	325,797	9,997
Cathay Securities Investment Trust Co., Ltd.	6,804	207	5,216	160
Cathay Securities Co., Ltd.	5,775	176	5,311	163
Lucky Bank Taiwan Inc.	-	-	1,614	50
Cathay Financial Holding Co., Ltd.	935	29	1,196	37
Cathay Real Estate Development Co., Ltd.	38,764	1,182	1,944	60
Cathay Securities Investment Co., Ltd.	511	16	342	10
Pai Hsing Investment Co., Ltd.	-	-	712	22
Cathay Futures Co.,Ltd.	1,272	39	2,350	72
Total	$303,920	$9,266	$373,960	$11,475

U. Cost of disposal real estate

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Securities Co., Ltd.	$158,000	$4,817	$37,800	$1,160
Cathay United Bank	96,000	2,927	37,800	1,160
Total	$254,000	$7,744	$75,600	$2,320

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to consolidated financial statements-continued
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of December 31, 2005 and 2006

V. Miscellaneous income

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Century Insurance Co., Ltd.	$545,578	$16,633	$665,730	$20,427
Cathay United Bank	146,936	4,480	111,894	3,433
Cathay Securities Investment Trust Co., Ltd.	11,378	347	14,753	453
Cathay Securities Investment Co., Ltd.	-	-	309	10
Total	$703,892	$21,460	$792,686	$24,323

The miscellaneous income was cross-selling income.

W. Commissions expense

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Agent Co., Ltd.	$185,278	$5,649	$121,083	$3,715

X. Operating expense

	For the years ended December 31,			
	2005		2006	
Name	NT$	US$	NT$	US$
Cathay Charity Foundation	$-	$-	$2,250	$69
Cathay General Hospital	-	-	10,437	320
Lin Yuan Property Management Co., Ltd.	-	-	644,903	19,788
Cathay Securities Investment Co., Ltd.	52,500	1,601	52,500	1,611
San Ching Engineering Co., Ltd.	7,127	217	5,326	163
Cathay Real Estate Development Co., Ltd.	7,263	221	6,500	200
Cathay Capital Management Inc.	45,383	1,384	53,726	1,648
Seaward Leasing Co., Ltd.	5,198	159	7,574	232
Seaward Card Co., Ltd.	1,344	41	1,813	56
Lucky Bank Taiwan Inc.	-	-	6,276	193
Cathay United Bank	-	-	44,340	1,361
Total	$118,815	$3,623	$835,645	$25,641

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

Y. Sale of securities

For the year ended December 31, 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	$1,459	$3,707	$114

There were no related party transactions of securities for the year ended December 31, 2005.

Z. Other

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

Item	December 31, 2005	December 31, 2006
Forward foreign exchange contracts	USD 125,545	USD 565,572
CS contracts	USD 435,000	USD 1,362,000

25. Pledged assets

(1) The company

As of December 31, 2005 and 2006, the Company provided time deposits as guarantees for the return of the deposits received from its real estate lessees, premiums of retrocede business, and as bonds placed with courts in legal proceedings. Further, pursuant to Article 141 of the Insurance Act, 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.

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

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Guarantee deposits paid	$8,047,274	$245,344	$8,142,767	$249,855
Time deposits	235,250	7,172	245,740	7,540
Total	$8,282,524	$252,516	$8,388,507	$257,395

Pledged assets are based on the carrying amounts.

(2) Symphox Information

As of December 31, 2005 and 2006, the pledged property details are as follows:

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Financial assets at fair value through profit and loss-current	$-	$-	$13,091	$402

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

(3) Cathay Life (Shanghai)

	December 31,			
	2005		2006	
Item	NT$	US$	NT$	US$
Guarantee deposits paid	$651,280	$19,856	$668,192	$20,503

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

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

26. Other important matters and contingent liabilities

Cathay Life (Shanghai)

As of December 31, 2006, the major lease agreements Cathay Life (Shanghai) has entered into and the estimated rent expenses for the next 5 years are as follows:

	Amount	
Year	NT$	US$
2006/12/31~2007/12/31	$42,623	$1,308
2007/12/31~2008/12/31	14,326	440
2008/12/31~2009/12/31	9,852	302
2009/12/31~2010/12/31	9,657	296
2010/12/31~2011/12/31	6,978	214
Total	$83,436	$2,560

27. Serious damages

None.

28. Subsequent events

On January 12, 2007, the board of directors of the Company resolved and announced the commencement of the securitization of Cathay Tun Nan Commercial Building.

29. Other important events

(1) Pension related information

A. The Company

(A) The Company has recognized a net pension cost of NT$303,827 (US$9,323) for the year ended December 31, 2006. And the Company has contributed NT$268,874 (US$8,197) and NT$247,963 (US$7,609) to the pension fund for the years ended December 31, 2005 and 2006, respectively.

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

(B) Pension funded status:

	For the years ended December 31,			
	2005		2006	
	NT$	US$	NT$	US$
(1) Vested benefit obligation	$(5,852,955)	$(178,444)	$(6,266,555)	$(192,285)
(2) Non-vested benefit obligation	(2,774,358)	(84,584)	(2,859,987)	(87,756)
(3) Accumulated benefit obligation	(8,627,313)	(263,028)	(9,126,542)	(280,041)
(4) Additional benefits based on future salaries	(2,668,181)	(81,347)	(1,945,777)	(59,705)
(5) Projected benefit obligation	(11,295,494)	(344,375)	(11,072,319)	(339,746)
(6) Fair value of plan assets	10,512,569	320,505	14,600,331	448,000
(7) Funded status = (5) + (6)	(782,925)	(23,870)	3,528,012	108,254
(8) Unrecognized transitional net benefit obligation (net assets)	(1,893,495)	(57,728)	(1,514,795)	(46,480)
(9) Unrecognized prior service cost	310,401	9,464	258,667	7,937
(10) Unrecognized pension gain and loss	738,701	22,521	(3,955,066)	(121,358)
(11) Additional accrued pension liability	-	-	-	-
(12) Accrued pension liability /prepaid pension cost =(7)+(8)+(9)+(10)+(11)	$(1,627,318)	$(49,613)	$(1,683,182)	$(51,647)

(C) Actuarial assumptions

	For the years ended December 31,	
	2005	2006
(1) Discount rate	3.00%	3.00%
(2) Rate of increase in future salaries	3.00%	3.00%
(3) Expected return on pension plan assets	3.00%	3.00%

B. Symphox Information

Symphox Information has adopted the SFAS No.18 “Accounting for pensions”, which acquires actuarial determination of pension assets or obligations. The following is a summary of the components of net pension expense for 2005 and 2006:

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

(A) Pension funded status:

	For the years ended December 31,			
	2005		2006	
	NT$	US$	NT$	US$
(1) Vested benefit obligation	$(2,557)	$(78)	$(3,044)	$(93)
(2) Non-vested benefit obligation	(1,803)	(55)	(2,339)	(72)
(3) Accumulated benefit obligation	(4,360)	(133)	(5,383)	(165)
(4) Additional benefits based on future salaries	(1,272)	(39)	(1,449)	(45)
(5) Projected benefit obligation	(5,632)	(172)	(6,832)	(210)
(6) Fair value of plan assets	5,300	162	7,344	226
(7) Funded status = (5) + (6)	(332)	(10)	512	16
(8) Unrecognized transitional net benefit obligation (net assets)	332	10	313	10
(9) Unrecognized prior service cost	-	-	-	-
(10) Unrecognized pension gain and loss	-	-	15	-
(11) Additional accrued pension liability	-	-	-	-
(12) Accrued pension liability /prepaid pension cost (7)+(8)+(9)+(10)+(11)	$-	$-	$840	$26

(B) Actuarial assumptions

	For the years ended December 31,	
	2005	2006
(1) Discount rate	3.00%	3.00%
(2) Rate of increase in future salaries	2.00%	2.00%
(3) Expected return on pension plan Assets	3.00%	3.00%

C. Lin Yuan Property Management

Lin Yuan Property Management has adopted the SFAS No.18 “Accounting for pensions”, which acquires actuarial determination of pension assets or obligations. The following is a summary of the components of net pension expense for 2005:

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

(A) Pension funded status:

	For the year ended December 31, 2005	
	NT$	US$
(1) Vested benefit obligation	$(16,405)	$(500)
(2) Non-vested benefit obligation	(35,817)	(1,092)
(3) Accumulated benefit obligation	(52,222)	(1,592)
(4) Additional benefits based on future salaries	(3,553)	(108)
(5) Projected benefit obligation	(55,775)	(1,700)
(6) Fair value of plan assets	5,817	177
(7) Funded status = (5) + (6)	(49,958)	(1,523)
(8) Unrecognized transitional net benefit obligation (net assets)	49,958	1,523
(9) Unrecognized prior service cost	-	-
(10) Unrecognized pension gain and loss	-	-
(11) Additional accrued pension liability	(46,405)	(1,415)
(12) Accrued pension liability /prepaid pension cost =(7)+(8)+(9)+(10)+(11)	$(46,405)	$(1,415)

(B) Actuarial assumptions

	For the year ended December 31, 2005
(1) Discount rate	3.00%
(2) Rate of increase in future salaries	0.50%
(3) Expected return on pension plan Assets	3.00%

(2) Financial risk management objectives and policies

The Company and Subsidiaries' 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.

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.

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

Operational Risk

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

Liquidity Risk

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

(3) Financial instruments related information

A. The company

(a) The information of the fair value

	December 31, 2005			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$287,012,435	$287,012,435	$8,750,379	$8,750,379
Notes receivable	14,014,632	14,014,632	427,275	427,275
Financial assets at fair value through profit or loss - current	113,545,203	118,685,933	3,461,744	3,618,474
Available-for-sale financial assets - current	117,150,563	124,643,533	3,571,664	3,800,108
Held-to-maturity financial assets - current	11,916,287	11,916,287	363,302	363,302
Investments in debt securities with no active market - current	977,811	977,811	29,811	29,811

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to consolidated financial statements-continued
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As of December 31, 2005 and 2006

	December 31, 2005			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Available-for-sale financial assets - noncurrent	$112,234,628	$114,235,161	$3,421,787	$3,482,779
Held-to-maturity financial assets - noncurrent	447,234,395	447,234,395	13,635,195	13,635,195
Financial assets carried at cost - noncurrent	20,445,384	20,445,384	623,335	623,335
Investments in debt securities with no active market - noncurrent	44,628,749	44,628,749	1,360,633	1,360,633
Long-term investments in stocks under the equity method	3,883,938	3,883,938	118,413	118,413
Guarantee deposits paid	8,192,004	8,192,004	249,756	249,756
Liabilities - non-derivative				
Notes payable	1,651	1,651	50	50
Guarantee deposits received	1,643,683	1,643,683	50,112	50,112
Assets - derivative				
Financial assets at fair value through profit or loss - current				
Futures	1,690,783	1,673,501	51,548	51,021
Option	31,466	26,543	959	809
Forward	2,170,213	2,721,241	66,165	82,965
IRS	29,830	85,991	910	2,622
Derivative financial assets for hedging - current				
IRS	-	465,308	-	14,186
Liabilities - derivative				
Financial liabilities at fair value through profit or loss - current				
Option	11,524	13,081	351	399
Forward	2,028,859	4,086,463	61,856	124,587
IRS	34,785	724,149	1,061	22,078
Derivative financial liabilities for hedging - current				
IRS	-	44,390	-	1,353

Cathay Life Insurance Co., Ltd. and Subsidiaries
Note to consolidated financial statements-continued
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As of December 31, 2005 and 2006

	December 31, 2006			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets - non-derivative				
Cash and cash equivalents	$270,353,723	$270,353,723	$8,295,604	$8,295,604
Notes receivable	12,542,006	12,542,006	384,842	384,842
Financial assets at fair value through profit or loss - current	87,855,778	87,855,778	2,695,789	2,695,789
Available-for-sale financial assets - current	155,178,894	155,178,894	4,761,549	4,761,549
Held-to-maturity financial assets - current	13,313,233	13,827,143	408,507	424,276
Investments in debt securities with no active market - current	5,001,829	5,001,829	153,478	153,478
Available-for-sale financial assets - noncurrent	175,323,875	175,323,875	5,379,683	5,379,683
Held-to-maturity financial assets - noncurrent	524,210,596	515,447,224	16,085,014	15,816,116
Financial assets carried at cost - noncurrent	19,621,636	19,621,636	602,075	602,075
Investments in debt securities with no active market - noncurrent	42,782,186	42,778,440	1,312,740	1,312,625
Long-term investments in stocks under the equity method	4,290,720	4,290,720	131,658	131,658
Guarantee deposits paid	8,181,101	8,181,101	251,031	251,031
Liabilities - non-derivative				
Notes payable	2,474	2,474	76	76
Guarantee deposits received	1,464,317	1,464,317	44,931	44,931
Assets - derivative				
Financial assets at fair value through profit or loss - current				
Futures	1,879,552	1,879,552	57,673	57,673
Option	7,691	7,691	236	236
Forward	8,022,181	8,022,181	246,155	246,155
IRS	421,537	421,537	12,934	12,934
Derivative financial assets for hedging - current				
IRS	251,901	251,901	7,729	7,729

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

	December 31, 2006			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities - derivative				
Financial liabilities at fair value through profit or loss - current				
Option	$9,996	$9,996	$307	$307
Forward	11,361,889	11,361,889	348,631	348,631
IRS	203,592	203,592	6,247	6,247
Derivative financial liabilities for hedging - current				
IRS	23,867	23,867	732	732

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.

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

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	$82,130,365	$82,130,365	$5,725,413	$5,725,413
Available-for-sale financial assets - current	155,175,002	155,175,002	3,892	3,892
Held-to-maturity financial assets - current	12,305,497	12,824,516	1,007,736	1,002,627
Investments in debt securities with no active market - current	5,001,829	5,001,829	-	-
Available-for-sale financial assets - noncurrent	161,485,292	161,485,292	13,838,583	13,838,583
Held-to-maturity financial assets - noncurrent	85,732,482	94,605,321	438,478,114	420,841,903
Financial assets curried at cost - noncurrent	19,621,636	19,621,636	-	-
Investment in debt securities with no active market - noncurrent	12,120,203	12,293,185	30,661,983	30,485,255
Long-term investments in stocks under the equity method	-	-	4,290,720	4,290,720
Assets - derivative				
Financial assets at fair value through profit or loss - current				
Futures	1,879,552	1,879,552	-	-
Option	7,691	7,691	-	-
Forward	-	-	8,022,181	8,022,181
IRS	-	-	421,537	421,537
Derivative financial assets for hedging - current				
IRS	-	-	251,901	251,901
Liabilities - derivative				
Financial liabilities at fair value through profit or loss - current				
Option	9,996	9,996	-	-
Forward	-	-	11,361,889	11,361,889

(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
IRS	$-	$-	$203,592	$203,592
Derivative financial liabilities for hedging - current				
IRS	-	-	23,867	23,867

	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	$2,520,109	$2,520,109	$175,680	$175,680
Available-for-sale financial assets - current	4,761,430	4,761,430	119	119
Held-to-maturity financial assets - current	377,585	393,511	30,922	30,765
Investments in debt securities with no active market - current	153,478	153,478	-	-
Available-for-sale financial assets - noncurrent	4,955,056	4,955,056	424,627	424,627
Held-to-maturity financial assets - noncurrent	2,630,638	2,902,894	13,454,376	12,913,222
Financial assets carried at cost - noncurrent	602,075	602,075	-	-
Investment in debt securities with no active market - noncurrent	371,900	377,207	940,840	935,418
Long-term investments in stocks under the equity method	-	-	131,658	131,658
Assets - derivative				
Financial assets at fair value through profit or loss - current				
Futures	57,673	57,673	-	-
Option	236	236	-	-
Forward	-	-	246,155	246,155

(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
IRS	$-	$-	$12,934	$12,934
Derivative financial assets for hedging - current				
IRS	-	-	7,729	7,729
Liabilities - derivative				
Financial liabilities at fair value through profit or loss - current				
Option	307	307	-	-
Forward	-	-	348,631	348,631
IRS	-	-	6,247	6,247
Derivative financial liabilities for hedging - current				
IRS	-	-	732	732

(b) Risk of interest rate

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

Non-derivative financial instruments of fixed interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$313,548	$9,621	$1,767,224	$54,226	$134,668	$4,132	$222,340	$6,822
Available-for-sale financial assets	1,669,024	51,213	1,258,468	38,615	476,726	14,628	3,525,334	108,172
Held-to-maturity financial assets	11,610,611	356,263	3,315,525	101,734	10,327,699	316,898	5,070,199	155,575
Investments in debt securities with no active market	50,323	1,544	1,031,669	31,656	663,402	20,356	480,100	14,732

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

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value						
through profit or loss	$4,348,930	$133,444	$14,696,709	$450,958	$21,483,419	$659,203
Available-for-sale financial assets	3,138,983	96,318	95,303,204	2,924,308	105,371,739	3,233,254
Held-to-maturity financial assets	15,958,842	489,685	408,267,689	12,527,392	454,550,565	13,947,547
Investments in debt securities with						
no active market	1,984,567	60,895	29,928,574	918,336	34,138,635	1,047,519

Non-derivative financial instruments of float interest rate

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value								
through profit or loss	$7,183,884	$220,432	$-	$-	$-	$-	$-	$-
Available-for-sale financial assets	70,559,958	2,165,080	-	-	-	-	-	-
Held-to-maturity financial assets	82,973,264	2,545,973	-	-	-	-	-	-
Investments in debt securities with								
no active market	13,645,379	418,698	-	-	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value						
through profit or loss	$-	$-	$-	$-	$7,183,884	$220,432
Available-for-sale financial assets	-	-	-	-	70,559,958	2,165,080
Held-to-maturity financial assets	-	-	-	-	82,973,264	2,545,973
Investments in debt securities with						
no active market	-	-	-	-	13,645,379	418,698

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

Derivative financial instruments

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$17,498	$537	$18,748	$575	$16,259	$499	$4,462	$137
Derivative financial assets for hedging	13,565	416	29,040	891	13,118	403	119,741	3,674
Financial liabilities at fair value through profit or loss	55,861	1,714	606	18	1,032	32	13,028	400
Derivative financial liabilities for hedging	4,030	123	710	22	19,127	587	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Financial assets at fair value through profit or loss	$15,857	$486	$349,718	$10,731	$422,542	$12,965
Derivative financial assets for hedging	61,507	1,887	14,930	458	251,901	7,729
Financial liabilities at fair value through profit or loss	-	-	142,194	4,363	212,721	6,527
Derivative financial liabilities for hedging	-	-	-	-	23,867	732

(c) Credit risk

The Company’s exposure to credit risk is minimal.

(d) Hedged of derivative financial instruments related information

The following table summarizes the terms of the Company’s interest rate swap for bonds hedging at December 31, 2006:

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

Cash flow hedges - IRS

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$187,500	$5,753	ARMS	Each quarter	2009/3/24
185,000	5,677	ARMS	Each quarter	2009/3/24
350,000	10,739	4.0005%-6ml	Half year	2008/9/26
500,000	15,342	The third year, 7.30%-90 BACP The fourth and fifth years, 7.6%-90 BACP	Each quarter	2007/10/10
500,000	15,342	7.05%-90BACP	Each quarter	2007/10/10
300,000	9,205	5.5%-6m Libor	Half year	2007/12/26
500,000	15,342	6.9%-90DCP	Each quarter	2007/7/9
200,000	6,137	4.003%-6ml	Half year	2008/6/13
500,000	15,342	4%-12m Libor	Yearly	2008/6/5
300,000	9,205	4.3%-12m Libor	Yearly	2010/6/20
200,000	6,137	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	9,205	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	6,137	7.603%-6ml	Half year	2007/7/31
300,000	9,205	2005/6/17~2005/7/31 : 7.25%-6ml 2005/7/31~2006/7/31 : 7.5%-6ml 2006/7/31~2007/7/31 : 7.75%-6ml	Half year	2007/7/31
300,000	9,205	If 6ml<6.9%,3.8% If 6ml>6.9%,0%	Half year	2007/7/31
200,000	6,137	0.5Y:3.8%,3.0%*n/N if 6ml 0.5-1.5Y:0.75%-2.0%, 1.5-2.5Y:1.0%-2.5%, 2.5-3.5Y:1.0%-3.0%, 3.5-4.5Y:1.0%-3.5%, 4.5-5.5Y;1.0%-4.0%, 5.5-6.5Y:1.0%-4.5%, 6.5-7.0Y:1.0%-5.0%	Half year	2011/3/19

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

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
300,000	9,205	5.1%-6m Libor	Half year	2007/12/19
200,000	6,137	If 6ml<0.95%, Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/9
300,000	9,205	If 6ml<0.95%,Libor If 0.95%<6ml<2.0%,3.5% If 2.0%<6ml;4.8%-6ml	Half year	2009/1/7
200,000	6,137	4.000%-6ml	Half year	2010/4/7
300,000	9,205	4.0002%-6ml	Half year	2010/4/7
400,000	12,274	4.0006%-6ml	Half year	2010/4/7
400,000	12,274	4.0007%-6ml	Half year	2010/4/7
250,000	7,671	90DCP	Each quarter	2008/8/10
900,000	27,616	90DCP	Each quarter	2010/8/18
600,000	18,411	90DCP	Each quarter	2010/8/19
100,000	3,068	4.0006%-6ml	Half year	2010/4/7
100,000	3,068	4.0007%-6ml	Half year	2010/4/7
450,000	13,808	90DCP	Each quarter	2008/8/22
330,000	10,126	90DCP	Each quarter	2008/8/24
300,000	9,205	5.35%-6ml	Half year	2008/1/8
200,000	6,137	4.0003%-6ml	Half year	2010/4/7
300,000	9,205	5.37%-6ml	Half year	2011/3/15
200,000	6,137	5.85%-6ml	Half year	2009/1/13
50,000	1,534	4.15%-6ml	Half year	2009/1/16
200,000	6,137	6.3%-6ml	Half year	2010/11/27
300,000	9,205	180DCP + 40bps	Half year	2008/3/24
300,000	9,205	180DCP	Half year	2008/6/12
500,000	15,342	90DCP+75bps	Each quarter	2008/7/19
500,000	15,342	90DCP+75bps	Each quarter	2008/7/19
500,000	15,342	90DCP+75bps	Each quarter	2008/7/19
1,150,000	35,287	90DCP+30bps	Each quarter	2008/9/17
782,304	24,004	1.25% + 3ml	Each quarter	2009/9/23
782,304	24,004	6ml	Half year	2013/9/20

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

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$427,686 (US$13,123) as of December 31, 2006.

B. Symphox Information

	December 31, 2005			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Cash and cash equivalents	$109,047	$109,047	$3,325	$3,325
Financial assets at fair value through profit and loss - current	200,524	200,524	6,114	6,114
Receivables	85,710	85,710	2,613	2,613
Guarantee deposits paid	9,435	9,435	288	288
Liabilities-non-derivative				
Payables	98,074	98,074	2,990	2,990
Guarantee deposits received	83	83	3	3

	December 31, 2006			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Cash and cash equivalents	$84,203	$84,203	$2,584	$2,584
Financial assets at fair value through profit and loss - current	223,501	223,501	6,858	6,858
Receivables	139,472	139,472	4,280	4,280
Guarantee deposits paid	10,184	10,184	312	312
Liabilities-non-derivative				
Payables	111,882	111,882	3,433	3,433
Guarantee deposits received	85	85	3	3

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

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

① Due to short maturities, the fair values of the short-term financial instruments approximate the book values and therefore the fair values are deemed equal to book values. This applies to cash and cash equivalents, financial assets at fair value through profit and loss-current, receivables and payables.

② Book values are deemed fair values for guarantee deposits paid and received.

C. Cathay Life (Shanghai)

	December 31, 2005			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Cash and cash equivalents	$792,958	$792,958	$24,176	$24,176
Premium receivable	-	-	-	-
Financial assets at fair value through profit and loss - current	424,166	424,166	12,932	12,932
Available-for-sale financial assets - current	-	-	-	-
Held-to-maturity financial assets - current	-	-	-	-
Available-for-sale financial assets - noncurrent	366,731	366,731	11,181	11,181
Held-to-maturity financial assets - noncurrent	819,954	819,954	24,999	24,999
Investment in debt securities with no active market - noncurrent	-	-	-	-
Guarantee deposits paid	664,974	664,974	20,274	20,274
Liabilities-non-derivative				
Guarantee deposits received	366	366	11	11

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

	December 31, 2006			
	NT$		US$	
Item	Carrying amount	Fair value	Carrying amount	Fair value
Assets-non-derivative				
Cash and cash equivalents	$1,199,699	$1,199,699	$36,812	$36,812
Premium receivable	1,087	1,087	33	33
Financial assets at fair value through profit and loss - current	385,259	385,259	11,821	11,821
Available-for-sale financial assets - current	61,272	61,272	1,880	1,880
Held-to-maturity financial assets - current	41,777	41,758	1,282	1,281
Available-for-sale financial assets - noncurrent	211,010	211,010	6,475	6,475
Held-to-maturity financial assets - noncurrent	248,818	253,633	7,635	7,783
Investment in debt securities with no active market - noncurrent	1,203,707	1,249,535	36,935	38,341
Guarantee deposits paid	683,862	683,862	20,984	20,984
Liabilities-non-derivative				
Guarantee deposits received	773	773	24	24

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

① Due to short maturities, the fair values of the short-term financial instruments approximate the book values and therefore the fair values are deemed equal to book values. This applies to cash, cash equivalents and other financial assets-current.

② Market values are deemed fair values for available for sale financial assets-noncurrent.

③ Book values are deemed fair values for guarantee deposits paid and received.

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

(4) Discretionary account management

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

	December 31, 2006			
	Carrying amount		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$6,649,828	$204,045	$6,649,828	$204,045
Repurchase bonds	3,971,896	121,875	3,974,041	121,941
Government Bonds	1,278,125	39,218	1,278,125	39,218
Cash in banks	188,533	5,785	188,537	5,785
Total	$12,088,382	$370,923	$12,090,531	$370,989

As of December 31, 2005 and 2006, the Company had discretionary account management contracts in the amount of NT$10,350,000 (US$315,549) and NT$9,950,000 (US$305,308), respectively.

(5) Material contract

None.

(6) Presentation of consolidated financial statements

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

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

(7) Other

None.

(8) Eliminated intercompany transactions

A. Eliminated intercomany transactions in 2005

Transactions	Companies and amounts									
	The Company		Symphox Information		Lin Yan Property Management		Cathay Venture		Cathay Life (Shanghai)	
Eliminations of long-term investments under equity method and stockholders' equity	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Eliminations of investment gains/losses on subsidiaries	$(30,992)	$(945)	$(920)	$(28)	$23,144	$706	$15,922	$485	$(69,138)	$(2,108)
Eliminations of stockholders' equity on subsidiaries	2,407,665	73,405	445,785	13,591	59,125	1,803	1,498,902	45,698	3,072,075	93,661

Note: The intercompany elimination differences for the year of 2005 are minority interests: NT$2,668,222 (US$81,348).

B. Eliminated intercomany transactions in 2006

Transactions	Companies and amounts							
	The Company		Symphox Information		Cathay Venture		Cathay Life (Shanghai)	
Eliminations of long-term investments under equity method and stockholders' equity	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Eliminations of investment gains/losses on subsidiaries	$(37,629)	$(1,155)	$(14,169)	$(435)	$27,093	$831	$(50,553)	$(1,551)
Eliminations of stockholders' equity on subsidiaries	2,397,888	73,577	437,396	13,421	1,764,266	54,135	3,042,962	93,371

Note: The intercompany elimination differences for the year of 2006 are minority interests: NT$2,846,736 (US$87,350).

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 December 31, 2006, the Company's remittances to this company totaled approximately US$48,330.

31. Segment Information

None.