Cathay Century Insurance Co., Ltd.
Financial Statements
As of December 31, 2006 and 2007
With Independent Auditors' Report

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

Name of the company: Cathay Century Insurance Co., Ltd.
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English Translation of Independent Auditors' Report Originally Issued in Chinese

Independent Auditors' Report

Board of Directors
Cathay Century Insurance Co., Ltd.

We have audited the accompanying balance sheets of Cathay Century Insurance Co., Ltd. (the "Company") as of December 31, 2006 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audited.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cathay Century Insurance Co., Ltd. as of December 31, 2006 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance and accounting principles generally accepted in the Republic of China.

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

ERNST & YOUNG
Taipei, Taiwan
Republic of China
January 18, 2008

Notice to Readers:

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets

As of December 31, 2006 and 2007

(Expressed in thousands of dollars)

Assets	Notes	December 31,2006 NT$	December 31,2006 US$	December 31,2007 NT$	December 31,2007 US$
Current assets					
Cash and cash equivalents	2,4	$1,971,644	60,498	$2,396,187	$73,888
Financial assets at fair value through profit or loss - current	2,5	511,683	15,701	727,090	22,420
Available-for-sale financial assets - current	2,6	2,548,140	78,188	3,154,483	97,271
Held-to-maturity financial assets - current	2,7	-	-	220,400	6,796
Derivative financial assets for hedging - current	2,8	-	-	374	12
Financial assets carried at cost - current	2,9	-	-	24,000	740
Investments in debt securities with no active market - current	2,10	76,981	2,362	125,889	3,882
Notes receivable		218,140	6,693	244,050	7,525
Premiums receivable	2,11	1,497,647	45,954	1,812,712	55,896
Claims recoverable from reinsurers		170,371	5,228	129,458	3,992
Due from reinsurers and ceding companies		76,565	2,349	53,653	1,654
Accounts receivable-reinsurance		23,900	733	41,628	1,284
Other accounts receivable		225,215	6,911	73,964	2,281
Prepayments		2,808	86	4,110	127
Deferred income tax assets - current	2,24	53,568	1,644	51,409	1,585
Subtotal		7,376,662	226,347	9,059,407	279,353
Loans					
Secured loans		2,095,268	64,292	2,241,869	69,129
Subtotal		2,095,268	64,292	2,241,869	69,129
Funds and investments					
Held-to-maturity financial assets - noncurrent	2,13	3,749,347	115,046	4,022,649	124,041
Financial assets carried at cost - noncurrent	2,14	60,000	1,841	36,000	1,110
Investments in debt securities with no active market - noncurrent	2,15	229,220	7,033	101,733	3,137
Long-term investments under equity method	2,16	449,041	13,779	432,192	13,327
Subtotal		4,487,608	137,699	4,592,574	141,615
Fixed assets	2,17				
Communication and transportation equipments		13,975	429	9,995	308
Other equipments		190,957	5,859	236,132	7,281
Subtotal		204,932	6,288	246,127	7,589
Less: Accumulated depreciation		(165,401)	(5,075)	(180,977)	(5,580)
Prepayments for equipments		6,047	186	11,994	370
Subtotal		45,578	1,399	77,144	2,379
Intangible assets					
Computer software cost	2,18	7,085	217	9,365	289
Deferred pension cost	2,31	-	-	6,382	197
Subtotal		7,085	217	15,747	486
Other assets					
Guarantee deposits paid		509,577	15,636	432,741	13,344
Funds held by ceding companies		8	-	-	-
Overdue receivables	2	137,214	4,210	176,218	5,434
Other assets-others		16,966	521	23,665	729
Subtotal		663,765	20,367	632,624	19,507
Total assets		$14,675,966	$450,321	$16,619,365	$512,469

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT$32.59 and NT$32.43 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Balance sheets - (Continued)

As of December 31, 2006 and 2007

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	December 31,2006 NT$	December 31,2006 US$	December 31,2007 NT$	December 31,2007 US$
Current liabilities					
Financial liabilities at fair value through profit or loss - current	2,19	$61,846	$1,898	$41,437	$1,278
Commissions payable		2,921	89	8,051	248
Claims outstanding		19,550	600	1,909	59
Due to reinsurers and ceding companies		260,583	7,996	377,353	11,636
Accounts payable-reinsurance		817,288	25,078	870,741	26,850
Other payables		585,401	17,962	664,798	20,499
Subtotal		1,747,589	53,623	1,964,289	60,570
Long-term liabilities	2,31				
Accrued pension liabilities		3,405	105	14,706	453
Subtotal		3,405	105	14,706	453
Operating and liability reserve					
Unearned premiums reserve	2,20	4,955,218	152,047	5,249,330	161,867
Special reserve		3,186,280	97,769	4,070,391	125,513
Claims reserve		1,151,903	35,345	1,393,428	42,967
Subtotal		9,293,401	285,161	10,713,149	330,347
Other liabilities					
Funds held for reinsurers		185	6	-	-
Other liabilities-others		59,800	1,835	57,321	1,768
Subtotal		59,985	1,841	57,321	1,768
Total liabilities		11,104,380	340,730	12,749,465	393,138
Stockholders' equity					
Capital stock					
Common stock	21	2,317,006	71,096	2,317,006	71,447
Capital surplus		1,929	59	1,929	60
Retained earnings	22				
Legal reserve		343,857	10,551	416,834	12,853
Unappropriated retained earnings		729,766	22,392	1,046,331	32,264
Equity adjustment					
Unrealized gains or losses on financial instruments		179,028	5,493	90,908	2,803
Net loss not recognized as net pension cost		-	-	(3,108)	(96)
Total stockholders' equity		3,571,586	109,591	3,869,900	119,331
Total liabilities and stockholders' equity		$14,675,966	$450,321	$16,619,365	$512,469

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT$32.59 and NT$32.43 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of income

For the year ended December ended 31, 2006 and 2007

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

Items	Notes	2006 NT$	2006 US$	2007 NT$	2007 US$
Operating revenues	2				
Premiums income		$9,896,535	$303,668	$11,153,742	$343,933
Reinsurance commission earned		223,651	6,863	288,261	8,889
Claims recovered from reinsurers		1,139,383	34,961	1,088,908	33,577
Recovered unearned premiums reserve		4,449,253	136,522	4,955,218	152,797
Recovered special claim reserve		168,339	5,165	82,494	2,544
Recovered claims reserve		60,170	1,846	268,728	8,286
Handling fee earned		60	2	110	3
Interest revenues		318,471	9,772	374,536	11,549
Gains from valuation on financial assets		27,846	854	-	-
Gains on investments recognized under the equity method	16	27,198	835	28,570	881
Exchanges gains		4,197	129	7,474	231
Gains on disposal of investments		65,411	2,007	243,264	7,501
Subtotal		16,380,514	502,624	18,491,305	570,191
Operating costs	2				
Reinsurance premiums ceded		(3,098,527)	(95,076)	(3,460,628)	(106,711)
Commissions expenses		(180,181)	(5,529)	(176,358)	(5,438)
Insurance claims payment		(4,145,145)	(127,191)	(4,460,072)	(137,529)
Provision for unearned premiums reserve		(4,955,218)	(152,047)	(5,249,330)	(161,866)
Provision for special claim reserve		(606,826)	(18,620)	(966,605)	(29,806)
Contribution to the stabilization funds		(18,411)	(565)	(21,310)	(657)
Provision for claims reserve		(268,728)	(8,246)	(326,957)	(10,082)
Handling fee paid		(241,499)	(7,410)	(260,808)	(8,042)
Losses from valuation on financial assets		-	-	(2,905)	(90)
Losses from valuation on financial liabilities		(61,846)	(1,898)	(41,437)	(1,278)
Exchanges losses		(27,569)	(846)	(23,222)	(716)
Other operating costs		(4,154)	(127)	(5,959)	(184)
Subtotal		(13,608,104)	(417,555)	(14,995,591)	(462,399)
Operating gross profit		2,772,410	85,069	3,495,714	107,792
Operating expenses	2				
Marketing expenses		(1,664,155)	(51,063)	(1,869,748)	(57,655)
Management and general affairs expenses		(263,601)	(8,088)	(332,014)	(10,238)
Operating income		844,654	25,918	1,293,952	39,899
Non-operating revenues					
Gains on disposal of fixed assets		566	17	1,116	34
Other non-operating revenues		3,086	95	16,233	501
Subtotal		3,652	112	17,349	535
Non-operating expenses					
Losses on disposal of fixed assets		(7)	-	(9)	-
Miscellaneous expenses		(58)	(2)	(67)	(2)
Subtotal		(65)	(2)	(76)	(2)
Income from continuing operations before income taxes		848,241	26,028	1,311,225	40,432
Income taxes	2,24	(178,616)	(5,481)	(264,894)	(8,168)
Income from continuing operations after income taxes		669,625	20,547	1,046,331	32,264
Cumulative effect of changes in accounting principles	3	60,141	1,845	-	-
Net income		$729,766	$22,392	$1,046,331	$32,264
Earning per share (In dollars)	25				
Income before income taxes		$3.92	$0.12	$5.66	$0.17
Net income		$3.15	$0.10	$4.52	$0.14

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT$32.59 and NT$32.43 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of changes in stockholders' equity

For the year ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

Summary	Capital stock				Retained earnings				Equity adjustment							
	Common stock		Capital surplus		Legal reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative conversion adjustments		Net loss not recognized as net pension cost		Total	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Balance on January 1, 2005	$2,317,006	$71,096	$2,021	$62	$284,803	$8,739	$590,545	$18,120	$-	$-	$(158)	$(5)	$-	$-	$3,194,217	$98,012
Unrealized gains or losses on financial instruments - first time adoption									(24,734)	(759)					(24,734)	(759)
Appropriations and distributions for 2005																
Legal reserve					59,054	1,812	(59,054)	(1,812)								
Cash dividends							(527,812)	(16,195)							(527,812)	(16,195)
Bonus paid to employees							(3,679)	(113)							(3,679)	(113)
Capital surplus- long-term equity investment			(92)	(3)											(92)	(3)
Changes in unrealized gains or losses on financial instruments									203,762	6,252					203,762	6,252
Cumulative conversion adjustments											158	5			158	5
Net Income for the year ended December 31, 2006							729,766	22,392							729,766	22,392
Balance on December 31, 2006	$2,317,006	$71,096	$1,929	$59	$343,857	$10,551	$729,766	$22,392	$179,028	$5,493	$-	$-	$-	$-	$3,571,586	$109,591
Balance on January 1, 2007	$2,317,006	$71,447	$1,929	$60	$343,857	$10,603	$729,766	$22,503	$179,028	$5,520	$-	$-	$-	$-	$3,571,586	$110,133
Appropriations and distributions for 2006																
Legal reserve					72,977	2,250	(72,977)	(2,250)								
Cash dividends							(650,605)	(20,062)							(650,605)	(20,062)
Bonus paid to employees							(6,184)	(191)							(6,184)	(191)
Changes in unrealized gains or losses on financial instruments									(88,120)	(2,717)					(88,120)	(2,717)
Net loss not yet recognized as net pension cost													(3,108)	(96)	(3,108)	(96)
Net Income for the year ended December 31, 2007							1,046,331	32,264							1,046,331	32,264
Balance on December 31, 2007	$2,317,006	$71,447	$1,929	$60	$416,834	$12,853	$1,046,331	$32,264	$90,908	$2,803	$-	$-	($3,108)	($96)	$3,869,900	$119,331

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT$32.59 and NT$32.43 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows

For the year ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

		2006		2007	
Items	Notes	NT$	US$	NT$	US$
Cash flows from operating activities					
Net income		729,766	22,392	1,046,331	32,264
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		7,267	223	5,864	181
Depreciation		23,800	730	18,797	580
Provision for reserve for operations		5,830,772	178,913	6,542,893	201,754
Recovered unearned premiums reserve		(4,449,253)	(136,522)	(4,955,218)	(152,797)
Recovered special claim reserve		(168,339)	(5,165)	(82,494)	(2,544)
Recovered claims reserve		(60,170)	(1,846)	(268,728)	(8,286)
Losses on disposal of fixed assets		7	-	8	-
Gains on disposal of fixed assets		(566)	(17)	(1,116)	(34)
Gains on valuation on financial assets		(27,846)	(854)	-	-
Losses from valuation on financial assets		-	-	2,905	89
Loss on valuation on financial liabilities		61,846	1,898	41,437	1,278
Unrealized gain on investments recognized under the equity method		(27,198)	(835)	(4,570)	(141)
Effects of exchange rate changes		23,372	717	15,749	486
Effects of changes in accounting principles		(60,141)	(1,845)	-	-
(Increase) decrease in financial assets at fair value through profit or loss - current		121,787	3,737	(218,311)	(6,732)
(Increase) decrease in notes receivable		(21,455)	(658)	(25,910)	(799)
(Increase) decrease in premiums receivable		(320,533)	(9,835)	(315,065)	(9,715)
(Increase) decrease in claims recoverable from reinsurers		45,404	1,393	40,914	1,262
Decrease in due from reinsurers and ceding companies		40,505	1,243	139,682	4,307
Decrease in reinsurance accounts receivable		201,699	6,189	35,724	1,101
Dncrease in other accounts receivable		(190,265)	(5,838)	151,251	4,664
(Increase) decrease in prepayments		31	1	(1,302)	(40)
(Increase) decrease in deferred income tax assets-current		(15,580)	(478)	2,158	67
Increase in overdue receivables		3,445	105	(39,004)	(1,203)
Increase in other assets-others		(2,843)	(87)	(6,699)	(207)
Increase (decrease) in financial liabilities at fair value through profit or loss - current		(2,256)	(69)	(61,846)	(1,907)
Increase (decrease) in commissions payable		(4,352)	(134)	5,130	158
Increase (decrease) in claims outstanding		18,922	580	(17,640)	(544)
Decrease in other payables		143,619	4,407	82,579	2,546
Increase in accrued pension liabilities		-	-	1,811	56
Increase in other liabilities-others		(15,956)	(490)	(2,479)	(76)
Increase in claims reserve		16,339	501	183,296	5,652
Net cash provided by (used in) operating activities		1,901,828	58,356	2,316,147	71,420

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT$32.59 and NT$32.43 to US$1.00)

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay Century Insurance Co., Ltd.

Statements of cash flows-(Continued)

For the year ended December 31, 2006 and 2007

(Expressed in thousands of dollars)

		2006		2007	
Items	Notes	NT$	US$	NT$	US$
Cash flows from investing activities					
(Increase) decrease in available-for-sale financial assets - current		(712,554)	(21,864)	(673,045)	(20,754)
Dncrease in investments in debt securities with no active market - current		254,122	7,798	76,981	2,374
Increase in secured loans		(774,056)	(23,751)	(146,600)	(4,520)
Increase in held-to-maturity financial assets - noncurrent		(595,393)	(18,269)	(493,702)	(15,223)
Derivative financial assets hedging-current		-	-	(374)	(12)
Decrease in investments in debt securities with no active market - noncurrent		1,597	49	1,598	49
Increase in Financial assets carried at cost - noncurrent		(24,000)	(737)	-	-
Disposal of fixed assets		608	19	1,987	61
Acquisition of fixed assets		(13,758)	(422)	(56,580)	(1,745)
Acquisition of intangible assets		(1,001)	(31)	(5,991)	(185)
Decrease in guarantee deposits paid		(125,718)	(3,858)	76,837	2,369
Decrease in funds held by ceding companies		-	-	8	-
Net cash provided by (used in) investing activities		(1,990,153)	(61,066)	(1,218,881)	(37,586)
Cash flows from financing activities					
Increase in funds held for reinsurers		-	-	(185)	(6)
Bonus to employees		(8,259)	(253)	(6,184)	(190)
Cash dividends		(527,812)	(16,196)	(650,605)	(20,062)
Net cash provided by (used in) financing activities		(536,071)	(16,449)	(656,974)	(20,258)
Effects of exchange rate changes		(23,372)	(717)	(15,749)	(486)
Increase (decrease) in cash and cash equivalents		(647,768)	(19,877)	424,543	13,091
Cash and cash equivalents at the beginning of periods		2,619,412	80,375	1,971,644	60,797
Cash and cash equivalents at the end of periods		1,971,644	60,498	2,396,187	73,888
Supplemental disclosure of cash flows information					
Income tax paid		141,771	4,350	165,139	5,092

(The exchange rates provided by the Federal Reserve Bank of New York on December 31, 2006 and 2007 were NT$32.59 and NT$32.43 to US$1.00)

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

1. Organization and business scope

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

As of December 31, 2006 and 2007, the total numbers of employees were 940 and 1,013, respectively.

2. Summary of significant accounting policies

We prepared the financial statement, in accordance with Business Entity Accounting Act and Regulation on Business Entity Accounting Handling with respect to financial accounting standards, Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance and accounting principles generally accepted in the Republic of China. A summary of significant accounting policies follows:

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

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

(2) Cash and cash equivalents

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

(3) Financial assets and financial liabilities

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

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

A. Financial assets at fair value through profit or loss

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

B. Held-to-maturity financial assets

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

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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.

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

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

(4) Allowance for bad debts

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

(5) Long – term investments under equity method

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

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

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

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

(6) Fixed assets

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

(7) Intangible assets

The Company adopted the ROC SFAS No. 37 "Accounting for Intangible Assets" on January 1, 2007. Intangible assets are initially recognized at cost except the intangible assets granted by government which are recognized at fair values. After the initial recognition, the intangible assets shall be carried at the costs plus statutory revaluation increment less accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets of the Company are deemed finite.

The amortization amounts of the intangible assets with finite useful lives are allocated on a systematic basis over their useful lives. Impairment testing are performed when there are indications of impairment on intangible assets. The Company revaluates the residual values, amortization periods and amortization methods of the intangible assets with finite useful lives at each balance sheet date and the changes are treated as changes in accounting estimates.

The "intangible assets" of the Company are computer softwares and are amortized over the estimated useful lives of 3 years using the straight-line method.

(8) Accounting for Asset Impairment

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

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

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

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

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

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

(9) Accounting for impairment of financial assets

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

A. Financial assets carried at amortized cost

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

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

B. Financial assets measured at cost

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

C. Available-for-sale financial assets

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

(10) Operating and liability reserves

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

(11) Derecognizing of financial assets and liabilities

A. Financial assets

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

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

B. Financial liabilities

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

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

(12) Premiums income

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

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

(13) Contribution to the stabilization funds

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

(14) Pension plan

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

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

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

(15) Foreign currency transactions

Foreign currency monetary assets or liabilities shall be translated using the applicable rate at each balance sheet date and exchange differences shall be recognized in profit or loss in current income. Non-monetary assets or liabilities that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary asset or liability is recognized directly in equity, any exchange component of that gain or loss shall be recognized in equity. When a gain or loss on a non-monetary is recognized, any exchange component of that gain or loss shall be recognized. Non-monetary assets or liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

(16) Income Taxes

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

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

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

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

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

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

(17) Capital expenditure expenses

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

(18) Derivative financial instruments

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

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

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

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

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

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

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

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 financia l 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 i s 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 amorti zed 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 rollo ver, 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 valu e of any such gains or losses recognized directly in equity is transferred to profit or loss.

(19) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of December 31, 2006 and 2007 are for information only. The U.S. dollar/NT dollars noon buying rates of NT$32.59 and NT$32.43 provided by Federal Reserve Bank of New York of December 31, 2006 and 2007 are used for the conversion.

3. Changes in accounting and their effects

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

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

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

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

4. Cash and cash equivalents

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Petty cash and cash on hand	$7,883	$242	$7,492	$231
Cash in banks	517,833	15,889	575,992	17,761
Time deposits	1,435,924	44,060	1,349,090	41,600
Cash equivalents	10,004	307	463,613	14,296
Total	$1,971,644	$60,498	$2,396,187	$73,888

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

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Common stock	$253,991	$7,794	$310,955	$9,588
Beneficiary certificates	122,028	3,744	247,505	7,632
Corporate bonds	98,034	3,008	132,724	4,093
Derivative financial instruments	9,784	300	9,903	305
Subtotal	483,837	14,846	701,087	21,618
Add: Valuation adjustment	27,846	855	26,003	802
Total	$511,683	$15,701	$727,090	$22,420

6. Available-for-sale financial assets-current

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Common stock	$795,741	$24,417	$1,152,241	$35,530
Beneficiary certificates	710,390	21,798	828,491	25,547
Corporate bonds	400,916	12,302	200,000	6,167
Financial debentures	501,319	15,382	901,052	27,785
Subtotal	2,408,366	73,899	3,081,784	95,029
Add: Valuation adjustment	139,774	4,289	72,699	2,242
Total	$2,548,140	$78,188	$3,154,483	$97,271

7. Held-to-maturity financial assets-current

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

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Overseas bonds	$-	$-	$220,400	$6,796

8. Derivative financial assets for hedging - current

	December 31,			
	2006		2007	
	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Valuation adjustment	-	-	374	12
Total	$-	$-	$374	$12

9. Financial assets carried at cost - current

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Tong Lung Metal Industry Co., Ltd. - preferred stock	$-	$-	$24,000	$740

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

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Financial debentures	$76,981	$2,362	$125,889	$3,882

11. Premiums receivable

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Premiums receivable	$1,512,775	$46,418	$1,831,022	$56,461
Less: Allowance for bad debts	(15,128)	(464)	(18,310)	(565)
Net	$1,497,647	$45,954	$1,812,712	$55,896

12. Loans

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

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Secured loans	$2,218,273	$68,066	$2,332,534	$71,925
Less: Allowance for bad debts	(123,005)	(3,774)	(90,665)	(2,796)
Net	$2,095,268	$64,292	$2,241,869	$69,129

Secured loans are secured by real estate.

13. Held-to-maturity financial assets - noncurrent

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Overseas bonds	$3,749,347	$115,046	$4,022,649	$124,041

14. Financial assets carried at cost – noncurrent

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
KGEX. Com Co., Ltd.	$36,000	$1,105	$36,000	$1,110
Tong Lung Metal Industry Co., Ltd. - preferred stock	24,000	736	-	-
Total	$60,000	$1,841	$36,000	$1,110

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

	December 31,			
	2006		2007	
	NT$	US$	NT$	US$
Financial debentures	$306,201	$9,395	$227,622	$7,019
Less: Financial debentures by payable within one year	(76,981)	(2,362)	(125,889)	(3,882)
Total	$229,220	$7,033	$101,733	$3,137

16. Long-term investments under equity method

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

	December 31,			
	2006		2007	
Investee	NT$	US$	NT$	US$
Cathay Venture Capital Corp.	$441,067	$13,534	$424,281	$13,083
Vista Technology Venture Capital Corp.	7,974	245	7,911	244
Total	$449,041	$13,779	$432,192	$13,327

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

	For the year ended December 31,			
	2006		2007	
	NT$	US$	NT$	US$
Balance on Jan. 1	$382,522	$11,737	$449,041	$13,846
Add (less):				
Investment income recognized under equity method	27,198	835	28,570	881
Cumulative conversion adjustments	158	5	-	-
Unrealized gain or loss on financial instrument	(92)	(3)	(21,419)	(660)
Cash dividends	39,255	1,205	(24,000)	(740)
Balance on December 31	$449,041	$13,779	$432,192	$13,327

B. The investment income (losses) recognized under equity method for the year ended December 31, 2006 and 2007 are listed below:

	For the year ended December 31,			
	2006		2007	
Investee	NT$	US$	NT$	US$
Cathay Venture Capital Corp.	$27,093	$832	$28,642	$883
Vista Technology Venture Capital Corp.	105	3	(72)	(2)
Total	$27,198	$835	$28,570	$881

C. Equity method was applied for the investees whose common stocks was joint ly held by the Company and its related parties in an amount over 20%. The investment gains of Vista

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

Technology Venture Capital Corp. for the year ended December 31, 2006 and 2007 were recognized under the equity method based on the respective audited financial statements.

D. The investment gains of Cathay Venture Capital Corp. for the year ended December 31, 2006 and 2007 were recognized under the equity method based on the respective audited financial statements of Cathay Venture Capital Corp.

17. Fixed assets

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

	December 31, 2007					
	Cost		Accumulated Depreciation		Net	
Item	NT$	US$	NT$	US$	NT$	US$
Communication and						
transportation equipments	$9,995	$308	$7,908	$244	$2,087	$64
Other equipments	236,132	7,281	173,069	5,336	63,063	1,945
Subtotal	246,127	7,589	180,977	5,580	65,150	2,009
Prepayments for equipments	11,994	370	-	-	11,994	370
Total	$258,121	$7,959	$180,977	$5,580	$77,144	$2,379

No equipment of the Company were pledged as of December 31, 2006 and 2007.

18. Intangible assets－Computer software cost

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

	January 1,2006		Increase		Decrease		December 31, 2006	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software cost	$42,240	$1,296	$1,001	$30	$-	$-	$43,241	$1,326
Amortization and impairment								
Amortization	(28,889)	(886)	(7,267)	(223)	-	-	(36,156)	(1,109)
Book value	$13,351	$410					$7,085	$217

	January 1,2007		Increase		Decrease		December 31, 2007	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Acquired cost:								
Computer software cost	$43,241	$1,333	$8,144	$252	$-	$-	$51,385	$1,585
Amortization and impairment								
Amortization	(36,156)	(1,115)	(5,864)	(181)	-	-	(42,020)	(1,296)
Book value	$7,085	$218					$9,365	$289

The intangible assets of the Company are computer softwares and are calculated using the straight-line method over the estimated useful lives within 3 years.

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

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Derivative financial instruments	$-	$-	$-	$-
Add: Valuation adjustment	61,846	1,898	41,437	1,278
Total	$61,846	$1,898	$41,437	$1,278

20. Operating and liability reserve

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

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

	January 1, 2007		Provision		Recovered		December 31, 2007	
	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Unearned premiums reserve	$4,955,218	$152,797	$5,249,330	$161,867	$4,955,218	$152,797	$5,249,330	$161,867
Special reserve	3,186,280	98,251	966,605	29,806	82,494	2,544	4,070,391	125,513
Claims reserve	1,151,903	35,520	1,393,428	42,967	1,151,903	35,520	1,393,428	42,967
Total	$9,293,401	$286,568	$7,609,363	$234,640	$6,189,615	$190,861	$10,713,149	$330,347

The claims reserves above represent outstanding claims of NT$ 1,066,471 and IBNR(Incurred But Not Reported) of NT$326,957 as of December 31, 2007. Balances of outstanding claims and IBNR as of December 31, 2006 were NT$883,175 and NT$268,728, respectively.

Reserves for operations included the following reserves :

(1) Unearned premium reserve

Effective from December 24, 2002, unearned premium reserves should be provided based on assumed risks of different insurance products. The calculation of the reserve requires the involvement of actuaries as well as disclosures on the insurance product calculation statement which can not be changed unless approved by authorities. The unearned premium reserve should be reversed and then accrued at the next year end. The Company reported to the authorities on the method of calculating unea rned premium reserve on July 31, 2003 and was approved by the Ministry of Finance with Article 0920708262. On December 8, 2006, the Company reported to eh authorities on the change of method of calculating unearned premium reserve and was approved by the Ministry of Finance with Article 09502152840.

The unearned premium on motor vehicles compulsory insurance is provided based on the assumed premium in accordance with the article of Ministry of Finance.

(2) Special reserve

Special claim reserve is provided based on the "Regulations on Calculation of Various Insurance Reserves" by Article 0910751651 of Ministry of Finance：

A. Catastrophe reserve：

a. Addition: Catastrophe reserve should be accrued based on respective reserve rates of various insurance product categories.

b. Reduction: The amount of assumed claims of catastrophe in excess of NT$30 million should be deducted from the catastrophe reserve. In addition, the deducted amount is required to be reported to authorities.

c. Recovery: The catastrophe reserve over 15 years should be recovered and recorded as income.

B. Contingency reserve: reserve provided for unusual fluctuations of claims or loss ratios.

a. Addition: Thirty percent of the amount that the actual claims paid for each insurance product categories in excess of the respective contingency reserve and expected loss should be provided as the contingency reserve.

b. Reduction: The amount of actual claims paid for each insurance product categories in excess of the respective catastrophe reserve and expected loss should be deducted from the catastrophe reserve. If the deduction amount is greater than the catastrophe reserve of the insurance product category, catastrophe reserve for other insurance product categories can be used for the deduction. In addition, the deducted amount is required to be reported to authorities.

c. Recovery: Once the accumulated contingency reserve of each insurance product category exceeds 60% of its retained earned premium for the year, the excess amount should be recorded as income. When the accumulated accidental insurance contingency reserve exceeds 30% of the retained earned premium for the year, the excess amount should be recorded as income. However, authorities can assign or limit the use of the amount based on the development need of the insurance industry.

C. The special reserve for the compulsory liability insurance of motor vehicle is in compliance with the "Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance" .

D. The special reserve of the nuclear hazard insurance is in compliance with the "Accrual of Nuclear Hazard Insurance Reserve".

E. The residential earthquake insurance product is in compliance of "Regulations for Method of Coinsurance and Contingency on Residential Earthquake ".

(3) Claims reserve:

Effective from December 24, 2002, the accruals of claim reserv es are in accordance with "Insurance Industry Provision of Reserve for Indemnity" issued by the Ministry of Finance. The accruals include retained IBNR and outstanding claims. Effective from January 1, 2006, the accruals on reserves have changed from the f ixed rates to a method subject to authorities' approval based on the past experience and expenses. The Company has reported to the authorities for the accrual method and its has been approved by Insurance Bureau of FSC(Article 09500204880). The method is a s follows:

A. Reserve for outstanding claims is estimated based on historical information and circumstances surrounding each claim for each type of insurance.

B. Reserve for IBNR is determined by the past experience and loss on each insurance product category.

C. The unearned premium reserve should be reversed and then accrued at the next year end.

D. The reserve for the compulsory liability insurance of motor vehicle is in compliance with the "Regulations for Deposit and Management of the Reserve of C ompulsory

Automobile Liability Insurance". The reserve on retained outstanding claims is based on related information. The reserve on IBNR is based on 1% of the retained net earned premium.

F. The special reserve of the nuclear hazard insurance is in compliance with the "Accrual of Nuclear Hazard Insurance Reserve".

G. The residential earthquake insurance product is in compliance of "Regulations for Method of Coinsurance and Contingency on Residential Earthquake".

21. Common stock

As of December 31, 2006 and 2007, the authorized and issued thousand shares were 231,701 with par value of NT$10 each.

22. Retained earnings

(1) Legal reserve

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

(2) Unappropriated retained earnings

A. According to the Company Act and the Company's articles of incorporations, 10% of the Company's annual earnings, after paying taxes and offsetting deficits, if any, shall be appropriated as legal reserve. In addition to distributing dividend to stockholder and 2% as a bonus for employees, the remainder must be appropriated in accordance with the resolutions approved at the stockholders' meeting.

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

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

(3) According to the regulations issued by Securities and Futures Commission, the Company should assume that dividends for year 2006 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, 2006	
	NT$	US$
A. Distribution		
Bonus paid to employees - Cash	$6,184	$191
Bonus paid to employees - Stock	-	-
Remuneration paid to directors and supervisors	-	-
B. Earnings per share after income taxes (in dollars)	$3.15	$0.10
Pro-forma earnings per share (in dollars)	$3.12	$0.10

(4) According to the revised Income Tax Act in 1998, the Company has to pay an extra 10% income tax in the forthcoming tax year for undistributed earnings.

(5) Pursuant to the explanatory letter of SFB on January 27, 2006, the Company is required to appropriate a special reserve in the amount equal to unrealized loss of financial instruments, cumulative translation adjustments, and net loss not yet recognized as net pension cost expect for the special reserve since 2007.

23. Personnel, depreciation, depletion and amortization expenses

Item	For the year ended December 31, 2006 (NT$)			For the year ended December 31, 2007 (NT$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$821,408	$821,408	$-	$926,922	$926,922
Labor & health insurance expenses	-	43,430	43,430	-	46,904	46,904
Pension expenses	-	42,084	42,084	-	41,225	41,225
Other expenses	-	29,175	29,175	-	32,087	32,087
Depreciation	-	23,800	23,800	-	18,797	18,797
Depletion	-	-	-	-	-	-
Amortization	-	7,267	7,267	-	5,864	5,864

	For the year ended December 31, 2006 (US$)	For the year ended December 31, 2007 (US$)

	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Payroll expenses	$-	$25,204	$25,204	$-	$28,582	$28,582
Labor & health insurance expenses	-	1,333	1,333	-	1,446	1,446
Pension expenses	-	1,291	1,291	-	1,271	1,271
Other expenses	-	895	895	-	989	989
Depreciation	-	730	730	-	580	580
Depletion	-	-	-	-	-	-
Amortization	-	223	223	-	181	181

24. Estimated income taxes

(1) Income tax expenses include the following:

	For the year ended December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Income tax calculates on accounting	$848,241	$26,028	$1,311,225	$40,432
Adjustments:				
Interest income of tax on a separate basis	(7,105)	(218)	(26,532)	(818)
Gains (losses) on valuation financial assets (liabilities)	34,000	1,043	(16,094)	(496)
Allowance for bad debts recovery	(17,233)	(529)	(6,684)	(206)
Gain derived from the securities transactions	(103,244)	(3,168)	(250,132)	(7,713)
Realized losses on reducing capital by investee	(31,429)	(964)	-	-
Gains on investment recognized under the equity method	(27,198)	(835)	(28,570)	(881)
Unrealized losses on foreign exchanges	19,477	598	19,849	612
Realized losses on foreign exchanges	(359)	(11)	(19,477)	(601)
Unrealized pension expenses	-	-	1,811	56
Others	750	23	1,461	45
Taxable Income	715,900	21,967	986,857	30,430
Multiply by : tax rate	25%	25%	25%	25%
Subtotal	178,975	5,492	246,714	7,608
Extra 10% income tax on unappropriated retained earnings	-	-	-	-

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

Tax effects under integrated income tax systems	17,958	551	15,631	482
Investment tax credit	(2,887)	(89)	-	-
Subtotal	194,046	5,954	262,345	8,090
Taxed separately	1,421	44	2,456	76
Adjustment of income tax	(274)	(8)	(2,066)	(64)
Deferred income tax expenses (benefits)	(15,580)	(478)	2,159	66
Allocation of cumulative effect of changes in accounting principles	(997)	(31)	-	-
Total income tax expenses	$178,616	$5,481	$264,894	$8,168

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

	December 31,			
	2006		2007	
	NT$	US$	NT$	US$
A. Total deferred income tax assets	$53,921	$1,655	$51,409	$1,585
Total deferred income tax liabilities	$353	$11	$-	$-
B. Temporary differences:				
Bad debts exceeding legal limitation	$130,955	$4,018	$124,271	$3,832
Unrealized losses on foreign exchanges	19,477	598	19,849	612
Unrealized gains on valuation financial assets	(1,411)	(43)	1,679	52
Unrealized gains on valuation financial liabilities	61,846	1,898	41,437	1,277
Others	3,405	104	5,216	161
Total	$214,272	$6,575	$192,452	$5,934

	December 31,			
	2006		2007	
	NT$	US$	NT$	US$
C. Investment tax credit	$-	$-	$3,296	$102

December 31,	
2006	2007

	NT$	US$	NT$	US$
D. Deferred income tax assets-current	$53,921	$1,655	$51,409	$1,585
Deferred income tax liabilities-current	(353)	(11)	-	-
Net balance deferred income tax assets -current	$53,568	$1,644	$51,409	$1,585

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

Law of Investment tax credit	The credits items	The amount of investment tax credit	The remaining balance	Expiry year
Statute for Upgrading Industries	Personnel training	$3,296(US$102)	$-	2011

(4) The Company's income tax returns have been examined by the tax authority through year 2003, however, the Company has requested the recheck on the tax return of year 2003. The results of the recheck of the tax authority were received and disputes on the bond premiums tax issue were filed by the Company. The Company appealed income tax return of year 1999, 2001 and 2002 is pending at the supreme court.

(5) Information related to imputation:

	December 31,			
	2006		2007	
	NT$	US$	NT$	US$
Balance of imputation credit account	$4,361	$134	$11,141	$344

	December 31, 2006 (Actual)	December 31, 2007 (Estimat)
Imputation creditable ratio	1.62%	1.06%

(6) Information relating of unappropriated earnings:

	December 31,			
	2006		2007	
Year	NT$	US$	NT$	US$
Prior to 1997	$-	$-	$-	$-
After 1998	729,766	22,392	1,046,331	32,264
Total	$729,766	$22,392	$1,046,331	$32,264

Net income after tax For the year ended December 31, 2006 and 2007 are not included in the unappropriated earnings after 1998 expressed above.

25. Earnings per share

	For the year ended December 31, 2006		For the year ended December 31, 2007	
	NT$	US$	NT$	US$
Continuing operations income after tax (A)	$669,625	$20,547	$1,046,331	$32,264
Cumulative effect of changes in accounting principles(B)	60,141	1,845	-	-
Net income (C)	$729,766	$22,392	$1,046,331	$32,264
Outstanding number of shares (in thousands shares)	231,701	231,701	231,701	231,701
Weighted average outstanding number of shares (in thousands shares) (D)	231,701	231,701	231,701	231,701
Earnings per shares (in dollars)				
Continuing operations income after tax (A)/(D)	$2.89	$0.09	$4.52	$0.14
Cumulative effect of changes in accounting principles(B)/(D)	0.26	0.01	-	-
Net income (C)/(D)	$3.15	$0.10	$4.52	$0.14

26. Related party transactions

(1) Related parties

Name	Relationship
Cathay Financial Holding Co., Ltd.	Parent Company
Cathay Life Insurance Co., Ltd.	Affiliate
Cathay United Bank	Affiliate
Cathay Securities Corp.	Affiliate
Cathay Pacific Venture Capital Co., Ltd.	Affiliate
Cathay Capital Management Inc.	Affiliate
Cathay II Venture Capital Corp.	Affiliate
Cathay Venture Capital Corp.	An equity method investee
Vista Technology Venture Capital Corp.	An equity method investee
San Ching Engineering Co., Ltd.	Affiliate
Seaward Leasing Ltd.	Affiliate
Cathay Real Estate Development Co., Ltd.	Affiliate
Lucky Bank	Affiliate (Have been merged with Cathay United Bank on January 1, 2007)
Cathay General Hospital	Affiliate

Name	Relationship
Cathay Securities Investment Trust Co., Ltd.	Affiliate
Symphox Information Co., Ltd.	Affiliate
Lin Yuan Property Management Co., Ltd.	Affiliate
Cathay Futures Corp.	Affiliate
Lin Yuan Investment Co., Ltd.	Affiliate
Wan Pao Development Co., Ltd.	Affiliate
Cathay Securities Investment Co., Ltd.	Affiliate
Culture and Charity Foundation of the CUB	Affiliate
Cathay Bank Property Agency of Association	Affiliate
Cathay Lin Yuan Security Co., Ltd.	Affiliate
Cathay Pacific Partners Co., Ltd.	Affiliate
Cathay Insurance (Bermuda) Co., Ltd.	Affiliate
Cathay Life Insurance Co., Ltd.(Shanghai)	Affiliate
Cathay Life Insurance (Vietnam) Co., Ltd.	Affiliate
Cathay Bank Life Insurance Agency of Association	Affiliate
Seaward Card Co., Ltd.	Affiliate
Indovina Bank Limited	Affiliate
China England Company Ltd.	Affiliate
Pao Shin Securities Co., Ltd.	Affiliate
Cathay Charity Foundation	Affiliate
Cathay Cultural Foundation	Affiliate
IBT Venture Capital Corp.	Affiliate
Cathay Century Realty Co., Ltd.	Affiliate
Cathay Biology Technology Co., Ltd.	Affiliate
Cathay Real Estate Holding Corporation	Affiliate
Cathay Real Estate Management Co., Ltd	Affiliate
Wu Ming-Yang	Vice general manager of the Company
Fan Shi-Kai	Manager of the Company
Que Ming-Huang	Manager of the Company
Chang Zhao-Yang	Manager of the Company
Peng Yi-Miao	Manager of the Company
Yang Zhi-Quan	Manager of the Company
Jian Jie	Internal audit manager of the Company

(2) Transactions with related parties

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

A. Premiums income

	For the year ended December 31,			
	2006		2007	
	Direct written premiums		Direct written premiums	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$105,526	$3,238	$130,679	$4,030
Cathay United Bank	125,396	3,848	152,728	4,709
Cathay Securities Corp.	308	9	442	13
Lucky Bank	3,226	99	-	-
Cathay General Hospital	6,227	191	2,425	75
Seaward Leasing Ltd.	9,680	297	10,958	338
Cathay Real Estate Development Co., Ltd.	1,027	31	1,806	56
Lin Yuan Property Management Co., Ltd.	2,019	62	1,628	50
Symphox Information Co., Ltd.	616	19	-	-
Wam Pao Development Co., Ltd.	938	29	-	-
Total	$254,963	$7,823	$300,666	$9,271

B. Premiums receivable

	For the year ended December 31,			
	2006		2007	
	Premiums receivable		Premiums receivable	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$2,237	$69	$42,825	$1,321
Cathay United Bank	5,459	168	50,606	1,560
Cathay Real Estate Development Co., Ltd.	-	-	679	21
Cathay General Hospital	823	25	-	-
Lucky Bank	322	10	-	-
Lin Yan Property Management Co., Ltd.	1,760	54	1,443	44
Seaward Leasing Ltd.	170	5	417	13
Total	$10,771	$331	$95,970	$2,959

C. Insurance claims payment

For the year ended December 31,

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

As of December 31, 2006 and 2007

	2006		2007	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$6,882	$211	$11,989	$370
Cathay United Bank	27,110	832	1,287	39
Seaward Leasing Ltd.	387	12	-	-
Total	$34,379	$1,055	$13,276	$409

D. Cash in banks

		For the year ended December 31, 2006		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$404,793	0.10%	$180
	Time deposits	$400,655	1.93%~2.21%	$7,112
Lucky Bank	Cash in banks	$2,826	0.10%	$2
	Time deposits	$10,000	1.97%	$105

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

		For the year ended December 31, 2007		
Name	Type	Ending balance	Interest rate	Interest income
		NT$		NT$
Cathay United Bank	Cash in banks	$420,729	0.10%	$221
	Time deposits	$488,650	2.16%~2.49%	$10,052

		For the year ended December 31, 2007		
Name	Type	Ending balance	Interest rate	Interest income
		US$		US$
Cathay United Bank	Cash in banks	$12,973	0.10%	$7
	Time deposits	$15,068	2.16%~2.49%	$310

E. Loans

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

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

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

Name	For the year ended December 31, 2007 Maximum amount	Ending balance	Interest rate	Interest income
	NT$	NT$		NT$
Que Ming-Huang	$5,800	$5,249	2.73%	$139
Chang Zhao-Yang	$3,475	$3,365	2.73%	$87
Fan Shi-Kai	$10,600	$10,280	2.73%	$171
Peng Yi-Miao	$5,000	$4,904	2.73%	$66
Jian Jie	$1,461	$1,361	2.73%	$36

Name	For the year ended December 31, 2007 Maximum amount	Ending balance	Interest rate	Interest income
	US$	US$		US$
Que Ming-Huang	$179	$162	2.37%	$4
Chang Zhao-Yang	$107	$104	2.37%	$3
Fan Shi-Kai	$327	$317	2.37%	$5
Peng Yi-Miao	$154	$151	2.37%	$2
Jian Jie	$45	$42	2.37%	$1

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

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

	December 31,			
	2006		2007	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$66,016	$2,026	$155,324	$4,789
Cathay Futures Corp.	5,249	161	7,092	219
Total	$71,265	$2,187	$162,416	$5,008

G. Available-for-sale financial assets-current

	December 31,			
	2006		2007	
Name	NT$	US$	NT$	US$
Cathay Securities Investment Trust Co., Ltd.	$50,000	$1,534	$84,757	$2,614

H. Prepaid rents

	December 31,			
	2006		2007	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$2,413	$74	$-	$-

I. Guarantee deposits paid

	December 31,			
	2006		2007	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$17,798	$546	$18,994	$586

J. Other payable

	December 31,			
	2006		2007	
Name	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	$115,027	$3,530	$77,960	$2,404
Cathay Financial Holding Co., Ltd.	154,364	4,736	251,961	7,770
Symphox Information Co., Ltd.	-	-	594	18
Total	$269,391	$8,266	$330,515	$10,192

K. Operating costs

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

	For the year ended December 31,			
	2006		2007	
Name	NT$	US$	NT$	US$
Cathay Bank Property Agency of Association	$17,616	$540	$840	$26
Cathay Life Insurance Co., Ltd.	4,915	151	3,906	120
Total	$22,531	$691	$4,746	$146

L. Operating expenses

		For the year ended December 31,			
		2006		2007	
Name	Summary	NT$	US$	NT$	US$
Cathay Life Insurance Co., Ltd.	Rental expenses	$58,074	$1,782	$72,040	$2,221
	Marketing expenses	638,141	19,581	748,367	23,076
	Party premium expenses	6,050	186	8,199	253
	Training expenses	1,561	48	1,927	60
	Administrative expenses	-	-	4,701	145
Seaward Leasing Ltd.	Rental expenses	1,669	51	2,921	90
Cathay United Bank	Marketing expenses	-	-	44,475	1,371
Total		$705,495	$21,648	$882,630	$27,216

M. Other expenses

	For the year ended December 31,			
	2006		2007	
Name	NT$	US$	NT$	US$
Symphox Information Co., Ltd.	$10,650	$327	$4,927	$152
Cathay Lin Yuan Security Co., Ltd.	1,193	37	803	25
Lin Yuan Property Management Co., Ltd.	-	-	2,332	72
Seaward Card Co., Ltd.	1,051	32	1,535	47
Total	$12,894	$396	$9,597	$296

N. Other

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

As of December 31, 2007 the nominal amount of the derivative financial instruments transactions with Cathay United Bank are listed below:

Item	For the year ended December 31, 2007
Forward foreign exchange contracts	US$21,660
CS contracts	US$34,550
IRS	NT$200,000 (US$6,167)

27. Pledged assets

	December 31,			
	2006		2007	
Item	NT$	US$	NT$	US$
Government bonds	$450,866	$13,834	$350,272	$10,801

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

28. Commitment and contingent liabilities

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

B. As of December 31, 2007, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	Amount (NT$)	Amount (US$)
January 01, 2007 ~ December 31, 2008	$81,520	$2,514
January 01, 2008 ~ December 31, 2009	84,370	2,602
January 01, 2009 ~ December 31, 2010	86,855	2,678
January 01, 2010 ~ December 31, 2011	89,414	2,757
January 01, 2011 ~ December 31, 2012	92,049	2,838
Total	$434,208	$13,389

29. Significant disaster losses: None.

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

30. Subsequent events: None.

31. Other Significant matters

(1) Pension related information

A. Pension funded status:

	For the years ended December 31,			
	2006		2007	
	NT$	US$	NT$	US$
(1) Vested benefit obligation	$(52,604)	$(1,614)	$(68,764)	$(2,120)
(2) Non-vested benefit obligation	(148,299)	(4,551)	(173,844)	(5,361)
(3) Accumulated benefit obligation	(200,903)	(6,165)	(242,608)	(7,481)
(4) Additional benefits based on future salaries	(65,615)	(2,013)	(78,864)	(2,432)
(5) Projected benefit obligation	(266,518)	(8,178)	(321,472)	(9,913)
(6) Fair value of plan assets	204,043	6,261	227,903	7,028
(7) Vested benefit	174,634	5,359	218,057	6,724
(8) Funded status=(5)+(6)	(62,475)	(1,917)	(93,569)	(2,885)
(9) Unrecognized transitional net benefit obligation (net assets)	6,963	213	6,382	197
(10) Unrecognized prior service cost	-	-	-	-
(11) Unrecognized pension gain and loss	52,107	1,599	81,970	2,528
(12) Adjustment to minimum liability accrued pension liability	-	-	(9,489)	(293)
(13) Accrued pension liability / prepaid pension cost=(8)+(9)+(10)+(11)+(12)	$(3,405)	$(105)	$(14,706)	$(453)

B. Net periodic pension cost:

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

	For the years ended December 31,			
	2006		2007	
	NT$	US$	NT$	US$
(1) Service cost	$19,408	$595	$17,937	$553
(2) Interest cost	9,142	281	9,507	293
(3) Projected return on plan assets	(6,935)	(213)	(7,631)	(235)
(4) Amortization of unrealized transit on obligation (asset)	580	18	580	18
(5) Amortization prior service cost	-	-	-	-
(6) Amortization pension gain or loss	1,635	50	1,340	41
(7) Net periodic pension cost	$23,830	$731	$21,733	$670

C. Actuarial assumptions

	For the years ended December 31,	
	2006	2007
(1) Discount rate	3.70%	3.25%
(2) Rate of increase in compensation	1.08%~8.69%	1.08%~8.69%
(3) Expected return on pension plan assets	3.70%	3.25%

(2) Risk management policies and hedge strategies

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

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

The primary risks involved in these derivative transactions are market risk, credit risk, operational risk and liquidity risk.

Market Risk

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

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

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

Credit risk

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

Operational Risk

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

Liquidity risk

The company's exposure to liquidity risk is minimal.

(3) Financial instruments related information:

	December 31, 2006

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

	NT$		US$	
Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$1,971,644	$1,971,644	$60,498	$60,498
Financial assets at fair value through profit or loss – current	502,961	502,961	15,433	15,433
Available-for-sale financial assets - current	2,548,140	2,548,140	78,188	78,188
Investments in debt securities with no active market-current	76,981	76,981	2,362	2,362
Receivables	1,715,787	1,715,787	52,647	52,647
Claims recoverable from reinsurers	170,371	170,371	5,228	5,228
Due from reinsurers and ceding Companies	76,565	76,565	2,349	2,349
Secured loans	2,095,268	2,095,268	64,292	64,292
Held-to-maturity financial assets - noncurrent	3,749,347	3,749,347	115,046	115,046
Financial assets carried at cost - noncurrent	60,000	60,000	1,841	1,841
Investments in debt securities with no active market – noncurrent	229,220	229,220	7,033	7,033
Long-term investments under equity method	449,041	449,041	13,779	13,779
Guarantee deposits paid	509,577	509,577	15,636	15,636
Derivative financial instruments:				
Financial assets at fair value through profit or loss – current				
Futures Contract	8,437	8,437	259	259
Options Contract	285	285	9	9
Liabilities				
Non-derivative financial instrument:				
Claims outstanding	$19,550	$19,550	600	600
Due to reinsurers and ceding companies	260,583	260,583	7,996	7,996
Operating and debt reserve	9,293,401	9,293,401	285,161	285,161
Derivative financial instruments:				
Financial liabilities at fair value through profit or loss – current				
Foreign exchange SWAP	61,846	61,846	1,898	1,898

	December 31, 2007	
	NT$	US$

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

As of December 31, 2006 and 2007

Assets	Carrying amount	Fair value	Carrying amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	$2,396,187	$2,396,187	$73,888	$73,888
Financial assets at fair value through profit or loss - current	717,239	717,239	22,117	22,117
Available-for-sale financial assets - current	3,154,483	3,154,483	97,271	97,271
Held-to-maturity financial assets-current	220,400	220,400	6,796	6,796
Financial assets carried at cost-current	24,000	24,000	740	740
Investments in debt securities with no active market-current	125,889	125,889	3,882	3,882
Receivables	2,056,762	2,056,762	63,421	63,421
Claims recoverable from reinsurers	129,458	129,458	3,992	3,992
Due from reinsurers and ceding companies	53,653	53,653	1,654	1,654
Secured loans	2,241,869	2,241,869	69,129	69,129
Held-to-maturity financial assets-noncurrent	4,022,649	4,022,649	124,041	124,041
Financial assets carried at cost-noncurrent	36,000	36,000	1,110	1,110
Investments in debt securities with no active market – noncurrent	101,733	101,733	3,137	3,137
Long-term investments under equity method	432,192	432,192	13,327	13,327
Guarantee deposits paid	432,741	432,741	13,344	13,344
Derivative financial instruments:				
Financial assets at fair value through profit or loss - current	9,810	9,810	302	302
Futures Contract	41	41	1	1
Options Contract	374	374	12	12
IRS				
Liabilities				
Non-derivative financial instrument:				
Claims outstanding	1,909	1,909	59	59
Due to reinsurers and ceding companies	377,353	377,353	11,636	11,636
Operating and debt reserve	10,713,149	10,713,149	330,347	330,347
Derivative financial instruments:				
Financial liabilities at fair value through Profit or loss-current				
Foreign exchange SWAP	41,437	41,437	1,278	1,278

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

① The fair value of the Company's short-term financial instruments is based on the carrying amount of those instruments at reporting date due to the short maturity of those instruments. The method is applied to cash, cash equivalents, receivables and payables, claims recoverable from reinsurers, due from reinsurers and ceding companies, secured loans, claims outstanding, due to reinsurers and ceding companies, operating and liability reserve.

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

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

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

(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 and 2007:

	December 31,			
	NT$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2006	2007	2006	2007
Assets-non-derivative				
Financial assets at fair value through profit or loss-current	$502,961	$717,239	$-	$-
Available-for-sale financial assets-current	2,548,140	3,154,483	-	-
Held-to- maturity financial asset-current	-	-	-	220,400
Financial asset carried at cost-current	-	-	-	24,000
Investment in debt securities with no active market-current	-	-	76,981	125,889
Held-to-maturity financial assets-noncurrent	-	-	3,749,347	4,022,649
Financial assets carried at cost-noncurrent	-	-	60,000	36,000
Investment in debt securities with no active market-noncurrent	-	-	229,220	101,733
Long-term investments under equity method	-	-	449,041	432,192

Financial Instruments				
Assets- derivative				
Financial assets at fair value through profit and loss-current				
Futures	8,437	9,810	-	-
Option	285	41	-	-
IRS	-	374	-	-
Liability-derivative				
Financial liability at fair value through profit and loss-current				
Forward contracts	61,846	41,437	-	-

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

	December 31,			
	US$			
	Based on the quoted market price		Based on valuation techniques	
Financial Instruments	2006	2007	2006	2007
Assets-non-derivative				
Financial assets at fair value through profit or loss-current	$15,433	$22,117	$-	$-
Available-for-sale financial assets-current	78,188	97,271	-	-
Held-to- maturity financial asset-current	-	-	-	6,796
Financial asset carried at cost-current	-	-	-	740
Investment in debt securities with no active market-current	-	-	2,362	3,882
Held-to-maturity financial assets-noncurrent	-	-	115,046	124,041
Financial assets carried at cost-noncurrent	-	-	1,841	1,110
Investment in debt securities with no active market-noncurrent	-	-	7,033	3,137
Long-term investments under the equity method	-	-	13,779	13,327
Assets-derivative				
Financial assets at fair value through profit or loss-current				
Futures	259	302	-	-
Option	9	1	-	-
IRS	-	12	-	-
Liability- derivative				
Financial liability at fair value through profit or loss-current				
Forward contracts	1,898	1,278	-	-

(4) Risk of interest rate

The following table summarizes the maturities of the Company's financial instruments at December 31, 2006 and 2007:

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

Fix interest rate:

① December 31, 2006

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

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

② December 31, 2007

	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
Item	NT$	US$	NT$	US$	NT$	US$	NT$	US$
Held-to-maturity financial assets	$220,400	$6,796	$846,449	$26,101	$-	$-	$-	$-
Investments in debt securities								
with no active market	125,889	3,882	101,733	3,137	-	-	-	-

	Due in 4~5 years		Over 5 years		Total	
Item	NT$	US$	NT$	US$	NT$	US$
Held-to-maturity financial assets	$618,948	$19,086	$2,557,252	$78,854	$4,243,049	$130,837
Investments in debt securities						
with no active market	-	-	-	-	227,622	7,019

(5) Credit risk

The Company’s exposure to credit risk in minimal.

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

(6) Fair value hedges

	Designated as hedging instruments				
		Fair value			
		December 31, 2006		December 31, 2007	
Hedged item	Financial instruments of designated as hedging instruments	NT$	US$	NT$	US$
Overseas bonds	Foreign exchange SWAP	$(61,846)	$(1,898)	$(41,437)	$(1,278)

(7) 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, 2007:

Cash flow hedges-IRS

① December 31, 2007

Par value				
NT$	US$	Exchange rate	Frequency	Maturity date
$200,000	$6,167	90 DCP + 0.90%	Each quarter	2014/9/30

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 bedges have passed the effectiveness testing. Unrealized loss on financial instruments were recognized in equity by NT$374(US$12) as of December 31 2007.

(8) Discretionary account management

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

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

	December 31, 2007			
	Book value		Fair value	
Item	NT$	US$	NT$	US$
Listed stocks	$264,389	$8,152	$264,389	$8,152
Short-term notes	70,534	2,175	70,534	2,175
Cash in banks	163,270	5,035	163,270	5,035
Net other assets less liabilities	14,962	461	14,962	461
Total	$513,155	$15,823	$513,155	$15,823

As of December 31, 2006 and 2007, the Company had discretionary account management contracts in the amount of NT$350,000(US$10,739) and NT$400,000(US$12,334), respectively.

(9) Material Contract: None.

(10) Presentation of Financial Statements:

Certain accounts in financial statements For the year ended December 31, 2006 have been reclassified in order to be comparable with those in the financial statements For the year ended December 31, 2007.

32. Information for investment in Mainland China

On June 30, 2006, the Investment Commission of the Ministry of Economic Affairs (MOEAIC) authorized the Company to remit US$28,690 as the registered capital to establish a China-based general insurance subsidiary. The Company has received approved from the China Insurance Regulatory Commission on October 8, 2007 to form a join venture general insurance company. The capital fund has not been wired out as of December 31 , 2007.

33. Segment information: None.