

Cathay Century Insurance Co., Ltd.
Financial statements
Together with
Independent auditors' report
As of June 30, 2005 and 2006

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

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English Translation of Independent 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 June 30, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the six months periods 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 June 30, 2005 and 2006, and the results of its operations and its cash flows for the six months periods then ended in conformity with "Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance", "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and generally accepted accounting principles in the Republic of China.

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

ERNST & YOUNG
Taipei, Taiwan
Republic of China
July 13, 2006

Notice to Readers:

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

Cathay Century Insurance Co., Ltd.

Balance sheets

As of June 30, 2005 and 2006

(Expressed in thousands of dollars)

Assets	Notes	June 30, 2005		June 30, 2006	
		NT\$	US\$	NT\$	US\$
Current assets					
Cash and cash equivalents	2,4	\$2,482,081	\$78,448	\$1,958,541	\$60,580
Financial assets at fair value through profit and loss - current	2,5	404,361	12,780	371,556	11,493
Available-for-sale financial assets - current	2,6	1,251,482	39,554	2,224,091	68,793
Investments in debt securities with no active market - current	2,7	-	-	251,373	7,775
Notes receivable	2	174,454	5,513	174,963	5,412
Premiums receivable	2,8	1,000,967	31,636	1,411,777	43,668
Claims recoverable from reinsurers		207,902	6,571	183,111	5,664
Due from reinsurers and ceding companies		58,898	1,862	80,463	2,489
Accounts receivable-reinsurance		43,106	1,362	14,169	438
Other accounts receivable	2	74,592	2,358	65,131	2,014
Prepayments		2,885	91	3,095	96
Deferred income tax assets - current	2	37,830	1,196	50,441	1,560
Subtotal		5,738,558	181,371	6,788,711	209,982
Loans					
Secured loans	2,9				
		1,306,392	41,289	1,747,000	54,036
Subtotal		1,306,392	41,289	1,747,000	54,036
Funds and investments					
Held-to-maturity financial assets - noncurrent	10	2,904,883	91,810	3,544,387	109,632
Financial assets carried at cost - noncurrent	11	75,000	2,370	36,000	1,113
Investments in debt securities with no active market - noncurrent	12	864,997	27,339	307,523	9,512
Long-term investments under equity method	13	386,086	12,203	448,748	13,880
Subtotal		4,230,966	133,722	4,336,658	134,137
Fixed assets					
Communication and transportation equipments	14	18,760	593	15,743	487
Other equipments		173,567	5,486	186,682	5,774
Subtotal		192,327	6,079	202,425	6,261
Less: Accumulated depreciation		(137,155)	(4,335)	(156,253)	(4,833)
Prepayments for equipments		2,520	79	2,838	88
Subtotal		57,692	1,823	49,010	1,516
Intangible assets					
Computer software cost	2	12,872	407	9,899	306
Deferred pension cost		6,302	199	3,464	107
Subtotal		19,174	606	13,363	413
Other assets					
Guarantee deposits paid		376,720	11,906	406,457	12,572
Funds held by ceding companies		8	-	8	-
Overdue receivables	2	164,764	5,208	114,463	3,541
Other assets-others		9,525	301	19,035	589
Subtotal		551,017	17,415	539,963	16,702
Total assets		\$11,903,799	\$376,226	\$13,474,705	\$416,786

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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 June 30, 2005 and 2006

(Expressed in thousands of dollars)

Liabilities & stockholders' equity	Notes	June 30, 2005		June 30, 2006	
		NT\$	US\$	NT\$	US\$
Current liabilities					
Financial liabilities at fair value through profit and loss - current	2	\$-	\$-	\$32,213	\$996
Commissions payable		7,340	232	3,517	109
Claims outstanding		795	25	770	24
Due to reinsurers and ceding companies		254,524	8,044	174,785	5,406
Accounts payable-reinsurance		544,351	17,205	698,262	21,598
Other payables		339,726	10,737	478,250	14,793
Subtotal		1,146,736	36,243	1,387,797	42,926
Long-term liabilities					
Accrued pension liabilities	2	9,450	299	8,855	274
Subtotal		9,450	299	8,855	274
Operating and liability reserve					
Unearned premiums reserve	2,15	4,303,790	136,024	4,695,964	145,251
Special reserve		2,738,802	86,561	2,974,142	91,993
Claims reserve		733,111	23,170	1,146,906	35,475
Subtotal		7,775,703	245,755	8,817,012	272,719
Other liabilities					
Funds held for reinsurers		185	6	184	5
Other liabilities-others		74,890	2,367	42,894	1,327
Subtotal		75,075	2,373	43,078	1,332
Total liabilities		9,006,964	284,670	10,256,742	317,251
Stockholders' equity					
Capital stock					
Common stock	16	2,317,006	73,230	2,317,006	71,667
Capital surplus		2,021	64	2,021	63
Retained earnings					
Legal reserve	17	284,803	9,002	343,857	10,636
Unappropriated retained earnings		293,470	9,275	494,013	15,280
Equity adjustment					
Unrealized gains and losses on financial instruments		-	-	61,066	1,889
Cumulative conversion adjustments		(465)	(15)	-	-
Total stockholders' equity		2,896,835	91,556	3,217,963	99,535
Total liabilities and stockholders' equity		\$11,903,799	\$376,226	\$13,474,705	\$416,786

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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 six months ended June 30, 2005 and 2006

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

Items	Notes	January 1-June 30,2005		January 1-June 30,2006	
		NTS	US\$	NTS	US\$
Operating revenues	2				
Premiums income		\$4,375,486	\$138,290	\$4,821,528	\$149,135
Reinsurance commission earned		232,990	7,364	125,583	3,884
Claims recovered from reinsurers		1,944,649	61,462	579,969	17,939
Recovered unearned premiums reserve		4,031,204	127,408	4,449,253	137,620
Recovered special claim reserve		150,438	4,755	128,639	3,979
Recovered claims reserve		25,987	821	29,005	897
Handling fee earned		27	1	36	1
Interest revenues		126,110	3,986	152,219	4,708
Gains on investments recognized under the equity method		16,852	532	30,356	939
Exchanges gains		653	21	1,993	62
Gains on disposal of investments		15,945	504	65,083	2,013
Subtotal		10,920,341	345,144	10,383,664	321,177
Operating costs	2				
Reinsurance premiums ceded		(1,440,764)	(45,536)	(1,428,692)	(44,191)
Commissions expenses		(83,582)	(2,641)	(89,814)	(2,778)
Insurance claims payment		(3,380,564)	(106,845)	(2,034,607)	(62,932)
Provision for unearned premiums reserve		(4,303,790)	(136,024)	(4,695,964)	(145,251)
Provision for special claim reserve		(318,785)	(10,075)	(354,988)	(10,980)
Contribution to the stabilization funds		(8,262)	(261)	(9,186)	(284)
Provision for claims reserve		(29,005)	(917)	(110,023)	(3,403)
Handling fee paid		(104,462)	(3,302)	(114,094)	(3,529)
Losses from valuation on financial assets		-	-	(15,638)	(484)
Losses from valuation on financial liabilities		-	-	(15,700)	(486)
Exchanges losses		(26,839)	(849)	(45,127)	(1,396)
Other operating costs		(633)	(20)	(2,021)	(62)
Subtotal		(9,696,686)	(306,470)	(8,915,854)	(275,776)
Operating gross profit		1,223,655	38,674	1,467,810	45,401
Operating expenses	2				
Marketing expenses		(714,770)	(22,591)	(796,650)	(24,641)
Management and general affairs expenses		(131,919)	(4,169)	(123,345)	(3,815)
Operating income		376,966	11,914	547,815	16,945
Non-operating revenues					
Gains on disposal of fixed assets		451	14	-	-
Other non-operating revenues		3,189	101	940	29
Subtotal		3,640	115	940	29
Non-operating expenses					
Losses on disposal of fixed assets		(5)	-	-	-
Miscellaneous expenses		(11)	-	(55)	(2)
Subtotal		(16)	-	(55)	(2)
Income from continuing operations before income taxes		380,590	12,029	548,700	16,972
Income taxes	2,19	(87,120)	(2,754)	(114,828)	(3,552)
Income from continuing operations after income taxes		293,470	9,275	433,872	13,420
Cumulative effect of changes in accounting principles	3	-	-	60,141	1,860
Net income		\$293,470	\$9,275	\$494,013	\$15,280
Earning per share (In dollars)	20				
Income before income taxes		\$1.64	\$0.05	\$2.37	\$0.07
Net income		\$1.27	\$0.04	\$2.13	\$0.07

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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 six months ended June 30, 2005 and 2006
(Expressed in thousands of dollars)

Summary	Capital stock		Capital surplus		Retained earnings				Equity adjustment				Total	
	Common stock				Legal reserve		Unappropriated retained earnings		Unrealized gains or losses on financial instruments		Cumulative conversion adjustments			
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Balance on January 1, 2005	\$2,317,006	\$73,230	\$1,909	\$60	\$220,741	\$6,977	\$640,617	\$20,247	\$-	\$-	\$(148)	\$(5)	\$3,180,125	\$100,509
Appropriations and distributions for 2004														
Legal reserve					64,062	2,025	(64,062)	(2,025)					-	-
Cash dividends							(571,975)	(18,077)					(571,975)	(18,077)
Bonus paid to employees							(4,580)	(145)					(4,580)	(145)
Capital surplus- long-term equity investment			112	4									112	4
Cumulative conversion adjustments											(317)	(10)	(317)	(10)
Net Income for the six months ended June 30, 2005							293,470	9,275					293,470	9,275
Balance on June 30, 2005	\$2,317,006	\$73,230	\$2,021	\$64	\$284,803	\$9,002	\$293,470	\$9,275	\$-	\$-	\$(465)	\$(15)	\$2,896,835	\$91,556
Balance on January 1, 2006	\$2,317,006	\$71,667	\$2,021	\$63	\$284,803	\$8,809	\$590,545	\$18,266	\$-	\$-	\$(158)	\$(5)	\$3,194,217	\$98,800
Appropriations and distributions for 2005														
Legal reserve					59,054	1,827	(59,054)	(1,827)					-	-
Cash dividends							(527,812)	(16,325)					(527,812)	(16,325)
Bonus paid to employees							(3,679)	(114)					(3,679)	(114)
Changes in unrealized gains or losses on financial instruments									61,066	1,889			61,066	1,889
Cumulative conversion adjustments											158	5	158	5
Net Income for the six months ended June 30, 2006							494,013	15,280					494,013	15,280
Balance on June 30, 2006	\$2,317,006	\$71,667	\$2,021	\$63	\$343,857	\$10,636	\$494,013	\$15,280	\$61,066	\$1,889	\$-	\$-	\$3,217,963	\$99,535

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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 six months ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

Items	Notes	January 1-June 30,2005		January 1-June 30,2006	
		NT\$	US\$	NT\$	US\$
Cash flows from operating activities					
Net income		\$293,470	\$9,275	\$494,013	\$15,280
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Amortization		3,627	115	3,912	121
Depreciation		11,742	371	11,557	358
Provision for reserve for operations		4,651,580	147,016	5,160,975	159,634
Recovered unearned premiums reserve		(4,031,204)	(127,409)	(4,449,253)	(137,620)
Recovered special claim reserve		(150,438)	(4,755)	(128,639)	(3,979)
Recovered claims reserve		(25,987)	(821)	(29,005)	(897)
Losses on disposal of fixed assets		5	-	-	-
Gains on disposal of fixed assets		(451)	(14)	-	-
Unrealized gain on investments recognized under the equity method		(16,852)	(533)	(30,356)	(939)
Effects of exchange rate changes		26,186	828	43,134	1,334
Effects of changes in accounting principles		-	-	(60,141)	(1,860)
Decrease in financial assets at fair value through profit or loss - current		532,813	16,840	232,809	7,201
(Increase) decrease in notes receivable		(33,570)	(1,061)	21,942	679
Increase in premiums receivable		(62,911)	(1,988)	(237,033)	(7,332)
Decrease in claims recoverable from reinsurers		45,067	1,424	32,664	1,010
Increase in due from reinsurers and ceding companies		(24,046)	(761)	(49,190)	(1,521)
(Increase) decrease in reinsurance accounts receivable		(39,432)	(1,246)	92,403	2,858
Increase in other accounts receivable		(46,966)	(1,484)	(30,181)	(933)
Increase in prepayments		(69)	(2)	(256)	(8)
Decrease (increase) in deferred income tax assets-current		1,943	61	(12,453)	(385)
(Increase) decrease in overdue receivables		(70,558)	(2,230)	26,167	809
Increase in other assets-others		(2,487)	(79)	(4,912)	(152)
Increase in financial liabilities at fair value through profit and loss - current		-	-	32,213	996
Increase (decrease) in commissions payable		5,504	174	(3,756)	(116)
Increase in claims outstanding		163	5	142	4
(Decrease) increase in other payables		(67,466)	(2,132)	31,778	983
Increase in accrued pension liabilities		241	8	1,986	61
Increase (decrease) in other liabilities-others		42,854	1,354	(32,862)	(1,016)
Increase in claims reserve		95,920	3,032	138,882	4,296
Net cash provided by (used in) operating activities		1,138,678	35,988	1,256,540	38,866

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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 six months ended June 30, 2005 and 2006

(Expressed in thousands of dollars)

Items	Notes	January 1-June 30,2005		January 1-June 30,2006	
		NT\$	US\$	NT\$	US\$
Cash flows from investing activities					
Increase in available-for-sale financial assets - current		(169,542)	(5,359)	(502,926)	(15,556)
Decrease in investments in debt securities with no active market - current		-	-	914	28
Increase in secured loans		(518,042)	(16,372)	(423,607)	(13,103)
Increase in held-to-maturity financial assets - noncurrent		(627,341)	(19,827)	(390,433)	(12,076)
(Increase) Decrease in investments in debt securities with no active market - noncurrent		(403,504)	(12,753)	2,110	65
Acquisition of long-term investment in stocks		(151,000)	(4,772)	-	-
Disposal of fixed assets		1,883	60	-	-
Acquisition of fixed assets		(5,869)	(186)	(4,884)	(151)
Acquisition of intangible assets		(1,479)	(48)	(460)	(14)
Increase in guarantee deposits paid		(313)	(10)	(22,599)	(699)
Net cash provided by (used in) investing activities		<u>(1,875,207)</u>	<u>(59,267)</u>	<u>(1,341,885)</u>	<u>(41,506)</u>
Cash flows from financing activities					
Bonus to employees		(7,888)	(249)	(4,580)	(142)
Cash dividends		(571,975)	(18,078)	(527,812)	(16,325)
Net cash provided by (used in) financing activities		<u>(579,863)</u>	<u>(18,327)</u>	<u>(532,392)</u>	<u>(16,467)</u>
Effects of exchange rate changes		(26,186)	(827)	(43,134)	(1,334)
Decrease in cash and cash equivalents		(1,342,578)	(42,433)	(660,871)	(20,441)
Cash and cash equivalents at the beginning of periods		<u>3,824,659</u>	<u>120,881</u>	<u>2,619,412</u>	<u>81,021</u>
Cash and cash equivalents at the end of periods		<u>\$2,482,081</u>	<u>\$78,448</u>	<u>\$1,958,541</u>	<u>\$60,580</u>
Supplemental disclosure of cash flows information					
Income tax paid		<u>\$80,608</u>	<u>\$2,548</u>	<u>\$106,723</u>	<u>\$3,301</u>

(The exchange rates provided by the Federal Reserve Bank of New York on June 30, 2005 and 2006 were NT\$31.64 and NT\$32.33 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.
Notes to financial statements
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2005 and 2006

1. Organization and business scope

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

As of June 30, 2005 and 2006, the total numbers of employees were 858 and 902., respectively.

2. Summary of significant accounting policies

We prepared the financial statement, in accordance with generally accepted accounting principles, “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and “Guidelines Governing the Preparation of Financial Reports by Property and Casualty Insurance”. 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.

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of March 31, 2005 and 2006

(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 and loss”, “investments in debt securities with no active market”, “held-to-maturity financial assets” or “available-for-sale financial assets”, and accordingly, recognized at fair value initially. Financial liabilities are categorized as the “financial liabilities at fair value through profit and 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 and loss

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

B. Held-to-maturity financial assets

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay Century Insurance Co., Ltd.
Notes to financial statements (continued)
(Expressed in thousands of dollars except for share and per share data and unless otherwise stated)
As of June 30, 2005 and 2006

C. Investments in debt securities with no active market

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

D. Available-for-sale financial assets

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

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

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

(4) Allowance for bad and doubtful debts

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

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(5) Long – term investments under equity method

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

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

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

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

(6) Fixed assets

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

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(7) Intangible assets

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

(8) Accounting for Asset Impairment

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

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

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

- (a) first, to reduce the carrying amount of any goodwill allocated to the CGU or group of CGUs; and
- (b) if the goodwill has been written off, reduce the carrying amounts of other assets of the CGU proportionately.

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

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(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.

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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.

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

(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.

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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.

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

(15) Foreign currency transactions

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

(16) Income Taxes

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

In accordance with Article 49 of Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns with 10% surcharge on its inappropriate 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

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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.

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

- A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;
- B. Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction; or
- C. Hedge of a net investment in a foreign operation.

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

(19) Conversion to U.S. dollars

The financial statements are stated in NT dollars. The converted U.S. dollars amounts from NT dollars as of June 30, 2005 and 2006 are for information only. The U.S. dollar/NT dollars noon buying rates of NT\$31.64 and NT\$32.33 provided by Federal Reserve Bank of New York of June 30, 2005 and 2006 are used for the conversion.

(20) Significant accounting policies used in 2005

A. Short-term investments

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

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

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

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

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

B. Long – term investments

(a) Long-term investments in stocks

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

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

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(b) Long-term investments in bonds

Long-term investments in bonds are recorded at cost at the time of purchase. Premiums or discounts are amortized over the period.

C. Derivative financial products transaction

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

3. Changes in accounting and their effects

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

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

The above changes in accounting principles increased the Company's assets, by NT\$33,715 (US\$1,043) and decreased the Company's liabilities and stockholders' equity 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 (NT\$1,860) and NT\$0.26 (US\$0.01), respectively, for the six months ended June 30, 2006.

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In accordance with the ROC SFAS No.5, “Long-Term Investments in Equity Securities” revised on December 9, 2004, the Company is required to recognize the investment gain or loss on the investee company under the equity method based on the financial statements provided by the investee company.

The adoption of ROC SFAS No.5 resulted in a decrease of long-term investment in stocks by NT\$29 (US\$1) and a decrease in net income for the six months ended, 2005 by NT\$29 (US\$1). The Company deemed the effect insignificant to its financial statement.

4. Cash and cash equivalents

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$16,364	\$517	\$12,557	\$388
Cash in banks	314,147	9,929	322,121	9,964
Time deposits	2,061,570	65,157	1,457,346	45,077
Cash equivalents	90,000	2,845	166,517	5,151
Total	<u>\$2,482,081</u>	<u>\$78,448</u>	<u>\$1,958,541</u>	<u>\$60,580</u>
Interest rate of time deposits	<u>1.30%~1.645%</u>	<u>1.30%~1.645%</u>	<u>1.55%~2.02%</u>	<u>1.55%~2.02%</u>
Interest rate of cash equivalents	<u>1.06%~1.175%</u>	<u>1.06%~1.175%</u>	<u>1.52%~1.57%</u>	<u>1.52%~1.57%</u>

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

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Common stock	\$336,551	\$10,637	\$215,862	\$6,677
Beneficiary certificates	57,410	1,815	162,424	5,024
Derivative financial instruments	18,453	583	8,908	276
Subtotal	412,414	13,035	387,194	11,977
Add (less): Valuation adjustment	<u>(8,053)</u>	<u>(255)</u>	<u>(15,638)</u>	<u>(484)</u>
Total	<u>\$404,361</u>	<u>\$12,780</u>	<u>\$371,556</u>	<u>\$11,493</u>

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6. Available-for-sale financial assets-current

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Common stock	\$978,166	\$30,916	\$783,121	\$24,223
Beneficiary certificates	-	-	472,657	14,620
Corporate bonds	273,316	8,638	441,505	13,656
Financial debentures	-	-	501,454	15,510
Subtotal	1,251,482	39,554	2,198,737	68,009
Add (less): Valuation adjustment	-	-	25,354	784
Total	<u>\$1,251,482</u>	<u>\$39,554</u>	<u>\$2,224,091</u>	<u>\$68,793</u>

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

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Financial debentures	\$-	\$-	\$251,373	\$7,775
Interest rate	-	-	2.99%~4.00%	2.99%~4.00%

8. Premiums receivable

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Premiums receivable	\$1,011,078	\$31,956	\$1,426,037	\$44,109
Less: Allowance for bad debts	(10,111)	(320)	(14,260)	(441)
Net	<u>\$1,000,967</u>	<u>\$31,636</u>	<u>\$1,411,777</u>	<u>\$43,668</u>

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9. Loans

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Secured loans	\$1,436,358	\$45,397	\$1,871,029	\$57,873
Less: Allowance for bad debts	(129,966)	(4,108)	(124,029)	(3,837)
Net	<u>\$1,306,392</u>	<u>\$41,289</u>	<u>\$1,747,000</u>	<u>\$54,036</u>
Interest rate	<u>1.91%~4.50%</u>	<u>1.91%~4.50%</u>	<u>1.93%~4.50%</u>	<u>1.93%~4.50%</u>

Secured loans are secured by real estate.

10. Held-to-maturity financial assets - noncurrent

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	<u>\$2,904,883</u>	<u>\$91,810</u>	<u>\$3,544,387</u>	<u>\$109,632</u>
Interest rate	<u>4.00%~6.30%</u>	<u>4.00%~6.30%</u>	<u>4.00%~6.30%</u>	<u>4.00%~6.30%</u>

11. Financial assets carried at cost - noncurrent

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
KGEX. Com Co., Ltd.	<u>\$75,000</u>	<u>\$2,370</u>	<u>\$36,000</u>	<u>\$1,113</u>

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

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Financial debentures	<u>\$864,997</u>	<u>\$27,339</u>	<u>\$307,523</u>	<u>\$9,512</u>
Interest rate	<u>4.00%</u>	<u>4.00%</u>	<u>4.00%</u>	<u>4.00%</u>

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13. Long-term investments under equity method

Investee	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$377,136	\$11,920	\$440,847	\$13,636
Vista Technology Venture Capital Corp.	8,950	283	7,901	244
Total	<u>\$386,086</u>	<u>\$12,203</u>	<u>\$448,748</u>	<u>\$13,880</u>

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

	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Balance on Jan. 1	\$218,439	\$6,904	\$382,522	\$11,832
Add (less): Additional investment	151,000	4,773	-	-
Investment income by equity method recognized	16,852	532	30,356	939
Cumulative conversion adjustments by equity method recognized	(317)	(10)	158	5
Capital surplus by equity method recognized	112	4	-	-
Net gains or losses not recognized as retirement fund costs on long-term equity investment	-	-	35,712	1,104
Balance on June 30	<u>\$386,086</u>	<u>\$12,203</u>	<u>\$448,748</u>	<u>\$13,880</u>

b. The investment gains (losses) recognized by the equity method for six months ended June 30, 2005 and 2006 are listed below:

Investee	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Venture Capital Corp.	\$18,796	\$594	\$30,409	\$941
Vista Technology Venture Capital Corp.	(1,944)	(62)	(53)	(2)
Total	<u>\$16,852</u>	<u>\$532</u>	<u>\$30,356</u>	<u>\$939</u>

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- c. The accounting treatment for the investment in Vista Technology Venture Capital Corp.(VTVCC) is changed from the cost method to the equity method. The investment gains of VTVCC for the six months ended June 30, 2005 and 2006 were recognized under the equity method based on the respective audited financial statements of VTVCC.
- d. The investment gains of Cathay Venture Capital Corp. for the six months ended June 30, 2005 and 2006 were recognized under the equity method based on the respective audited financial statements of Cathay Venture Capital Corp.

14. Fixed assets

Item	June 30, 2005					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$18,760	\$593	\$10,607	\$335	\$8,153	\$258
Other equipments	173,567	5,486	126,548	4,000	47,019	1,486
Subtotal	192,327	6,079	137,155	4,335	55,172	1,744
Prepayments for equipments	2,520	79	-	-	2,520	79
Total	<u>\$194,847</u>	<u>\$6,158</u>	<u>\$137,155</u>	<u>\$4,335</u>	<u>\$57,692</u>	<u>\$1,823</u>

Item	June 30, 2006					
	Cost		Accumulated Depreciation		Net	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Communication and transportation equipments	\$15,743	\$487	\$10,271	\$318	\$5,472	\$169
Other equipments	186,682	5,774	145,982	4,515	40,700	1,259
Subtotal	202,425	6,261	156,253	4,833	46,172	1,428
Prepayments for equipments	2,838	88	-	-	2,838	88
Total	<u>\$205,263</u>	<u>\$6,349</u>	<u>\$156,253</u>	<u>\$4,833</u>	<u>\$49,010</u>	<u>\$1,516</u>

There was no collateralized or pledged property and equipment of the Company as of June 30, 2005 and 2006.

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15. Operating and liability reserve

	January 1, 2005		Provision		Recovered		June 30, 2005	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,031,204	\$127,408	\$4,303,790	\$136,024	\$4,031,204	\$127,408	\$4,303,790	\$136,024
Special reserve	2,570,454	81,241	318,785	10,075	150,437	4,755	2,738,802	86,561
Claims reserve	634,173	20,043	707,157	22,350	608,219	19,223	733,111	23,170
Total	<u>\$7,235,831</u>	<u>\$228,692</u>	<u>\$5,329,732</u>	<u>\$168,449</u>	<u>\$4,789,860</u>	<u>\$151,386</u>	<u>\$7,775,703</u>	<u>\$245,755</u>

	January 1, 2006		Provision		Recovered		June 30, 2006	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unearned premiums								
reserve	\$4,449,253	\$137,620	\$4,695,964	\$145,251	\$4,449,253	\$137,620	\$4,695,964	\$145,251
Special reserve	2,747,793	84,992	354,988	10,980	128,639	3,979	2,974,142	91,993
Claims reserve	927,006	28,673	1,115,741	34,511	895,841	27,709	1,146,906	35,475
Total	<u>\$8,124,052</u>	<u>\$251,285</u>	<u>\$6,166,693</u>	<u>\$190,742</u>	<u>\$5,473,733</u>	<u>\$169,308</u>	<u>\$8,817,012</u>	<u>\$272,719</u>

16. Capital stock and capital increment

As of June 30, 2005 and 2006, the Company has issued 231,701 thousand shares with a par value of NT\$10.

17. Retained Earnings

(1) Legal reserve

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

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(2) Unappropriated retained earnings

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

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

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

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

18. Personnel, depreciation, depletion and amortization expenses

Item	For the six months ended June 30, 2005			For the six months ended June 30, 2006		
	(NT\$)			(NT\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$385,026	\$385,026	\$-	\$419,038	\$419,038
Labor & health insurance expenses	-	17,677	17,677	-	20,814	20,814
Pension expenses	-	18,887	18,887	-	21,101	21,101
Other expenses	-	9,502	9,502	-	9,646	9,646
Depreciation	-	11,742	11,742	-	11,557	11,557
Depletion	-	-	-	-	-	-
Amortization	-	3,627	3,627	-	3,912	3,912

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Item	For the six months ended June 30, 2005			For the six months ended June 30, 2006		
	(US\$)			(US\$)		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Personnel Expenses						
Salary and wages	\$-	\$12,169	\$12,169	\$-	\$12,961	\$12,961
Labor & health insurance expenses	-	559	559	-	644	644
Pension expenses	-	597	597	-	653	653
Other expenses	-	300	300	-	298	298
Depreciation	-	371	371	-	358	358
Depletion	-	-	-	-	-	-
Amortization	-	115	115	-	121	121

19. Estimated income taxes

(1) Income tax expenses include the following:

Item	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Income before taxes	\$380,590	\$12,029	\$548,700	\$16,972
Adjustments:				
Interest income of tax on a separate basis	(1,741)	(55)	(4,012)	(124)
Gains (losses) on appraising financial assets (liabilities)	16,410	519	31,337	969
Bad debts recovery	(6,851)	(217)	(6,125)	(190)
Gains on trading securities	(26,528)	(838)	(62,996)	(1,949)
Investment gains recognized by the equity method	(16,852)	(533)	(30,356)	(939)
Unrealized losses on foreign exchanges	-	-	41,991	1,299
Realized loss on foreign exchanges	(920)	(29)	-	-
Realized pension expenses recovery	-	-	(3,405)	(105)
Others	(5,750)	(182)	(819)	(25)
Taxable Income	338,358	10,694	514,315	15,908
Time; taxes rate less: progressive difference	25%-10	-	25%-10	-
Subtotal	84,580	2,673	128,569	3,977

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Extra 10% income tax on				
unappropriated retained earnings	-	-	-	-
Tax effects under integrated income tax				
systems	10	-	10	-
Income tax credit	<u>(382)</u>	<u>(12)</u>	<u>(829)</u>	<u>(26)</u>
Subtotal	84,208	2,661	127,750	3,951
Tax on a separate basis	331	11	802	25
Adjustment of prior year's income tax	638	20	(274)	(8)
Deferred income tax expenses (benefits)	1,943	62	(12,453)	(385)
Share the cumulative effect of changes in				
accounting principles	<u>-</u>	<u>-</u>	<u>(997)</u>	<u>(31)</u>
Total income tax expenses	<u>\$87,120</u>	<u>\$2,754</u>	<u>\$114,828</u>	<u>\$3,552</u>

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

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
A. Total deferred income tax assets	<u>\$37,830</u>	<u>\$1,196</u>	<u>\$50,441</u>	<u>\$1,560</u>
Total deferred income tax liabilities	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
B. Temporary differences:				
Bad debts exceeding legal limitation	\$150,078	\$4,743	\$142,062	\$4,394
Unrealized losses on foreign				
exchanges	-	-	42,350	1,310
Unrealized gains on valuation				
financial assets	-	-	1,652	51
Unrealized gains on valuation				
financial liabilities	-	-	15,700	486
Others	1,243	40	-	-
Total	<u>\$151,321</u>	<u>\$4,783</u>	<u>\$201,764</u>	<u>\$6,241</u>
C. Deferred income tax assets-current	<u>\$37,830</u>	<u>\$1,196</u>	<u>\$50,441</u>	<u>\$1,560</u>
D. Deferred income tax assets-non				
current	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

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

<u>Law of income tax credits</u>	<u>The credits items</u>	<u>The amount of income tax credits</u>	<u>The remaining balance</u>	<u>Expiry year</u>
Statute for Upgrading Industries	Education training	\$829(US\$26)	\$-	2010

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

- (5) Information related to imputation:

	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Balance of imputation credit account	\$61	\$2	\$68	\$2
	<u>June 30, 2005 (Actual)</u>		<u>June 30, 2006 (Actual)</u>	
Imputation credit account ratio	1.83%		1.73%	

- (6) Information relating of unappropriated earnings:

Year	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Prior to 1997	\$-	\$-	\$-	\$-
After 1998	-	-	-	-
Total	\$-	\$-	\$-	\$-

Net income after tax for the six months ended June 30, 2005 and 2006 are not included in the unappropriated earnings after 1998 expressed above.

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20. Earnings per share

	For the six months ended		For the six months ended	
	June 30, 2005		June 30, 2006	
	NT\$	US\$	NT\$	US\$
Net income (loss) from continuing operations (A)	\$293,470	\$9,275	\$433,872	\$13,420
Cumulative effect of changes in accounting principles(B)	-	-	60,141	1,860
Net income (loss) (C)	\$293,470	\$9,275	\$494,013	\$15,280
Outstanding number of shares at end of period	231,701	231,701	231,701	231,701
Weighted average outstanding number of shares(D)	231,701	231,701	231,701	231,701
Earnings per share of net income (loss) from continuing operations (A)/(D) (dollars)	\$1.27	\$0.04	\$1.87	\$0.06
Earnings per share of cumulative effect of changes in accounting principles(B)/(D) (dollars)	-	-	0.26	0.01
Earnings per share of net income (loss) (C)/(D) (dollars)	\$1.27	\$0.04	\$2.13	\$0.07

21. Related party transactions

(1) Related parties

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

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

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(2) Transactions with related parties

A. Premiums income

Name	For the six months ended June 30,			
	2005		2006	
	Direct written premiums		Direct written premiums	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$116,580	\$3,684	\$108,721	\$3,363
Cathay United Bank	86,622	2,738	38,700	1,197
Lucky Bank	-	-	4,688	145
Cathay General Hospital	2,891	92	1,713	53
Seaward Leasing Ltd.	1,907	60	2,832	87
Cathay Real Estate Development Co., Ltd.	662	21	656	20
San Ching Engineering Co., Ltd.	1,525	48	-	-
Lin Yuan Property Management Co., Ltd.	517	16	-	-
Symphox Information Co., Ltd.	-	-	571	18
Total	\$210,704	\$6,659	\$157,881	\$4,883

B. Premiums receivable

Name	For the six months ended June 30,			
	2005		2006	
	Premiums receivable		Premiums receivable	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$14,859	\$470	\$13,718	\$424
Cathay United Bank	1,594	50	6,016	186
Cathay Real Estate Development Co., Ltd.	-	-	327	10
Lucky Bank	-	-	4,538	141
Total	\$16,453	\$520	\$24,599	\$761

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C. Insurance claims payment

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,479	\$78	\$389	\$12
Cathay United Bank	162,208	5,127	23,547	728
Total	\$164,687	\$5,205	\$23,936	\$740

D. Cash in banks

Name	Type	June 30, 2005		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$260,700	0.10%	\$77
	Time deposits	\$320,250	1.67%	\$2,277
Lucky Bank	Cash in banks	\$-	-	\$-
	Time deposits	\$-	-	\$-

Name	Type	June 30, 2005		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$8,240	0.10%	\$2
	Time deposits	\$10,122	1.67%	\$72
Lucky Bank	Cash in banks	\$-	-	\$-
	Time deposits	\$-	-	\$-

Name	Type	June 30, 2006		
		Ending balance	Interest rate	Interest income
		NT\$		NT\$
Cathay United Bank	Cash in banks	\$287,670	0.10%	\$96
	Time deposits	\$290,155	1.72%-2.02%	\$3,271
Lucky Bank	Cash in banks	\$4,051	0.10%	\$2
	Time deposits	\$10,000	1.97%	\$13

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Name	Type	June 30, 2006		
		Ending balance	Interest rate	Interest income
		US\$		US\$
Cathay United Bank	Cash in banks	\$8,898	0.10%	\$3
	Time deposits	\$8,975	1.70%-2.02%	\$101
Lucky Bank	Cash in banks	\$125	0.10%	\$-
	Time deposits	\$309	1.97%	\$-

E. Loans

For the six months ended June 30, 2005				
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$1,651	\$1,593	2.66%	\$21

For the six months ended June 30, 2005				
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$52	\$50	2.66%	\$1

For the six months ended June 30, 2006				
Name	Maximum amount	Ending balance	Interest rate	Interest income
	NT\$	NT\$		NT\$
Wu Ming-Yang	\$1,536	\$-	3.03%	\$5
Que Ming-Huang	\$7,596	\$7,459	2.20%	\$83
Chang Zhao-Yang	\$3,569	\$3,527	2.32%-3.07%	\$52
Jian Jie	\$1,548	\$1,509	3.07%	\$23

For the six months ended June 30, 2006				
Name	Maximum amount	Ending balance	Interest rate	Interest income
	US\$	US\$		US\$
Wu Ming-Yang	\$48	\$-	3.03%	\$-
QueMing-Huang	\$235	\$231	2.02%	\$3
ChangZhao-Yang	\$110	\$109	2.32%-3.07%	\$2
Jian Jie	\$48	\$47	3.07%	\$1

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

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Securities Investment Trust				
Co., Ltd.	\$65,375	\$2,066	\$82,270	\$2,545
Cathay Futures Corp.	-	-	4,688	145
Total	<u>\$65,375</u>	<u>\$2,066</u>	<u>\$86,958</u>	<u>\$2,690</u>

G. Prepaid rents

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,417	\$76	\$2,441	\$76

H. Guarantee deposits paid

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$13,764	\$435	\$14,036	\$434

I. Commissions expenses

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Bank Property Agency of Association	\$15,951	\$504	\$16,345	\$506

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J. Handling fee paid

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$2,892	\$91	\$2,190	\$68

K. Accrued marketing expense

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	\$71,031	\$2,245	\$157,972	\$4,886

L. Other payables

Name	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Cathay Financial Holding Co., Ltd.	\$80,196	\$2,535	\$122,498	\$3,789

M. Operating expenses

Name	Summary	For the six months ended June 30,			
		2005		2006	
		NT\$	US\$	NT\$	US\$
Cathay Life Insurance Co., Ltd.	Rental expenses	\$29,188	\$923	\$27,064	\$837
	Marketing expenses	269,482	8,517	293,075	9,065
	Party premium expenses	3,012	95	2,989	92
Seaward Leasing Ltd.	Rental expenses	-	-	856	27
Total		\$301,682	\$9,535	\$323,984	\$10,021

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N. Other expenses

Name	For the six months ended June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Symphox Information Co., Ltd.	\$-	\$-	\$2,293	\$71

22. Pledged assets

Item	June 30,			
	2005		2006	
	NT\$	US\$	NT\$	US\$
Government bonds	\$359,518	\$11,363	\$352,640	\$10,908

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

23. Other important matters and contingent liabilities

A. The Company and Itanara Import Export Company got a controversial issue of seeking compensation in cargo insurance benefits. The Itanara filed a lawsuit against the Company. In addition, it claimed the USD\$773 and other expenses. After the judgement by the Taiwan Taipei District Court, the Itanara won the lawsuit, except, the notarized fee.

Furthermore, the Company appeals to a higher court. Thus, the case is still in pending.

B. As of June 30, 2006, the Company has entered into several significant rental contracts. The estimated rents payable for the next five years are as follows:

Period	Amount	Amount
	(NT\$)	(US\$)
July 01, 2006 ~ June 30, 2007	\$54,886	\$1,698
July 01, 2007 ~ June 30, 2008	55,655	1,721
July 01, 2008 ~ June 30, 2009	57,280	1,772
July 01, 2009 ~ June 30, 2010	58,953	1,823
July 01, 2010 ~ June 30, 2011	60,676	1,877
Total	\$287,450	\$8,891

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24. Serious damages

None

25. Subsequent events

None

26. Other important events

(1) Pension related information

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

(2) Risk management policies and hedge strategies

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

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

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

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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.

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(3) Financial instruments related information:

Assets	June 30, 2005			
	NT\$		US\$	
	Carving amount	Fair value	Carving amount	Fair value
Non-derivative financial instruments:				
Cash and Cash equivalents	\$2,482,081	\$2,482,081	\$78,448	\$78,448
Financial assets at fair value through profit and loss - current	385,908	388,037	12,197	12,264
Available-for-sale financial assets - current	1,251,482	1,252,050	39,554	39,572
Investments in debt securities with no active market-current	-	-	-	-
Receivables	1,250,013	1,250,013	39,507	39,507
Claims recoverable from reinsurers Due from reinsurers and ceding Companies	207,902	207,902	6,571	6,571
Secured loans	58,898	58,898	1,862	1,862
Held-to-maturity financial assets - noncurrent	1,306,392	1,306,392	41,289	41,289
Financial assets carried at cost - noncurrent	2,904,883	2,904,883	91,810	91,810
Investments in debt securities with no active market – noncurrent	75,000	-	2,370	-
Long-term investments under equity method	864,997	864,997	27,339	27,339
Guarantee deposits paid	386,086	386,086	12,203	12,203
Derivative financial instruments:	376,720	376,720	11,906	11,906
Financial assets at fair value through profit and loss - current				
Futures Contract	4,342	4,342	137	137
Options Contract	-	-	-	-
Foreign exchange SWAP	14,111	14,111	446	446

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Liabilities				
Non-derivative financial instrument :				
Claims outstanding	795	795	25	25
Due to reinsurers and ceding companies	254,524	254,524	8,044	8,044
Operating and debt reserve	7,775,703	7,775,703	245,755	245,755
Derivative financial instruments:				
Financial liabilities at fair value through				
profit and loss - current				
Foreign exchange SWAP	-	-	-	-
June 30, 2006				

NT\$				

US\$				

Carving				

Assets	Carving	Fair value	Carving	Fair value

Non-derivative financial instruments:				
Cash and Cash equivalents	\$1,958,541	\$1,958,541	\$60,580	\$60,580
Financial assets at fair value through				
profit and loss - current	363,386	363,386	11,240	11,240
Available-for-sale financial assets - current	2,224,091	2,224,091	68,793	68,793
Investments in debt securities with no				
active market-current	251,373	251,373	7,775	7,775
Receivables	1,651,871	1,651,871	51,094	51,094
Claims recoverable from reinsurers	183,111	183,111	5,664	5,664
Due from reinsurers sand ceding				
companies	80,463	80,463	2,489	2,489
Secured loans	1,747,000	1,747,000	54,036	54,036
Held-to-maturity financial assets				
- noncurrent	3,544,387	3,544,387	109,632	109,632
Financial assets carried at cost				
- noncurrent	36,000	-	1,113	-
Investments in debt securities with no				
active market – noncurrent	307,523	307,523	9,512	9,512
Long-term investments under equity				
method	448,748	448,748	13,880	13,880
Guarantee deposits paid	406,457	406,457	12,572	12,572

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Derivative financial instruments:

Financial assets at fair value through
profit and loss - current

Futures Contract	7,655	7,655	237	237
Options Contract	515	515	16	16
Foreign exchange SWAP	-	-	-	-

Liabilities

Non-derivative financial instrument:

Claims outstanding	770	770	24	24
Due to reinsurers and ceding companies	174,785	174,785	5,406	5,406
Operating and debt reserve	8,817,012	8,817,012	272,719	272,719

Derivative financial instruments:

Financial liabilities at fair value through
profit and loss - current

Foreign exchange SWAP	32,213	32,213	996	996
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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.

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- ③ Quoted market price, if available, are utilized as estimates of the fair value of held-to-maturity financial assets. If no quoted market prices exist for the Company's held-to-maturity financial assets, the fair value of financial assets has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. The Company uses discount rates equal to the prevailing rates of return for financial instruments with similar characteristics. The characteristics involve debtor's credit standing, residual period of contracted fixed interest rates, residual period of principal repayment and currency of payment.
- ④ The fair value of the Company's current and noncurrent financial asset or liabilities was based on market prices at the reporting date if market prices are not available. When market prices are not available, the fair value was based on relevant financial or any other information.
- ⑤ The following table summarizes the fair value information of the Company's financial assets and liabilities at June 30, 2006:

Financial Instruments	June 30,2006			
	NT\$			
	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Assets-non-derivative</u>				
Financial assets at fair value through profit and loss-current	\$363,386	\$363,386	\$-	\$-
Available-for-sale financial assets-current	2,224,091	2,224,091	-	-
Investment in debt securities with no active market-current	-	-	251,373	-
Held-to-maturity financial assets-noncurrent	-	-	3,544,387	-
Financial assets carried at cost-noncurrent	-	-	36,000	-
Investment in debt securities with no active market-noncurrent	-	-	307,523	-
Long-term investments in stocks under the equity method	-	-	448,748	-

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Assets- derivative

Financial assets at fair value through profit
and loss-current

Futures	7,655	7,655	-	-
Option	515	515	-	-
Forward contracts	-	-	-	-

Liability-derivative

Financial liability at fair value through
profit and loss-current

Forward contracts	32,213	32,213	-	-
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June 30,2006

US\$

Financial Instruments	Based on the quoted market price		Based on valuation techniques	
	Carrying amount	Fair value	Carrying amount	Fair value

Assets-non-derivative

Financial assets at fair value through profit
and loss-current

Available-for-sale financial assets-current	\$11,240	\$11,240	\$-	\$-
Investment in debt securities with no active market-current	68,793	68,793	-	-
Held-to-maturity financial assets-noncurrent	-	-	7,775	-
Financial assets carried at cost-noncurrent	-	-	109,632	-
Investment in debt securities with no active market-noncurrent	-	-	1,113	-
Long-term investments in stocks under the equity method	-	-	9,512	-
	-	-	13,880	-

Assets-derivative

Financial assets at fair value through profit
and loss-current

Futures	237	237	-	-
Option	16	16	-	-
Forward contracts	-	-	-	-

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Liability- derivative

Financial liability at fair value through
profit and loss-current

Forward contracts	996	996	-	-
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(4) Risk of interest rate

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

Fixed interest rate

Item	Less than one year		Due in 1~2 years		Due in 2~3 years		Due in 3~4 years	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Investments in debt securities								
with no active market	251,373	7,775	76,270	2,359	231,253	7,153	-	-

Item	Due in 4~5 years		Over 5 years		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Held-to-maturity financial assets	\$908,608	\$28,104	\$2,635,779	\$81,528	\$3,544,387	\$109,632
Investments in debt securities						
with no active market	-	-	-	-	558,896	17,287

(5) Credit risk

The Company's exposure to credit risk is minimal.

(6) Fair value hedges

		Designated as hedging instruments			
		Fair value			
		June 30, 2005		June 30, 2006	
Hedged item	instruments	NT\$	US\$	NT\$	US\$
Overseas investments in bonds	Foreign exchange SWAP	\$14,111	\$446	\$(32,213)	\$(996)

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(7) Discretionary account management

Item	June 30, 2005			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$48,913	\$1,546	\$51,037	\$1,613
Short-term notes	15,028	475	15,028	475
Cash in banks	40,236	1,272	40,236	1,272
Net other assets less				
liabilities	1,073	34	1,073	34
Total	\$105,250	\$3,327	\$107,374	\$3,394
Item	June 30, 2006			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Listed stocks	\$129,350	\$4,001	\$129,350	\$4,001
Short-term notes	37,012	1,145	37,012	1,145
Cash in banks	101,621	3,143	101,621	3,143
Net other assets less				
liabilities	3,090	96	3,090	96
Total	\$271,073	\$8,385	\$271,073	\$8,385

As of June 30, 2005 and 2006, the Company had discretionary account management contracts in the amount of NT\$100,000(US\$3,161) and NT\$250,000(US\$7,733), respectively.

(8) Material Contract

None.

(9) Presentation of Financial Statements:

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

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27. Information for investment in Mainland China

None.

28. Segment information

None.