

**CENTRAL REINSURANCE CORPORATION
FINANCIAL STATEMENTS WITH
REPORT OF INDEPENDENT AUDITORS
DECEMBER 31, 2005 AND 2004**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

REPORT OF INDEPENDENT AUDITORS
English Translation of a Report Originally Issued in Chinese

The Board of Directors and Shareholders
Central Reinsurance Corporation

We have audited the accompanying balance sheets of Central Reinsurance Corporation as of December 31, 2005, and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Central Reinsurance Corporation for the year ended December 31, 2004, were audited by other auditors whose report dated March 4, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with "Regulations for Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted 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 Central Reinsurance Corporation as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with practices generally accepted in the insurance industry, the regulations governing the preparation of financial statements of public companies, other government regulations, and accounting principles generally accepted in the Republic of China.

Diwan, Ernst & Young
Certified Public Accountants
Taipei, Taiwan R.O.C
February 17, 2006

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

CENTRAL REINSURANCE CORPORATION

BALANCE SHEETS

December 31, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Note No.	December 31, 2005	December 31, 2004	LIABILITIES AND SHAREHOLDERS' EQUITY	Note No.	December 31, 2005	December 31, 2004
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents	IV. 1	6,463,735	5,661,916	Accrued expenses		77,138	70,168
Short-term investments	IV. 2	4,305,298	5,870,506	Taxes payable		49,224	59,035
Notes receivable (net)	IV. 3	11,445	0	Due to other insurance companies		423,899	327,632
Income tax recoverable		21,532	21,532	Reinsurance premiums outward payable		848,654	815,233
Interests and revenue receivable	IV. 4	133,047	142,962	Other payable		150,958	49,476
Accrued claim recoverable from Reinsurers (net)		48,244	16,429	Advanced accounts		765	713
Due from other insurance companies (net)		817,715	763,252	Other current liabilities		19,622	28,480
Forward exchange contract receivable		34,291	14,529	Total Current Liabilities		<u>1,570,260</u>	<u>1,350,737</u>
Inward premium receivable		33,302	32,380				
Other receivables (net)		165,201	15,392	LONG - TERM LIABILITIES			
Investment on other financial instrument - current		285,000	0	Reserve for tax on increment of land		92,468	150,869
Prepaid accounts		1,030	550	Accrued pension liability	IV. 10	2,691	0
Deferred income tax assets - current	IV. 16	9,301	8,165	Total Long-Term Liabilities		<u>95,159</u>	<u>150,869</u>
Total Current Assets		<u>12,329,141</u>	<u>12,547,613</u>				
				OPERATION AND LIABILITIES RESERVE			
LONG - TERM INVESTMENTS				Unearned premium reserve		5,884,633	5,446,541
Long-term investment in securities (net)	IV. 5			Equalisation reserve		2,829,475	2,518,086
Cost method		800,009	731,923	Claims reserve		5,819,860	5,370,680
Long-term investment in bonds	IV. 6	7,880,698	5,173,446	Total Operation and Liabilities Reserve		<u>14,533,968</u>	<u>13,335,307</u>
Real estate investments (net)	IV. 7	467,901	469,238				
Total Long-Term Investments		<u>9,148,608</u>	<u>6,374,607</u>	OTHER LIABILITIES			
				Guarantee deposits received		7,109	7,130
PROPERTIES AND EQUIPMENTS	IV. 8			Funds held for reinsurers		6,843	3,752
Land		30,625	30,625	Deferred income tax liabilities - non - current	IV. 16	0	1,690
Buildings		58,922	58,328	Total Other Liabilities		<u>13,952</u>	<u>12,572</u>
EDP equipments		20,088	19,710	Total Liabilities		<u>16,213,339</u>	<u>14,849,485</u>
Transportation equipments		7,891	8,027				
Miscellaneous equipments		8,549	9,629	SHAREHOLDERS' EQUITY			
Revaluation for land and buildings		277,642	277,642	Capital stock, \$10 par value	IV. 11	5,000,000	4,200,000
Accumulated depreciation		(63,872)	(56,343)	Authorized - 500,000 thousand shares and issued 500,000 and 420,000 thousand shares in 2005 and 2004 , respectively			
Prepayments on purchase of land and buildings		-	555	Capital surplus	IV. 12		
Total Properties and Equipments		<u>339,845</u>	<u>348,173</u>	Capital surplus - excess of par value		300,000	180,000
				Capital surplus - revaluation reserve on land		179,598	121,197
INTANGIBLE ASSETS				Capital surplus - revaluation for properties		8,411	8,411
Deferred pension costs	IV. 10	899	0	Retained Earnings			
Total Intangible Assets		<u>899</u>	<u>0</u>	Legal reserve		317,548	277,688
				Special reserve		147	171
OTHER ASSETS				Un-appropriated retained earnings		766,745	500,298
Refundable deposits	IV. 9	832,853	701,176	Other accounts			
Funds held by other insurance companies		128,080	154,420	Cumulative translation adjustment		(141)	(147)
Miscellaneous Assets		466	11,114	Unrealized loss on pension cost	IV. 10	(3,914)	-
Deferred income tax assets - non - current	IV. 16	1,841	0	Total Shareholders' Equity		<u>6,568,394</u>	<u>5,287,618</u>
Total Other Assets		<u>963,240</u>	<u>866,710</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>22,781,733</u>	<u>20,137,103</u>
TOTAL ASSETS		<u>22,781,733</u>	<u>20,137,103</u>				

The accompanying notes are an integral part of the financial statements

English Translation of Financial Statements Originally Issued in Chinese

Central Reinsurance Corporation

STATEMENTS OF INCOME

For the Years Ended December 31, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars, Except Per Share Amounts)

	Note No.	2005	2004
OPERATING REVENUES			
Gross premium written		\$18,936,227	\$16,861,352
Retroceded premium		(6,345,352)	(5,393,792)
Net premiums written		12,590,875	11,467,560
Interest income		467,219	407,271
Overriding commissions		132,877	117,531
Income from short-term investments , net		235,389	-
Income from long-term investments , net		24,201	8,760
Income from real estate investments , net		18,788	14,720
Other operating revenues		-	68
Total operation revenues		<u>13,469,349</u>	<u>12,015,910</u>
OPERATING COSTS			
Reinsurance Commissions		(5,145,185)	(4,967,628)
Reinsurance commission received on retrocession		1,440,953	1,403,848
		<u>(3,704,232)</u>	<u>(3,563,780)</u>
Reinsurance claims paid		(9,456,841)	(8,618,027)
Reinsurance claims paid on retrocession		2,106,833	1,820,445
		<u>(7,350,008)</u>	<u>(6,797,582)</u>
Interest expenses		(164)	(256)
Loss on short – term investments , net		-	(11,569)
Change in operating reserves			
Change in unearned premiums		(438,092)	106,880
Change in equalisation reserve		(312,077)	(298,128)
Change in outstanding claims		(449,180)	(568,114)
		<u>(1,199,349)</u>	<u>(759,362)</u>
Other operating costs		(57,541)	(16,929)
Total operation Costs		<u>(12,311,294)</u>	<u>(11,149,478)</u>
GROSS PROFIT		<u>1,158,055</u>	<u>866,432</u>
OPERATING EXPENSES			
Operating expenses		(273,388)	(240,719)
Administrative expenses		(99,392)	(94,278)
Developing expenses		(1,363)	(1,447)
Training expenses		(3,039)	(2,394)
Total Operating Expenses		<u>(377,182)</u>	<u>(338,838)</u>
NET OPERATING INCOME		<u>780,873</u>	<u>527,594</u>
NON – OPERATING INCOME AND GAIN			
Compensation income		114	-
Miscellaneous income		427	6,254
Total Non-Operating Income and Gain		<u>541</u>	<u>6,254</u>
NON – OPERATING EXPENSES AND LOSSES			
Loss on disposal of assets		(52)	(47)
Miscellaneous expenses		(28)	(175)
Total Non – Operating Expenses and Losses		<u>(80)</u>	<u>(222)</u>
INCOME BEFORE INCOME TAXES		<u>781,334</u>	<u>533,626</u>
Income taxes	IV 、 16	(134,811)	(135,024)
NET INCOME		<u>\$646,523</u>	<u>\$398,602</u>
EARNINGS PER SHARE			
Income before income taxes		1.75	1.44
Net income	IV 、 14	1.45	1.08

The accompanying notes are an integral part of the financial statements

English Translation of Financial Statements Originally Issued in Chinese
CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CHANGES OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan Dollars)

	Retained Earnings					Other Accounts		Total
	Capital stock	Capital Surplus	Legal Reserve	Special Reserve	Un-appropriated retained earnings	Unrealized loss on pension cost	Cumulative translation adjustment	
Balance, January 1, 2004	\$3,600,000	\$189,608	\$241,801	\$131	\$461,623	\$ -	(\$171)	\$4,492,992
Distribution of earnings:								
Legal reserve			35,887		(35,887)			-
Special reserve				40	(40)			-
Cash dividends					(324,000)			(324,000)
Issuance of capital stock	600,000							600,000
Issuance of capital stock in excess of par		120,000						120,000
Cumulative adjustments of foreign currency translation							24	24
Net income in 2004					398,602			398,602
Balance at December 31, 2004	4,200,000	309,608	277,688	171	500,298	-	(147)	5,287,618
Distribution of earnings:								
Legal reserve			39,860		(39,860)			-
Special reserve				(24)	24			-
Cash dividends					(336,000)			(336,000)
Directors' and supervisors' remuneration and employee bonuses					(4,240)			(4,240)
Issuance of capital stock	800,000							800,000
Change in revaluation reserve on land		58,401						58,401
Issuance of capital stock in excess of par		120,000						120,000
Unrealized loss on pension cost						(3,914)		(3,914)
Cumulative adjustments of foreign currency translation							6	6
Net income in 2005					646,523			646,523
Balance at December 31, 2005	\$5,000,000	\$488,009	\$317,548	\$147	\$766,745	(\$3,914)	(\$141)	\$6,568,394

The accompanying notes are an integral part of the financial statements

English Translation of Financial Statements Originally Issued In Chinese

Central Reinsurance Corporation

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2005 and 2004

(Expressed in Thousands of New Taiwan Dollars)

	<u>2005</u>	<u>2004</u>
Cash Flows From Operating Activities		
Net income (loss)	\$646,523	\$398,602
Adjustments to reconcile net income to net cash provided by (used in) operating activities :		
Provision for (recovered from) reserves	1,198,661	759,362
Depreciation and amortization	11,925	12,123
(Increase) decrease in deferred income tax assets	(4,666)	1,211
Loss (Gain) on disposal of long-term investments	-	(1,197)
Amortization of long-term investments' (discount) premium	17,057	6,343
Loss (Gain) on disposal of fixed assets	-	(140)
Loss (Gain) on retirement of fixed assets	52	3
(Increase) decrease in short-term investments	1,565,208	117,697
(Increase) decrease in other financial assets-current	(285,000)	-
(Increase) decrease in accounts receivables	(106,487)	158,361
(Increase) decrease in forward exchange contract receivables	(19,762)	-
(Increase) decrease in prepaid accounts and other current assets	(480)	2,596
(Increase) decrease in overdue accounts	(2,363)	7,545
(Increase) decrease in prepayments on purchase of land and buildings	555	-
(Increase) decrease in funds held by other reinsurance companies	26,340	-
(Increase) decrease in refundable deposits	(131,677)	-
Increase (decrease) in accrued expenses	(2,841)	(8,780)
Increase (decrease) in other current liabilities	92,675	(18,689)
Increase (decrease) in guarantee deposits received and funds held for reinsurers	3,070	-
Increase (decrease) in accrued pension liability	4,195	(12,460)
<u>Net cash provided by (used in) operating activities</u>	<u>\$3,012,985</u>	<u>\$1,422,577</u>
Cash Flows From Investing Activities		
Acquisition of long-term investments	(3,543,939)	(971,937)
Disposal of long-term investments	837,768	927,215
Purchase of fixed assets	(2,276)	(3,404)
Disposal of fixed assets	-	183
(Increase) decrease in other assets	3,738	28,414
<u>Net cash provided by (used in) investing activities</u>	<u>(2,704,709)</u>	<u>(19,529)</u>
Cash Flows From Financing Activities		
Issurance of capital stock	920,000	720,000
Cash dividends , Directors' and supervisors' remuneration and employees bonuses	(340,240)	(324,000)
Other	-	(1,576)
<u>Net cash used in financing activities</u>	<u>579,760</u>	<u>394,424</u>
<u>Translation adjustment</u>	<u>(86,217)</u>	<u>24</u>
<u>Net increase (decrease) in cash and cash equivalents</u>	<u>801,819</u>	<u>1,797,496</u>
Cash and Cash Equivalent, beginning of period	5,661,916	3,864,420
Cash and Cash Equivalent, end of period	<u>\$6,463,735</u>	<u>\$5,661,916</u>
<u>Supplemental Disclosures:</u>		
Cash paid for interest during the period	\$164	\$256
Cash paid for income tax during the period	<u>\$149,289</u>	<u>\$125,149</u>
<u>Non-cash investing activities</u>		
Transfer of short-term investments to long-term investments	-	\$3,930,231

The accompanying notes are an integral part of the financial statements

English Translation of Financial Statements Originally Issued in Chinese
Central Reinsurance Corporation
Notes To Financial Statements
For the Years Ended December 31, 2005 and 2004
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

I - ORGANIZATION AND ACTIVITIES

The Corporation was incorporated on October 31, 1968, and it provides a broad range of property, and life inward and outward reinsurance services. The Corporation's shares of stock have been traded in the Taiwan Stock Exchange since July 6, 2000.

The Corporation was a state-owned enterprise. On July 9, 2002, the MOF, the major shareholder of the Corporation released 69,388 thousand shares for public sale and the sale was completed at the same date. Thus, the ownership of the MOF decreased to 48.12%. According to Article 11 of "Enforcement Rules of Statue of Privatization of Government-Owned Enterprises" the Corporation became a privately owned corporation on July 11, 2002, effectively.

As of December 31, 2005 and 2004, the Corporation had 125 and 127 employees.

II - SIGNIFICANT ACCOUNTING POLICIES

The Corporation's financial statements are in conformity with the insurance regulations accounting practices accepted in the insurance industry, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China. The significant accounting policies are summarized as followings:

Accounting Estimations

When the Corporation prepared the accompanying financial statements in accordance with generally accepted accounting principles and Insurance Law, reasonable estimation and assumption must be made. However, the estimation was usually made under uncertain circumstances. Thus, it may differ from the actual outcome.

The current and non-current classification of assets and liabilities

The current classification applies to those assets that will be realized in cash, sold, or consumed within one year (or operating cycle, if longer), and those liabilities that will be discharged by use of current assets or the creation of additional current liabilities within one year (or operating cycle, if longer).

The current liability section of a balance sheet is also intended to include obligations that are due on demand or will be due on demand within one year from the balance sheet date, even though liquidation may not be expected within that period. Short-term obligations shall be excluded from current liabilities only if the enterprise intends to refinance the obligation on a long-term basis and has the demonstrated ability to consummate the financing.

Cash and Cash Equivalents

Cash and cash equivalent include cash on hand, bank deposits, petty cash and short-term investments with immediate maturity and whose value would not critical fluctuate due to the change of market interest rate.

Short-term Investments

Short-term investments are stated at the lower of cost (bond costs represent original cost after adjustment of premium or discount) or market method. When the aggregate market value is lower than the total carrying value, an allowance for decline in market value is recognized. Any recovery of the market value to the extent of the original cost is recognized as income.

Cost of bonds sold is determined using the specific identification method while cost of all other types of short-term investments is determined using the moving-average method.

When short-term investments in listed stocks are transferred to long-term investments, the new cost is carried at market price and a loss is recognized if the market price of the short-term investments is below the book value of such investments.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided at the ending balances of the accrued claims recoverable from reinsurers, accounts with reinsurers and other accounts receivable (which includes accrued reinsurance commissions and overriding commissions) that are not overdue. The amounts saved arising from reduced business tax rate are recorded, in compliance with regulations, as part of allowance for doubtful accounts.

From July 1, 1999 to 30 June 2003, the amounts saved arising from reduced business tax rate are recorded as part of allowance for doubtful accounts. The entire amount of overdue receivable from reinsurers is covered by an allowance.

Under the regulation as prescribed by the MOF on April 30, 2003, once the ratio of the overdue loan and overdue receivables of the insurance enterprise was lower than 1% and last for 3 months, the amounts saved arising from reduced business tax rate,

which can be retroceded from the 2nd month of the preceding 3 months, are exempted to write off the overdue credit or withdraw allowance for doubtful accounts.

As the Corporation does not engage the business of loan and the overdue ratio was zero from April to June 2003, hence the amounts saved arising from reduced business tax rate are exempted to withdraw as part of allowance for doubtful accounts effective from July 1, 2003. The Corporation's overdue accounts involved are all of the overdue accounts with reinsurers and was withdrawn an adequate allowance for doubtful accounts.

Long-term Investment in Securities

Long-term investments for which the Corporation exercises no significant influence on the investees are accounted for by cost method. The investment in listed stock is stated at the lower of cost or market value. An allowance for decline in value is provided when the carrying value of the investment (with quoted market price) exceeds the market value. Such provision for decline in value is shown as part of stockholders' equity, when the decline in value is considered temporary. The allowance for decline in value and the account shown in the stockholder's equity is adjusted for any recovery in the market value. The carrying value of investments in unlisted stocks are reduced to reflect an other than temporary decline in value with the reduction charged to current income.

Costs of shares of stock sold are determined using the moving-average method.

When long-term investments in listed stocks are transferred to short-term investments, the new cost is carried at market price and a loss is recognized if the market price of the long-term investments is below the book value of such investments.

Long-term Investment in Bonds

Long-term bond investments are stated at cost (bond costs represent original cost after adjustment of premium or discount). The premium or discount is amortized over the holding period.

Real Estate Investments

Investments in real estate are stated at cost less accumulated depreciation.

Depreciation on buildings is computed using the straight-line method over estimated service lives ranging from 10 years to 60 years.

Upon disposal of real estate, cost and related accumulated depreciation are removed from the accounts and resulting gain or loss is credited or charged to income.

Property and Equipment

Property and equipment are stated at cost (or cost plus revaluation increment) less accumulated depreciation. Reserve for land revaluation increment tax is presented as long-term liabilities. Major renewals and betterment are capitalized, while maintenance and repairs are charged to current year income.

Depreciation is computed using the straight-line method over these estimated service lives - buildings, 3 to 60 years; machinery and equipment 4 to 6 years; transportation equipment, 3 to 10 years; and other equipment, 3 to 10 years.

When items of property and equipment are retired or disposed of, their cost, cost plus revaluation increment and related accumulated depreciation are removed from the accounts, and resulting gain or loss is credited or charged to current income.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price. An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset; however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Reinsurance Revenues and Costs

Reinsurance revenues (gross premiums written) and the related estimated costs (retroceded premiums) are recognized upon receipt of the billings from the reinsurers.

Operation and Liabilities Reserve

- a. The reserves related to Compulsory Automobile and Motorcycle Liability Insurance are determined in accordance with "The Regulation of Various Insurance Reserves Conducting Compulsory Automobile and Motorcycle Insurance", Article 144 and 148-3 of "Insurance Law" and the related sub-law.
- b. The equalisation reserve related to residence earthquake insurance is determined in accordance with Article 8 of "Regulations Governing Taiwan Residential

Earthquake Insurance Pool and Risk Transfer Scheme“.

- c. (1) The reserve for unearned premiums related to insurance policy (period exceeding one year), except for long-term fire insurance, engineering insurance and consumer’s credit insurance calculated based on criteria issued by the MOF, is calculated in accordance with “The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry”, Article 144 and 148-3 of “Insurance Law” and the related sub-law.
- (2) The equalisation reserve is processed in accordance with “The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry” , Article 148-3 of Insurance Law and the related sub-law.
- (3) The reserve for outstanding claims are calculated in accordance with “the Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry”, Article 144 and 148-3 of Insurance Law and the related sub-law.

Pension Cost

Pension cost is recognized on the basis of actuarial calculations of pension obligation.

Income Tax

The Corporation adopted interperiod and intraperiod tax allocation. Deferred income taxes are recognized for tax effects of temporary differences, and unused tax credits. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. Deferred tax assets and liabilities are classified as current or non-current accounts according to the classifications of their related assets and liabilities. Those which cannot be related to the assets or liabilities in the financial statement are classified as current or non-current based on the expected length of anticipated reversal.

Separate taxes on interest revenue on short-term bills are recorded as expense.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the shareholders have approved the retention of the earnings.

Foreign Currency Transactions

Foreign currency transactions are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occurred. Gains or losses, caused by different foreign currency exchange rates applied when cash in foreign currency is

actually converted into New Taiwan Dollars, or when foreign currency receivable or payable are settled, are credited or charged to income in the period of actual conversion or settlement. Period-end balances of receivables and payables denominated in foreign currencies are translated at the period-end exchange rates, and resulting gains or losses are credited or charged to current income. Accumulated comprehensive income (loss) is the differences caused by financial statements denominated in foreign currencies, then converted into New Taiwan Dollars, will be an adjustment under shareholders' equity. (For those attributable to foreign long-term investments are recorded as translation adjustments under stockholders' equity.)

Forward Exchange Swap Transactions

Forward exchange swap contracts for hedging purposes are recorded at the spot rate on the contract date. The foreign-currency amount of each contract multiplied by the difference between the spot rate and the contracted forward rate is amortized over the contract period. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement.

At year-end, the balances of forward exchange swap receivables or payables are translated based on prevailing exchange rates and the resulting gains or losses are credited or charged to income. The net forward exchange swap receivable or payable is presented either as an asset or a liability in the balance sheet.

III 、 CHANGES OF ACCOUNTING PRINCIPLES AND THE EFFECTS ON THE PRESENTATION OF FINANCIAL STATEMENTS

The Corporation prepared the financial reports for the year ended of 2005 by adopting this standard and performed the impairment test. There is no impact of the effective of SFAS No.35 on the financial reports for the year ended of 2005.

IV 、 BREAKDOWN OF SIGNIFICANT ACCOUNTS

1. Cash and cash equivalents

A. The details of this account are as follows:

	December 31	
	2005	2004
Petty cash	\$130	\$280
Check deposit	40,383	76,084
Demand deposit	163,803	73,389
Time deposit	4,896,421	3,429,844
Negotiable certificates of deposit	257,368	436,636
Commercial paper	755,491	780,156
Treasury bills	350,139	865,527
Total	<u>\$6,463,735</u>	<u>\$5,661,916</u>

B. The above-mentioned cash has not been indicated or limited its usage.

C. The above-mentioned time deposits as of December31, 2005 and 2004 maturing after one year amount to \$90,000 and \$329,000.

2. Short-term investments (net)

A. The details of this account are as follows:

	December 31	
	2005	2004
Stocks of listed companies	\$760,708	\$491,502
Convertible corporate bonds	4,100	29,100
Asset securitization	90,003	-
Open-end funds	697,567	932,060
Government bonds	248,602	616,282
Corporate bonds	2,095,455	3,125,816
Financial bonds	408,863	675,746
Total (gross)	<u>\$4,305,298</u>	<u>\$5,870,506</u>
Less: Allowance for market value decline	-	-
Total (net)	<u>\$4,305,298</u>	<u>\$5,870,506</u>

- B. The above-mentioned short-term investments are evaluated under lower of the aggregate cost or market price method. The above market values are based on the following: (a) bonds - reference prices published by the ROC Greta Securities market at the end of year ; (b) open-end mutual funds, net - asset values as of the end of year; (c) listed stocks and convertible corporate bonds - average closing prices for December.
- C. Government bonds of \$751,000 and \$640,000 (par value) as of December 31, 2005 and 2004, respectively, are pledged and mainly deposited as operations guarantee with the Central Bank.

3. Notes receivable (net)

- A. The details of this account are as follows:

	December 31	
	2005	2004
Notes Receivable	\$11,560	\$ -
Less: Allowance for doubtful accounts	(115)	-
Net	<u>\$11,445</u>	<u>\$ -</u>

- B. The above-mentioned notes receivable has less than a 12-month maturity.
- C. The above-mentioned notes receivable have not been indicated or limited its usage.
- D. Allowance for doubtful accounts is estimated for the possible-non-recoverable amounts of the outstanding ending balance of notes receivable.

4. Interests and revenue receivable

- The details of this account are as follows:

	December 31	
	2005	2004
Interests receivable	\$133,047	\$142,911
Cash dividend receivable	-	51
Total	<u>\$133,047</u>	<u>\$142,962</u>

5. Long-term investment in securities (net)

A. The details of this account are as follows:

	December 31	
	2005	2004
Long-term securities	\$800,009	\$731,923
Less: Allowance for market value decline	-	-
Net	<u>\$800,009</u>	<u>\$731,923</u>

B. As of December 31, 2005 the breakdown are as follows:

	December 31, 2005	
	Number of shares	Book value
<u>Common stocks</u>		
Unlisted stocks		
Asian Hull Syndicate, Ltd.	400	\$180
<u>Preferred stocks</u>		
Listed company		
Chang Hwa Bank	10,065,000	415,860
China Development Industrial Bank	10,221,000	183,539
Chinatrust Financial Holding Co.,Ltd.	1,250,000	50,000
Taishin International Bank - III	1,700,000	51,000
		<u>700,399</u>
Unlisted company		
Taishin International Bank - II	7,443,000	74,430
The Chinese Bank	2,500,000	25,000
		<u>\$800,009</u>

C. As of December 31, 2004 the breakdown are as follows:

	December 31, 2004	
	Number of shares	Book value
<u>Common stocks</u>		
Unlisted stocks		
Asian Hull Syndicate, Ltd.	400	\$174
<u>Preferred stocks</u>		
Listed company	10,065,000	423,780

Chang Hwa Bank		
China Development Industrial Bank	10,221,000	183,539
Chinatrust Financial Holding Co.,Ltd.	1,250,000	<u>50,000</u>
		657,319
Unlisted company		
Taishin International Bank - II	7,443,000	<u>74,430</u>
		<u><u>\$731,923</u></u>

D. The above-mentioned long-term investments evaluated under lower of cost or market value method, total market value as of December 31, 2005 and 2004 is \$710,170 and \$673,116, respectively. As a result, no allowance for market value decline needs to be accounted.

6. Long-term investment in bonds (net)

A. The details of this account are as follows:

	December 31	
	2005	2004
Domestic bonds	\$4,107,822	\$4,108,737
Aboard bonds	3,772,876	1,064,709
Total	<u>\$7,880,698</u>	<u>\$5,173,446</u>

B. The above-mentioned bonds have not been indicated as collateral for mortgage.

7. Real estate investments (net)

A. The details of this account are as follows:

	December 31	
	2005	2004
Acquisition cost of land	\$409,165	\$409,165
Acquisition cost of buildings	74,321	74,088
Revaluation for land	2,441	2,441
Revaluation for buildings	394	394
Sub-total	<u>\$486,321</u>	<u>\$486,088</u>
Less: Accumulated depreciation	(18,420)	(16,850)
Net	<u><u>\$467,901</u></u>	<u><u>\$469,238</u></u>

- B. The revaluation of real estate investment, please refer to Breakdown of significant accounts Note 8.
- C. The above-mentioned property has not been indicated as collateral for mortgage.

8. Properties and Equipments (net)

- A. The details of this account are as follows:

	December 31	
	2005	2004
1. Cost		
Acquisition cost of land	\$30,625	\$30,625
Acquisition cost of buildings	58,922	58,328
EDP equipments	20,088	19,710
Transportation equipments	7,891	8,027
Miscellaneous equipments	8,549	9,629
Revaluation		
Revaluation of land	269,624	269,624
Revaluation of buildings	8,018	8,018
Total cost	<u>\$403,717</u>	<u>\$403,961</u>
2. Accumulated depreciation		
Buildings	(\$36,326)	(\$30,576)
EDP equipments	(15,187)	(13,255)
Transportation equipments	(4,686)	(4,085)
Miscellaneous equipments	(7,673)	(8,427)
Total accumulated depreciation	<u>(\$63,872)</u>	<u>(\$56,343)</u>
Prepayments on purchase of land and buildings	\$ -	\$555
Net	<u>\$339,845</u>	<u>\$348,173</u>

- B. The above-mentioned property has not been indicated as collateral for mortgage.
- C. The land and buildings were revalued in 1976 and 1996. Such revaluation resulted in the recognition of: (a) additional carrying value of property and equipment amounting to \$280,477, (b) reserve for land revaluation increment tax of \$150,869 (which is payable upon disposal of land) and (c) capital surplus \$129,608.

- D. According to the land tax amended at January 30, 2005, the levy of the land revaluation tax decreased permanently is effective at February 1, 2005. Based upon the amendment, the Corporation decreased the reserve on revaluation of land, which was recognized as long-term liability, as well as the capital reserve, amounted \$58,401.

9. Refundable deposits

- A. The details of this account are as follows:

	December 31	
	2005	2004
Statutory deposit	\$811,639	\$690,681
Others	21,214	10,495
Total	<u>\$832,853</u>	<u>\$701,176</u>

- B. Pursuant to the requirements of Insurance Law, government bonds are deposited in the Central Bank as guarantee of the insurance business as of December 31, 2005.

- C. Others including club membership deposits and rent deposits etc.

10. Pension plan

- A. The privatization of the Corporation was completed on July 11, 2002. The original committee returned the Non-civil Service Eligible Employees Fund to all employees and the rest was closed by the Corporation. After privatization, employees pension fund is administered by the committee and the contribution is adjusted to 8% of wages.
- B. The “Labor Pension Act” (the “Act”), to be implemented on July 1, 2005, provides for a new defined contribution pension plan. Employees can choose to continue to be subject to the current pension regulation under the “Labor Standards Law” or to be subject to the pension regulation under the Act with their service years accumulated before the enforcement of this Act to be retained. Under the Act, an employer’s monthly rate of contribution to the pension fund should be at least 6% of the employees’ monthly salary.
- C. According to the actuarial report, as of December 31, 2005 and 2004, the reconciliation of pension funding status and accrued pension liability was as follows :

	December 31	
	2005	2004
Benefit obligation :		
Vested benefit obligation	\$18,990	\$2,267
Non-vested benefit obligation	9,723	14,818
Accumulated benefit obligation	\$28,713	\$17,085
Additional benefits based on future salaries	5,891	6,841
Projected benefit obligation	\$34,604	\$23,926
Fair value of pension assets	(26,021)	(18,442)
Funded status	\$8,583	\$5,484
Unrecognized net obligation at date of initial application	(899)	(974)
Unrecognized prior service cost	-	-
Unrecognized pension losses	(9,806)	(10,827)
Additional liability	4,813	-
Accrued pension liability (prepaid pension cost)	\$2,691	\$(6,317)

D. The primary actuarial assumption is as follows:

	December 31	
	2005	2004
Discount rate	3.50%	3.70%
Expected long-term rate of return on plan assets	3.50%	3.70%
Growth rate in compensation levels	3.00%	3.00%

E. Vested benefits of employees who qualified to receive retirement benefits as of December 31, 2005 and 2004 amounted to \$18,990 and \$2,267.

F. The net pension cost was composed of the following items:

	2005	2004
Service cost	\$10,919	\$14,359
Interest cost	801	717
Expected return on pension funds	(775)	(548)
Amortization	519	130
Gain from curtailment	-	(20,250)
Net pension expenses (income)	\$11,464	\$(5,592)

11. Capital stock

As of December 31, 2005, the authorized capital at par value of \$10 (New Taiwan dollars) per share amounted to \$5,000,000.

12. Capital surplus

A. The details of this account are as follows:

	December 31	
	2005	2004
Excess of par value	\$300,000	\$180,000
Revaluation for land	179,598	121,197
Revaluation for properties	8,411	8,411
Total	<u>\$488,009</u>	<u>\$309,608</u>

B. According to the ROC Company Law, capital surplus can only used to offset deficits, and cannot be used to distribute cash dividends. However, if the Company has no deficit, the capital surplus from shares issued above their par value and earnings from donation received can be used to increase capital. According to the regulations of Securities and Futures Commission (known as Securities and Futures Bureau now) , capital increases by transferring paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases by transferring paid-in capital in excess of par value can occur only commence in the following year.

13. Limitation on distribution of retained earnings and dividend policy

A. According to the Corporation's articles of incorporation, annual net income after income tax is to be first used to offset prior years' deficits, if any, to provide for legal reserve at 10% of the balance and for special reserve. The remainder, based on the decision of board of directors, will be distributed upon the resolution of the stockholder's meeting. The distribution shall be appropriated as followed :

- (1) Dividend - cash dividend should be no less than 50% of the dividend distributed ;
- (2) Remuneration to directors and supervisors : Less than 1% ; and
- (3) Bonus to employees : Between 1% - 5% and can either be cash or stock dividend upon resolution of the stockholders.

Under the Company Law, the legal reserve should be made until the reserve equals the aggregate par value of the Corporation's outstanding capital stock. This reserve may be used to offset a deficit. Also, when the reserve has reached 50% of the aggregate par value of the Corporation's outstanding capital stock, up to 50% thereof may be declared as dividends.

As prescribed by the regulations of the Securities and Futures Commission, a special reserve equal to the net debit balance in the stockholders' equity shall be appropriated from the current year's earnings and unappropriated earnings generated in the prior years. The special reserve appropriation arising from the foregoing is not available for dividends.

Under the Integrated Income Tax System, ROC. Tax credits allocated to shareholders are based on the balance of Imputation Credit Account (ICA) on the dividend distribution date.

- B. The distribution of earnings for year 2004 and 2003 were approved by the meeting of stockholders on June 3, 2005 and May 26, 2004 respectively.

The details of distribution are as follows:

	2004	2003
Legal reserve	\$39,860	\$35,887
Special reserve	(24)	40
Cash dividends	336,000	324,000
Directors' and supervisors' remuneration and employee bonuses	4,240	-
Total	\$380,076	\$359,927
Dividend per share (NT\$)	\$0.8	\$0.9

- C. The related information of distribution of earnings for year 2005 can be obtained from Market Observation Post System (MOPS).

14. Earnings per share

The earnings per share is computed as net income divided by weighted average outstanding shares. Earnings per share (in Dollars) as of December 31, 2005 and 2004 is \$1.45 and \$1.08 per share.

15. Operating expenses

For the year 2005 and 2004, the payroll, depreciation and amortization expenses are as follows :

Functions Accounts	2005			2004		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Payroll expenses						
Salary expenses	\$ -	\$153,564	\$153,564	\$ -	\$147,623	\$147,623
Employee insurance expenses	-	7,703	7,703	-	7,133	7,133
Pension expenses	-	12,851	12,851	-	-	-
Severance pay	-	454	454	-	14,718	14,718
Others	-	13,429	13,429	-	12,018	12,018
Depreciation expenses	1,570	9,762	11,332	1,550	10,274	11,824
Amortization expenses	-	592	592	-	299	299

Note : The depreciation, which is classified as operating cost , is accounted for as deduction to the real estate investments.

16. Income tax

A. For the year 2005 and 2004, the difference between the Corporation's pretax income and taxable income are as follows :

	2005	2004
Income before income tax	\$781,334	\$533,626
Non-taxable items :		
Loss (Gain) on sale of securities	(259,590)	4,450
Interest taxes imposed on transactions of marketable securities	(25,524)	(15,394)
Non-deductible income tax (including temporary difference)	18,669	(4,841)
Total	<u>\$514,889</u>	<u>\$517,841</u>

B. The Corporation's tax filings are reviewed and finalized by the authorities up to the year 2001 ; there is no critical difference between the filing and the approved amounts.

C. The Corporation's undistributed earnings as of December 31, 2005 and 2004 are presented as follows :

	2005	2004
Before 1997	\$ -	\$ -
After 1998	766,745	500,298
Total	<u>\$766,745</u>	<u>\$500,298</u>

D. The imputation tax account as of December 31, 2005 and 2004 are presented as follows :

	2005	2004
Shareholder's deductible income tax account	\$135,848	\$108,661
Percentage of tax credit	17.72%	34.21%

E. As of December 31, 2005 and 2004, deferred income tax asset and liability are as follows :

	December 31	
	2005	2004
a. (1) Deferred income tax assets	\$11,783	\$8,165
(2) Deferred income tax liabilities	641	1,690
(3) Valuation allowance for deferred income tax assets	-	-
(4) Temporary difference contributed to deferred income tax asset or liability:		
Recognition of allowance for doubtful accounts	29,660	29,473
Unrealized exchange losses	4,397	3,187
Pension expenses	(2,564)	(6,759)
Other expenses	13,074	-
b. Deferred income tax assets-current	\$9,301	\$8,165
Valuation allowance for deferred income tax assets-current	-	-
Deferred income tax assets-current (net)	<u>\$9,301</u>	<u>\$8,165</u>
Deferred income tax liabilities-current	-	-
Net	<u>\$9,301</u>	<u>\$8,165</u>
c. Deferred income tax assets-non-current	\$2,482	\$ -
Valuation allowance for deferred income tax assets-non-current	-	-
Deferred income tax assets-non-current (net)	<u>\$2,482</u>	<u>\$ 1,690</u>
Deferred income tax liabilities-non-current	(641)	-
Net	<u>\$1,841</u>	<u>\$1,690</u>

d. Income tax payable for continuing operations	\$128,712	\$129,450
10% income tax on undistributed earnings	7,022	427
Taxes reduced in investment	(1,200)	(1,061)
Deferred income tax expense (benefit) from appropriation	(4,666)	1,211
Under-estimation of prior year income tax expense (benefit)	2	2,052
Taxes imposed on transactions of marketable securities	4,941	3,056
Others	-	(111)
Income tax expense for continuing operations	<u>\$134,811</u>	<u>\$135,024</u>

V、RELATED PARTIES TRANSACTIONS

None for 2005 and 2004

VI、ASSETS PLEDGED OR MORTGAGED

A. As of December 31, 2005 and 2004, the assets pledged or mortgaged are as follows:

	December 31		Account
	2005	2004	
Government bonds	\$751,000	\$640,000	Refundable deposit

B. Pursuant to the requirements of Insurance Law, the above-mentioned government bonds are deposited with the Central Bank as guarantee of the insurance business as of December 31, 2005 and 2004 respectively.

VII、COMMITMENTS AND CONTINGENCIES

None for 2005 and 2004

VIII、SIGNIFICANT DISASTER LOSS

None for 2005 and 2004

IX、SIGNIFICANT SUBSEQUENT EVENT

There is no significant subsequent event from balance sheet date to the date that audit report issued.

X、OTHERS

A. Information on fair value of financial instruments

1. Derivative financial instruments:

	December 31, 2005	
	Book value	Fair value
FX swap contracts		
Forward exchange contract receivables	\$3,635,724	\$3,635,724
Forward exchange contract payables	(3,606,814)	(3,606,814)
Discount on forward exchange contract	5,381	5,381
	December 31, 2004	
	Book value	Fair value
FX swap contracts		
Forward exchange contract receivables	\$1,074,298	\$1,074,298
Forward exchange contract payables	(1,060,161)	(1,060,161)
Discount on forward exchange contract	392	392

2. Fair value of non-derivative financial instruments:

	December 31, 2005	
	Book value	Fair value
<u>Assets</u>		
Financial assets – with fair values approximating carrying values	\$8,107,301	\$8,107,301
Short-term investment (net)	4,305,298	4,321,180
Long-term investment (except real estate investments)	8,680,707	8,691,457
Refundable deposit	832,853	887,820
<u>Liabilities</u>		
Financial liabilities– with fair values approximating carrying values	1,514,601	1,514,601

	December 31, 2004	
	Book value	Fair value
<u>Assets</u>		
Financial assets – with fair values approximating carrying values	\$6,808,283	\$6,808,283
Short-term investment (net)	5,870,506	5,885,745
Long-term investment (except real estate investments)	5,905,369	5,914,938
Refundable deposit	701,176	747,527
<u>Liabilities</u>		
Financial liabilities– with fair values approximating carrying values	994,830	994,830

3. The methods and assumptions applied in estimating fair values are as follows:

- (1) The carrying values of cash and cash equivalents, notes and premium receivables, other current assets, other assets, other payables, accrued pension costs, other current liabilities, other liabilities approximate the fair values because of the short maturity of these instruments.
- (2) The fair values of short-term and long-term investments are based on market prices or, if market prices are not available, upon financial data or other relevant data sources.

B. Reclassifications

Before reclassifications - 2004		After reclassifications - 2004	
Account	Amount	Account	Amount
Balance sheets			
Accounts receivable- net	\$991,947	Income tax recoverable	\$21,532
		Interests and revenue receivable	142,962
		Accrued claim recoverable from Reinsurers (net)	16,429
		Due from other insurance companies (net)	763,252
		Inward premium receivable	32,380
		Other receivables	15,392

Prepaid expenses and other current assets	23,244	Forward exchange contract receivable	14,529
		Prepaid accounts	550
		Deferred income tax assets - current	8,165
Accounts with reinsurers	913,779	Due to other insurance companies	327,632
Other current liabilities	366,790	Reinsurance premiums outward payable	815,233
		Taxes payable	59,035
		Other payable	49,476
		Advanced accounts	713
		Other current liabilities	28,480
Statements of income			
Other	17,185	Interest expenses	256
		Other operating costs	16,929

XI、NOTES TO DISCLOSURE EVENTS

A. Information on significant transactions

1. Collateral loan to others: Not applicable
2. As guarantor or surety for others: Not applicable
3. Holding marketable securities at year-end: Not applicable
4. Accumulated acquisition costs or disposal proceeds for specific marketable securities amounted to NT\$100,000,000 or 20% of capital: Not applicable
5. Acquisition of property and equipments is over NT\$100,000,000 or 20% of capital: None
6. Disposal in property and equipments is over NT\$100,000,000 or 20% of capital: None
7. Transactions with related parties mutually on each's major business operation amounted more than NT\$100,000,000 or 20% of capital: None
8. Account receivable in related parties is over NT\$100,000,000 or 20% of capital: None

9. Transactions on derivative:

(1) Purpose of derivative financial instruments and related strategies

The Corporation held the derivative financial instruments completely for purpose other than trading. The Corporation entered into FX swap contracts to hedge the effect of foreign currency fluctuations on long-term investments. The purpose of hedging strategies is to hedge market risk the Corporation is exposed. The Corporation has designated hedging instruments as highly negative correlations with the fair value of the hedged item and periodically evaluates the effectiveness of the instruments.

(2) Nominal Amount

(a) As of December 31, 2005 :

Financial instruments	Contract amount (Nominal amount)	Trade date	Due date	Appointed exchange rate (In Dollars)
FX swap contracts	USD 103,755	2005.12.16~	2006.01.04~	33.0182~33.3100
		2005.12.30	2006.01.27	
	CAD 7,000	2005.12.22	2006.3.22	28.3030

(b) As of December 31, 2004 :

Financial instruments	Contract amount (Nominal amount)	Trade date	Due date	Appointed exchange rate (In Dollars)
FX swap contracts	USD 33,372	2004.12.01~	2005.01.03~	32.0380~32.2825
		2004.12.30	2005.01.13	

(3) Credit risk

The Corporation is exposed to credit risk in the event of nonperformance of the counterparties to FX swap contracts on maturity. In order to manage this risk, the Corporation transacts only with financial institutions with good credit ratings. Thus, no material losses resulting from counterparty defaults are anticipated.

The fair value is the Corporation should pay or obtain on the balance sheet date.

(4) Market risk

The Corporation entered into FX swap contracts to hedge the effect of foreign currency fluctuation. Thus, gain or loss arising from exchange rate

fluctuations will approximately be offset with those hedged items. The potential market risk is insignificant.

- (5) Liquidation risk, cash flow risk and uncertainty of amount and term of future cash demand

Net interest, which is equal to the principal multiplied by the difference in interest rates and is received or paid upon each settlement date, is not material. No receipt or payment of principal is required on the expiry date. Thus, the cash demand related to the swap contracts is not significant.

- (6) Other information

The net FX swap receivables and payable are offset and the difference is presented either as a current asset or a current liability. As of December 31, 2005 and 2004, the net amount of \$34,291 and \$14,529 were shown as a current assets.

B. Disclosure for investment other than primary operation : None for 2005 and 2004

C. Disclosure for investment in Mainland China : None for 2005 and 2004

XII 、 SEGMENT INFORMATION

- A. Industry information:

The Corporation is only engaged in reinsurance.

- B. Geographical information: Not applicable

- C. Export information: Not applicable

- D. Major customers: There are no specific customers that contributed over 10% of the total revenues stated on the income statement of the Corporation.

XIII 、 BORROWINGS RESULTED FROM PAYMENT OF CLAIMS

None for 2005 and 2004

XIV 、 ACQUISITION 、CONSTRUCTION 、IDLELIZATION AND SALE OF MAIN OPERATING ASSETS AND REAL ESTATE INVESTMENT

None for 2005 and 2004

XV 、 IMPORTANT LAWSUITS IN PROGRESS OR ADJUDICATED

None for 2005 and 2004

XVI 、 IMPORTANT CONTRACTS SIGNED, DISCHARGED BY PERFORMANCE, AGREEMENT, OPERATION OF LAW, OR BREACHED

None for 2005 and 2004

XVII 、 ADJUSTMENT OF ORGANIZATION AND SIGNIFICANT CHANGE OR REFORM OF MANAGEMENT MECHANISM

None for 2005 and 2004

XVIII 、 SIGNIFICANT EFFECTS ON THE FINANCIAL PRESENTATION DUE TO CHANGE OF GOVERNMENT LAW OR REGULATIONS

None for 2005 and 2004