CENTRAL REINSURANCE CORPORATION
FINANCIAL STATEMENTS WITH
REPORT OF INDEPENDENT AUDITORS
DECEMBER 31, 2006 AND 2005

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, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the years 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.

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, 2006 and 2005, and the results of its operations and its cash flows for the years 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.

As Note III in Notes to Financial Statements, the Corporation adopted Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement" ("SFAS No.34,"), No. 36, "Financial Instruments: Disclosure and Presentation" to account for the financial instruments for its financial statements beginning on and after January 1, 2006 (the "effective date").

Ernst & Young
Certified Public Accountants
Taipei, Taiwan R.O.C
February 26 , 2007

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, 2006 and 2005

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Note No.	December 31, 2006	December 31, 2005
CURRENT ASSETS			
Cash and cash equivalents	IV. 1	$ 6,482,314	$ 6,463,735
Financial assets at fair value through profit or loss - current	IV. 2	-	4,100
Available for sale financial assets - current	IV. 3	2,311,505	2,710,496
Held to maturity financial assets - current	IV. 4	3,093,468	-
Financial assets by cost - current	IV. 5	-	145,000
Bond portfolios with no active market bonds - current	IV. 6	787,443	443,461
Notes receivable (net)	IV. 7	5,715	11,445
Income tax recoverable		6,166	21,532
Interests and revenue receivable		204,115	133,047
Due from other insurance companies (net)		964,669	817,228
Inward premium receivable		42,925	82,033
Other receivables (net)		1,054,322	199,492
Prepaid accounts		736	1,030
Deferred income tax assets - current	IV. 24	8,587	9,301
Other current assets		320	-
Total Current Assets		14,962,285	11,041,900
FUND AND INVESTMENTS			
Financial assets at fair value through profit or loss - non curren	IV. 8	764,070	618,033
Available for sale financial assets - non current	IV. 9	353,747	276,419
Held to maturity financial assets - non current	IV. 10	2,557,354	5,536,277
Financial assets by cost - non current	IV. 11	322	181
Bond portfolios with no active market bonds - non current	IV. 12	3,474,619	3,537,038
Real estate investments (net)	IV. 13	467,766	467,901
Total Fund and Investments		7,617,878	10,435,849
PROPERTIES AND EQUIPMENTS			
Land		29,420	30,625
Buildings		61,512	58,922
EDP equipments		20,208	20,088
Transportation equipments		7,493	7,891
Miscellaneous equipments		7,211	8,549
Revaluation for land and buildings		222,805	277,642
Accumulated depreciation		(66,929)	(63,872)
Total Properties and Equipments	IV. 14	281,720	339,845
INTANGIBLE ASSETS			
Deferred pension costs	IV. 18	824	899
Total Intangible Assets		824	899
OTHER ASSETS			
Refundable deposits	IV. 15	944,897	832,853
Funds held by other insurance companies		143,500	128,080
Deferred income tax assets - non current	IV. 24	12,322	1,841
Other deferred charges		574	466
Total Other Assets		1,101,293	963,240
TOTAL ASSETS		$ 23,964,000	$ 22,781,733

LIABILITIES AND SHAREHOLDERS' EQUITY	Note No.	December 31, 2006	December 31, 2005
CURRENT LIABILITIES			
Financial liabilities at fair value through profit or loss - current	IV. 16	$ 5,574	$ -
Derivative financial liabilities for hedging - current	IV. 17	8,465	-
Accrued expenses		77,862	77,138
Taxes payable		72,036	49,224
Due to other insurance companies		627,332	423,899
Reinsurance premiums outward payable		682,094	848,654
Other payable		3,200	150,958
Advanced accounts		12,950	765
Other current liabilities		3,253	19,622
Total Current Liabilities		1,492,766	1,570,260
LONG - TERM LIABILITIES			
Reserve for tax on increment of land		72,223	92,468
Accrued pension liability	IV. 18	1,367	2,691
Total Long-Term Liabilities		73,590	95,159
OPERATION AND LIABILITIES RESERVE			
Unearned premium reserve		5,971,373	5,884,633
Equalisation reserve		3,313,856	2,829,475
Claims reserve		6,223,689	5,819,860
Total Operation and Liabilities Reserve		15,508,918	14,533,968
OTHER LIABILITIES			
Guarantee deposits received		6,272	7,109
Funds held for reinsurers		6,427	6,843
Total Other Liabilities		12,699	13,952
Total Liabilities		17,087,973	16,213,339
SHAREHOLDERS' EQUITY			
Capital stock, $10 par value Authorized and issued 500,000 thousand shares	IV. 19	5,000,000	5,000,000
Capital surplus	IV. 20		
Capital surplus - excess of par value		300,000	300,000
Retained earnings			
Legal reserve		382,201	317,548
Special reserve		4,055	147
Un-appropriated retained earnings		991,296	766,745
Other accounts			
Unrealized gain (loss) on financial assets		47,016	-
Revaluation reserve on land		153,417	188,009
Cumulative translation adjustment		-	(141)
Unrealized loss on pension cost		(1,958)	(3,914)
Total Shareholders' Equity		6,876,027	6,568,394
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 23,964,000	$ 22,781,733

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, 2006 and 2005

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

	Note No.	2006	2005
OPERATING REVENUES			
Gross premium written		$18,877,665	$18,936,227
Retroceded premium		(5,819,614)	(6,345,352)
Net premiums written		13,058,051	12,590,875
Interest income		542,759	467,219
Overriding commissions		120,617	132,877
Gain on disposal of investments		284,654	259,590
Income from real estate investments , net		19,949	18,788
Other operating revenues		27,870	-
Total operation revenues		14,053,900	13,469,349
OPERATING COSTS			
Reinsurance commissions		(5,279,101)	(5,145,185)
Reinsurance commission received on retrocession		1,260,915	1,440,953
		(4,018,186)	(3,704,232)
Reinsurance claims paid		(10,453,782)	(9,456,841)
Reinsurance claims paid on retrocession		2,714,012	2,106,833
		(7,739,770)	(7,350,008)
Interest expenses		(302)	(164)
Loss on evaluation of financial assets		(19,202)	-
Loss on evaluation of financial liabilities		(122,967)	-
Change in operating reserves			
Change in unearned premiums		(86,740)	(438,092)
Change in equalisation reserve		(485,153)	(312,077)
Change in outstanding claims		(403,829)	(449,180)
		(975,722)	(1,199,349)
Other operating costs		(4,302)	(57,541)
Total operation costs		(12,880,451)	(12,311,294)
GROSS PROFIT		1,173,449	1,158,055
OPERATING EXPENSES			
Operating expenses		(260,940)	(273,388)
Administrative expenses		(96,590)	(99,392)
Developing expenses		(1,119)	(1,363)
Training expenses		(2,801)	(3,039)
Total operating expenses		(361,450)	(377,182)
NET OPERATING INCOME		811,999	780,873
NON – OPERATING INCOME AND GAIN			
Gain on disposal of fixed assets		53,044	-
Miscellaneous income		870	541
Total non-operating income and gain		53,914	541
NON – OPERATING EXPENSES AND LOSSES			
Loss on disposal of assets		-	(52)
Impairment loss		(25,000)	-
Miscellaneous expenses		(14)	(28)
Total non – operating expenses and losses		(25,014)	(80)
INCOME BEFORE INCOME TAXES		840,899	781,334
Income taxes	IV、24	(145,480)	(134,811)
Cumulative effect of change on accounting principles (after deducting effect of tax $1,391)		4,173	-
NET INCOME		$699,592	$646,523
EARNINGS PER SHARE			
Income before income taxes		1.68	1.75
Net income	IV、22	1.40	1.45

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, 2006 and 2005

(Expressed in Thousands of New Taiwan Dollars)

			Retained Earnings			Other Accounts				
	Capital stock	Capital surplus	Legal reserve	Special reserve	Un-appropriated retained earnings	Unrealized gain (loss) on financial assets	Revaluation reserve on land	Cumulative translation adjustment	Unrealized loss on pension cost	Total
Balance, January 1, 2005	$4,200,000	$180,000	$277,688	$171	$500,298	$ -	$129,608	($147)	$ -	$5,287,618
Distribution of earnings:										
Legal reserve			39,860		(39,860)					-
Special reserve				(24)	24					-
Cash dividends					(336,000)					(336,000)
Employee bonuses					(3,640)					(3,640)
Directors' and supervisors' remuneration					(600)					(600)
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	300,000	317,548	147	766,745	-	188,009	(141)	(3,914)	6,568,394
Effect from the first adoption of SFAS No.34						99,970		141		100,111
Distribution of earnings:										
Legal reserve			64,653		(64,653)					-
Special reserve				3,908	(3,908)					-
Cash dividends					(400,000)					(400,000)
Employee bonuses					(5,780)					(5,780)
Directors' and supervisors' remuneration					(700)					(700)
Change in revaluation reserve on land							(34,592)			(34,592)
Unrealized loss on pension cost									1,956	1,956
Unrealized gain (loss) on financial assets						(52,954)				(52,954)
Net income in 2006					699,592					699,592
Balance at December 31, 2006	$5,000,000	$300,000	$382,201	$4,055	$991,296	$47,016	$153,417	$ -	($1,958)	$6,876,027

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, 2006 and 2005

(Expressed in Thousands of New Taiwan Dollars)

	2006	2005
Cash Flows From Operating Activities		
Net income (loss)	$699,592	$646,523
Adjustments to reconcile net income to net cash provided by (used in) operating activities：		
Allowance for bad debt	(19)	(4)
Allowance for depreciation	11,261	11,332
Allowance for amortization	492	592
Amortization of bonds (discount) premium	43,833	(69,160)
Loss (Gain) on disposal of financial assets-non current	(2,360)	-
Cumulative effect of change in accounting principles	(4,173)	-
Impairment loss	25,000	-
Loss (Gain) on valuation of financial assets	19,202	-
Loss (Gain) on retirement of fixed assets	-	52
Loss (Gain) on disposal of fixed assets	(53,044)	-
(Increase) decrease in prepayments on purchase of land and buildings	-	555
(Increase) decrease in financial assets - current	1,057,597	1,565,208
(Increase) decrease in notes receivable and receivable in arrears	(11,338)	(13,923)
(Increase) decrease in inward premium receivable and premiums outward payable	(127,452)	32,499
(Increase) decrease in claim recoverable from reinsurers	-	(32,302)
(Increase) decrease in due to and from other insurance companies	73,078	9,260
(Increase) decrease in income tax recoverable	(55,702)	9,915
(Increase) decrease in other receivables	(854,830)	(134,056)
(Increase) decrease in prepaid accounts	294	(480)
(Increase) decrease in deferred income tax assets	(13,615)	(4,666)
(Increase) decrease in other current assets	(320)	(285,000)
(Increase) decrease in guarateed deposits / received	(33,426)	(131,698)
Increase (decrease) in funds held by / for other reinsurance companies	(15,836)	29,431
Increase (decrease) in accrued expenses	724	6,970
Increase (decrease) in taxes payable	22,812	(9,811)
Increase (decrease) in other payable	(147,758)	101,482
Increase (decrease) in advance accounts	12,185	51
Increase (decrease) in other current liabilities	(16,369)	(8,858)
Increase (decrease) in accrued pension liability	707	4,195
Provision for (recovered from) reserves	974,950	1,198,661
Net cash provided by (used in) operating activities	$1,605,485	$2,926,768
Cash Flows From Investing Activities		
Disposal (Purchase) of financial assets-non current	(1,225,033)	(2,706,171)
Purchase of fixed assets	(9,042)	(2,276)
Disposal of fixed assets	54,249	-
Purchase of intangible assets and other assets	(600)	-
(Increase) decrease in other assets	-	3,738
Net cash provided by (used in) investing activities	(1,180,426)	(2,704,709)
Cash Flows From Financing Activities		
Issurance of capital stock	-	920,000
Cash dividends	(400,000)	(336,000)
Directors' and supervisors' remuneration and emploees bonuses	(6,480)	(4,240)
Net cash used in financing activities	(406,480)	579,760
Net increase (decrease) in cash and cash equivalents	18,579	801,819
Cash and Cash Equivalent, beginning of period	6,463,735	5,661,916
Cash and Cash Equivalent, end of period	$6,482,314	$6,463,735
Supplemental Disclosures:		
Cash paid for interest during the period	$302	$164
Cash paid for income tax during the period	$117,069	$149,289

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, 2006 and 2005

(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, 2006 and 2005, the Corporation had 120 and 125 employees.

II、SIGNIFICANT ACCOUNTING POLICIES

The Corporation's financial statements are in conformity with the insurance regulations accounting practices accepted in the insurance industry and accounting principles generally accepted in the Republic of China. The significant accounting policies are summarized as followings:

1.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.

2.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.

3.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.

4.Financial assets and liabilities

Financial assets in the scope of SFAS No. 34 “Financial Instruments: Recognition and Measurements” are classified as either financial assets at fair value through profit or loss, bond portfolio with no active market bonds, held-to-maturity investments, financial assets carried at cost, derivative financial assets for hedging or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial liabilities are classified as either financial liabilities at fair value through profit or loss, derivative financial liabilities for hedging, or financial liabilities at amortized cost.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Branch commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

(1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are subsequently measured at fair value and changes in fair value are recognized in profit and loss. Held for trading and designated by the Branch as at fair value through profit or loss are classified as financial assets at fair value through profit or loss.

(2) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the corporation has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

(3) Financial assets by cost

Securities haven’t be listed on Taiwan stock exchange or Gre Tai securities market and don’t have significant influence; or derivative financial assets which are connected with and carried over by these securities.

(4) Bond portfolios with no active market bonds

Bond portfolios with no active market bonds are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at cost using the effective interest method. Gains and losses are recognized in income when the bond portfolio with no active market bonds are derecognized or impaired, as well as through the amortization process.

(5) Available-for-sale financial assets

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

(6) Derivative financial assets for hedging

Derivative financial assets that have been designated in hedge accounting relationships and are effective hedging instruments shall be measured at fair value.

(7) Fair value

The fair value of investments is determined by reference to the close price at the balance sheet date for listed shares, or the net asset value for open-ended funds.

(8) Financial liabilities

After initial recognition, the Branch measured all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging. Such liabilities shall be measured at fair value.

5. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in which the transferor surrenders control over those financial assets, and shall be accounted for as a sale.

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 Corporation accounted for the transfer as a borrowing with collateral.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

6. Impairment of financial assets

The Corporation assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of collection shall be measured and the amount of the impairment loss shall be recognized based on SFAS, No. 34, " Financial Instruments: Recognition and Measurement" and relative policies.

7. Derivative financial instruments and hedging

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 year.
Any gains or losses arising from changes in fair value on derivatives that qualify the strict criteria for hedge accounting are accounted for as follows:

(1) Fair value hedges：

Fair value hedges are hedges of the Corporation's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.
For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss.
Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.
When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Corporation discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Corporation revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

(2) Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

(3) Hedge of a net investment in a foreign operation

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to profit or loss.

8.Allowance for 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.

9.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.

10.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.

11.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.

12.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.

13.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.

14.Pension cost

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

15.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, 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.

16.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.

17.The major accounting principles adopted in 2005

(1)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.

(2) 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.

(3) 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.

(4) 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.)

(4) 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 Company adopted the R.O.C. Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments" ("SFAS No.34,") and No. 36, "Disclosure and Presentation of Financial Instruments" to account for the financial instruments for its financial statements beginning on and after January 1, 2006 (the "effective date"). Transitional arrangement for instruments outstanding at the effective date is summarized as follows:

【Instruments measured at fair value and amortized cost】

At the effective date, the Company shall remeasure and reclassify financial assets and liabilities that should be measured at fair value or amortized cost as appropriate according to SFAS No. 34. Any resulting adjustment shall be recognize as either cumulative effects of changes in accounting principles or a component of equity, depending on the classification of the instruments:

(1) Cumulative effects of changes in accounting principles: for financial assets or liabilities at fair value through profit or loss.

(2) A component of equity: for financial assets carried at amortized cost, available for sale financial assets and derivatives designated as cash flow hedges or net investment hedges.

The above changes in accounting principles have exerted influences for the opening balances of 2006 on current assets, fund and investments increased respectively $52,997and $52,537.It leads to positive cumulative effects of changes in accounting principles $4,173 in the beginning balance of financial statements on 2006; cumulative effects of changes in accounting principles includes in net income on 2006 and it makes earning per share increased $0.01.

IV、BREAKDOWN OF SIGNIFICANT ACCOUNTS

1. Cash and cash equivalents

A. The details of this account are as follows:

	December 31	
	2006	2005
Petty cash	$130	$130
Check deposit	3,848	40,383
Demand deposit	189,993	163,803
Time deposit	3,729,540	4,896,421
Negotiable certificates of deposit	411,321	257,368
Commercial paper	1,934,155	755,491
Treasury bills	213,327	350,139
Total	$6,482,314	$6,463,735

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

C. The above-mentioned time deposits as of December 31, 2006 and 2005 maturing after one year amounted to $282,300 and $90,000.

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

A. The details of this account are as follows:

	December 31	
	2006	2005
Convertible corporate bonds	$-	$4,100
Less: Evaluation adjustment	-	-
Total	$-	$4,100

B. Financial assets at fair value through profit or loss-current are appointed financial assets at fair value through profit or loss.

C. Financial assets at fair value through profit or loss-current on December 31, 2005 were evaluated on lower of cost or market method.

3.Available for sale financial assets-current

A. The details of this account are as follows:

	December 31	
	2006	2005
Domestic investment		
Stock of listed companies	$796,676	$1,410,106
REITs	253,721	90,003
Government bonds	-	289,850
Corporate bonds	-	80,774
Financial bonds	300,344	408,863
Open-end funds	449,852	697,567
Private funds-others	155,000	-
Foreign investment		
Stock of listed companies	153,083	-
Hedge funds	195,208	-
Subtotal	2,303,884	2,977,163
Add: Evaluation adjustment	7,621	-
Less: Statutory deposit	-	(266,667)
Total	$2,311,505	$2,710,496

B. Available for sale financial assets-current include assigned available for sale financial assets and unclassified to other non-derivative financial assets.

C. Available for sale financial assets-current on December 31, 2006, domestic investments are determined by closed price of the Taiwan Stock Exchange and Gre Tai securities market on settled date; funds are determined by net price on the balance sheet date; foreign investments are determined by system of market quote.

D. Available for sale financial assets-current on December 31, 2005 were evaluated on lower of cost or market method.

E. Pursuant to the requirements of Insurance Law, government bonds are deposited in the Central Bank as guarantee of the insurance business.

4. Held to maturity financial assets-current

A. The details of this account are as follows

	December 31	
	2006	2005
Domestic investment		
Corporate bonds	$980,000	$-
Financial bonds	2,014,347	-
Treasury bills	99,121	-
Total	$3,093,468	$-

B. Held to maturity financial assets-current are non-derivative financial assets with fixed or decidable collection amount and fixed expiration date, and the Corporation has positive intention and abilities to hold to maturity. Evaluations are based on cost after amortization.

5. Financial assets by cost-current

A. The details of this account are as follows

	December 31	
	2006	2005
Domestic investment		
Private funds-others	$-	$145,000
Total	$-	$145,000

B. The fair value of the instruments can not be reliably measured, and the Corporation do not have significant influence on the investments, thus the evaluations are based on cost.

6. Bond portfolios with no active market bonds-current

A. The details of this account are as follows:

	December 31	
	2006	2005
Domestic investment		
Private funds-bonds	$100,000	$140,000
Financial bonds	353,012	303,461
Foreign investment		
Private funds-bonds	26,136	-
CMO	292,270	-
CDO	16,025	-
Total	$787,443	$443,461

B. Bond portfolios with no active market bonds-current are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are carried at cost using the effective interest method.

7. Notes receivable (net)

A. The details of this account are as follows:

	December 31	
	2006	2005
Notes receivable	$5,773	$ 11,560
Less: Allowance for doubtful accounts	(58)	(115)
Net	$5,715	$ 11,445

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.

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

A. The details of this account are as follows:

	December 31	
	2006	2005
Domestic investment		
Convertible corporate bonds	$2,000	$-
Foreign investment		
Structural bonds	778,576	618,033
Less: Evaluation adjustment	(16,506)	-
Total	$764,070	$618,033

B. Financial assets at fair value through profit or loss-non current are appointed financial assets at fair value through profit or loss.

C. Financial assets at fair value through profit or loss-current on December 31, 2006, convertible corporate bonds were determined by closed price of Gre Tai securities market on settled date;foreign investment are evaluated by system of market quote, Monte Carlo simulation and scenario analysis simulation.

D. Foreign structural bonds on December 31, 2005 were based on cost after amortization.

9.Available for sale financial assets-non current

A. The details of this account are as follows:

	December 31	
	2006	2005
Domestic investment		
Stock of listed companies		
(Preferred stock)	$51,000	$51,000
Government bonds	851,729	770,391
Corporate bonds	300,367	-
Subtotal	1,203,096	821,391
Add: Evaluation adjustment	41,745	-
Less: Statutory deposit	(891,094)	(544,972)
Total	$353,747	$276,419

B. Available for sale financial assets-non current include assigned available for sale financial assets and unclassified to other non-derivative financial assets.

C. Available for sale financial assets-non current on December 31, 2006 are determined by open quoted price of active market.

D. Availabe for sale financial assets-non current on December 31, 2005 were based on cost after amortization.

E. Pursuant to the requirements of Insurance Law, government bonds are deposited in the Central Bank as guarantee of the insurance business.

10. Held to maturity financial assets-current

A.The details of this account are as follows：

	December 31	
	2006	2005
Domestic investment		
Corporate bonds	$957,208	$2,014,681
Financial bonds	1,600,146	3,521,596
Total	$2,557,354	$5,536,277

B. Held to maturity financial assets-non current are non-derivative financial assets with fixed or decidable collection amount and fixed expiration date, and the Corporation has positive intention and abilities to hold to maturity. Evaluations are based on cost after amortization.

11. Financial assets by cost-non current

A. The details of financial assets by cost-non current on December 31, 2006 are as follows：

Equity instruments	Shares	Book value
Stock of unlisted companies		
Asian Hull Syndicate, Ltd.	400 shares	$322

B. The details of financial assets by cost-non current on December 31, 2005 are as follows：

Equity instruments	Shares	Book value
Stock of unlisted companies		
Asian Hull Syndicate, Ltd.	400 shares	$181

C. The fair value of the instruments cannot be reliably measured, and the Corporation do not have significant influence on the investments, thus the evaluations are based on cost.

12. Bond portfolios with no active market bonds-non current

A. The details of this account are as follows:

	December 31	
	2006	2005
Domestic investment		
Stock of unlisted companies	$25,000	$99,430
Financial bonds	-	102,511
Financial assets securitization	383,896	180,254
Foreign investment		
CMO	1,703,146	1,712,874
CDO	1,030,639	984,554
Structural bonds	260,448	360,514
Corporate bonds	96,490	96,901
Less: Accumulated impairment	(25,000)	-
Total	$3,474,619	$3,537,038

B. Bond portfolios with no active market bonds-non current are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are carried at cost using the effective interest method.

13.Real estate investments (net)

A. The details of this account are as follows:

	December 31	
	2006	2005
Acquisition cost of land	$409,165	$409,165
Acquisition cost of buildings	75,807	74,321
Revaluation for land	2,441	2,441
Revaluation for buildings	394	394
Sub-total	$487,807	$486,321
Less: Accumulated depreciation	(20,041)	(18,420)
Net	$467,766	$467,901

B. The revaluation of real estate investment, please refer to Note IV.14.

C. The above-mentioned property has not been indicated as collateral for mortgage.

14. Properties and equipments (net)

A. The details of this account are as follows:

	December 31	
	2006	2005
1. Cost		
Acquisition cost of land	$29,420	$30,625
Acquisition cost of buildings	61,512	58,922
EDP equipments	20,208	20,088
Transportation equipments	7,493	7,891
Miscellaneous equipments	7,211	8,549
Revaluation		
Revaluation of land	214,787	269,624
Revaluation of buildings	8,018	8,018
Total cost	$348,649	$403,717

	December 31	
	2006	2005
2. Accumulated depreciation		
Buildings	($42,360)	($36,326)
EDP equipments	(13,521)	(15,187)
Transportation equipments	(5,154)	(4,686)
Miscellaneous equipments	(5,894)	(7,673)
Total accumulated depreciation	($66,929)	($63,872)
Net	$281,720	$339,845

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.
The capital surplus above were reclassified to other accounts of shareholders' equity according to the business accounting law amended in 2006.

15. Refundable deposits

A. The details of this account are as follows:

	December 31	
	2006	2005
Statutory deposit	$891,094	$811,639
Futures margin	32,613	-
Others	21,190	21,214
Total	$944,897	$832,853

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, 2006 and 2005.

C. Futures margin on December 31 ,2006 include initial margin $5,250 and excess margin $27,363.

D. Others including club membership deposits and rent deposits etc.

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

A. The details of this account are as follows:

	December 31	
	2006	2005
Forward exchange contracts	$-	$-
Futures contracts	-	-
Add: Evaluation adjustment	5,574	-
Total	$5,574	$-

B. Forward exchange contracts and futures contracts are adjusted by fair market price on the balance sheet date.

17. Derivative financial liabilities for hedging-current

A. The details of this account are as follows:

	December 31	
	2006	2005
FX swap contracts	$8,465	$-

B. The Corporation entered into FX swap contracts to hedge the effect of foreign currency fluctuation. FX swap contracts are adjusted by fair market price on the balance sheet date.

18. 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, 2006 and 2005, the reconciliation of pension funding status and accrued pension liability was as follows：

	December 31	
	2006	2005
Benefit obligation：		
Vested benefit obligation	$17,985	$18,990
Non-vested benefit obligation	15,249	9,723
Accumulated benefit obligation	$33,234	$28,713
Additional benefits based on future salaries	6,451	5,891
Projected benefit obligation	$39,685	$34,604
Fair value of pension assets	(31,867)	(26,021)
Funded status	$7,818	$8,583
Unrecognized net obligation at date of initial application	(824)	(899)
Unrecognized prior service cost	-	-
Unrecognized pension losses	(8,409)	(9,806)
Additional liability	2,782	4,813
Accrued pension liability (prepaid pension cost)	$1,367	$2,691

D. The primary actuarial assumption is as follows:

	December 31	
	2006	2005
Discount rate	2.75%	3.50%
Expected long-term rate of return on plan assets	2.75%	3.50%
Growth rate in compensation levels	3.00%	3.00%

E. Vested benefits of employees who qualified to receive retirement benefits as of December 31, 2006 and 2005 amounted to $17,985 and $18,990.

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

	2006	2005
Service cost	$9,806	$10,919
Interest cost	1,211	801
Expected return on pension funds	(910)	(775)
Amortization	563	519
Net pension expenses (income)	$10,670	$11,464

19. Capital stock

As of December 31, 2006, the authorized capital at par value of $10 (New Taiwan dollars) per share amounted to $5,000,000.

20. Capital surplus

A. The details of this account are as follows:

	December 31	
	2006	2005
Excess of par value	$300,000	$300,000
Total	$300,000	$300,000

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.

21. 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 2005 and 2004 were approved by the meeting of stockholders on June 9, 2006 and June 3, 2005 respectively.

The details of distribution are as follows:

	2005	2004
Legal reserve	$64,653	$39,860
Special reserve	3,914	(24)
Cash dividends	400,000	336,000
Employee bonuses	5,780	3,640
Directors' and supervisors' remuneration	700	600
Total	$475,047	$380,076
Dividend per share (NT$)	$0.8	$0.8

C. The related information of distribution of earnings for year 2006 can be obtained from Market Observation Post System (MOPS).

22. 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, 2006 and 2005 is $1.40 and $1.45 per share.

23. Operating expenses

For the year 2006 and 2005, the payroll, depreciation and amortization expenses are as follows：

Functions / Accounts	2006		2005	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Payroll expenses				
Salary expenses	$ -	$158,737	$ -	$153,564
Employee insurance expenses	-	7,722	-	7,703
Pension expenses	-	13,808	-	12,851
Severance pay	-	-	-	454
Others	-	14,002	-	13,429
Depreciation expenses	1,621	9,640	1,570	9,762
Amortization expenses	-	492	-	592

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

24. Income tax

(1)Income tax expense

A. For the year 2006 and 2005, the difference between the Corporation's pretax income and taxable income are as follows：

	2006	2005
Income before income tax	$840,899	$781,334
Non-taxable items：		
Loss (Gain) on sale of securities	(261,392)	(259,590)
Interest taxes imposed on transactions of marketable securities	(28,551)	(25,524)
Non-deductible income tax (including temporary difference)	(72)	18,669
Total	$550,884	$514,889

B. The Corporation's tax filing are reviewed and finalized by authorities up to 2004. There is no critical difference between the filing and the approved amounts except that the amortization of premium bonds $21,644 and $32,614 for the year 2002 and 2003 have been assessed as interest income. The Corporation has been applied for an revised condition.

C. The Corporation's undistributed earnings as of December 31, 2006 and 2005 are presented as follows：

	2006	2005
Before 1997	$ -	$ -
After 1998	991,296	766,745
Total	$991,296	$766,745

D. The imputation tax account as of December 31, 2006 and 2005 are presented as follows：

	2006	2005
Shareholder's deductible income tax account	$159,280	$135,848
Percentage of tax credit	16.07%	24.14%

(2) As of December 31, 2006 and 2005, deferred income tax asset and liability are as follows：

	December 31	
	2006	2005
a. (1) Deferred income tax assets	$23,934	$11,783
(2) Deferred income tax liabilities	3,024	641
(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	29,660
Unrealized exchange losses	10,594	4,397
Recognition of pension expense	744	(2,564)
Recognition of other expenses	9,926	13,074
Evaluation of financial asset and liability	19,810	-
Unrealized gain of available for sale financial assets	(9,402)	-
Cumulative effect of change on accounting principles	(2,696)	-
Unrealized impairment of financial asset	25,000	-

	December 31	
	2006	2005
b. Deferred income tax assets-current	$10,937	$9,301
Valuation allowance for deferred income tax assets-current	-	-
Deferred income tax assets-current (net)	$10,937	$9,301
Deferred income tax liabilities-current	(2,350)	-
Net	$8,587	$9,301
c. Deferred income tax assets-non-current	$12,996	$2,482
Valuation allowance for deferred income tax assets-non-current	-	-
Deferred income tax assets-non-current (net)	$12,996	$2,482
Deferred income tax liabilities-non -current	(674)	(641)
Net	$12,322	$1,841
d. Income tax payable for continuing operations	$137,711	$128,712
10% income tax on undistributed earnings	17,148	7,022
Taxes reduced in investment	(857)	(1,200)
Deferred income tax expense (benefit) from appropriation	(9,768)	(4,666)
Cumulative effect of change on accounting principles based on inter-period tax allocation	(1,391)	-
Unrealized loss of available for sale financial assets-current based on inter-period tax allocation	(2,350)	-
Under-estimation of prior year income tax expense (benefit)	7	2
Taxes imposed on transactions of marketable securities	4,980	4,941
Income tax expense for continuing operations	$145,480	$134,811

25. Risk policies and hedging strategy

Excluding the derivatives, the financial instruments the Corporation possesses include: cash and cash equivalents, and all current and non-current investments. The main purpose of these financial instruments is to raise finance for the Corporation's operations. Further, the Corporation holds other financial assets and liabilities, such as any notes receivable/payable, reinsurance receivable /payable, which arise directly from operating activities. The Corporation also enters into derivative transactions, primarily futures contracts, FX swap contracts and forward exchange contracts. The purpose is to manage the fluctuation of price of stocks of listed companies invested and currency risks arising from the Corporation's operations and its sources of finance.

The primary risks for financial instruments are cash flow risk, foreign currency risk, fair value risk, credit risk, and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below. The risk management policies are as follows:

(1)Cash flow risk of fluctuations of interest rate

The Corporation accessed cash flow risk of assets that are affected by interest rate fluctuations is insignificant.

(2)Foreign currency risk

As a result of significant investment operations in the foreign currency risk, the Corporation's balance can be affected significantly by movements in the exchange rates. The Corporation seeks to mitigate the effect of its structural currency exposure by using FX swap contracts and forward exchange contracts.

(3)Fair value risk

Financial instruments could fluctuate in value due to change in government currency policy, institution credit ratings, economic condition, industry business cycle, operating status of the offering institution, or public market information, loss could be generated during the change. The Corporation seeks stability and consistency in profit as their priority; the investment department diversifies its portfolios among various industries with different backgrounds and properties, and observes closely on both domestic and foreign significant economic events as indicator for adjustment and effectively separate and maintain risk.

(4)Credit Risk

The concentrations of credit risk (whether on- or off-balance sheet) that arise from financial instruments exist for individuals or groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Corporation has complied with Article 146 of Insurance Act and related regulations to deal with financial instruments and does not have material concentrations of credit risk with respect to any individual customer or counterparty.

(5)Liquidity risk

With abundant capital and most of the financial instruments traded in active market, where the financial instruments could be sold at/near fair value, the liquidity risk for the Corporation is considered as low.

26. Information of financial instruments

(1)Fair value

Financial instruments	Dec.31, 2006	
	Book Value	Fair Value
Assets – Non Derivative		
Cash and cash equivalents	$6,482,314	$6,482,314
Available for sale financial assets-current	2,311,505	2,311,505
Held to maturity financial assets-current	3,093,468	3,093,468
Bond portfolios with no active market bonds- current	787,443	787,443
Notes receivable(net)	5,715	5,715
Inward premium receivable	42,925	42,925
Due from other insurance companies (net)	964,669	964,669
Other receivables	1,054,322	1,054,322
Financial assets at fair value through profit or loss-non current	764,070	764,070
Available for sale financial assets-non current	353,747	353,747
Held to maturity financial assets-non current	2,557,354	2,557,354
Financial assets by cost - non current	322	322
Bond portfolios with no active market bonds-non current	3,474,619	3,474,619
Other assets	1,067,207	1,067,207
Liabilities– Non Derivative		
Reinsurance premiums outward payable	682,094	682,094
Due to other insurance companies	627,332	627,332
Accrued expenses	77,862	77,862
Taxes payable	72,036	72,036
Other payable	3,200	3,200
Other liabilities	6,427	6,427
Liabilities-Derivative		
Financial liabilities at fair value through profit or loss-current		
Futures contracts	2,064	2,064
Forward exchange contracts	3,510	3,510
Derivative financial liabilities for hedging-current		
Fx swap contracts	8,465	8,465

	Dec. 31, 2005	
Financial instruments	Book value	Fair value
Assets– Non Derivative		
Cash and cash equivalents	$6,463,735	$6,463,735
Financial assets at fair value through profit or loss- current	4,100	4,100
Available for sale financial assets-current	2,710,496	2,710,496
Financial assets by cost - current	145,000	145,000
Bond portfolios with no active market bonds - current	443,461	443,461
Notes receivable (net)	11,445	11,445
Inward premium receivable	82,033	82,033
Due from other insurance companies (net)	817,228	817,228
Other receivables	165,201	165,201
Financial assets at fair value through profit or loss-non current	618,033	618,033
Available for sale financial assets-non current	276,419	276,419
Held to maturity financial assets-non current	5,536,277	5,536,277
Financial assets by cost - non current	181	181
Bond portfolios with no active market bonds -non current	3,537,038	3,537,038
Other assets	939,719	939,719
Liabilities– Non Derivative		
Reinsurance premiums outward payable	848,654	848,654
Due to other insurance companies	423,899	423,899
Accrued expenses	77,138	77,138
Taxes payable	49,224	49,224
Other payable	150,958	150,958
Other liabilities	6,843	6,843
Assets-Derivative		
Other receivables		
FX swap contracts	34,291	34,291

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

(a)The carrying values of cash and cash equivalents, notes receivable, inward premium receivable, reinsurance premiums outward payable, other current assets, other assets, accrued expenses, other payables, and other liabilities approximate fair values because of the short maturity of these instruments.

(b)When other current or non current financial assets (liabilities) have open quoted prices, the open quoted prices should be fair value. If there is no open quoted price, fair value should be determined by book value or estimeted fair value from other financial information.

(2)Fair value of financial assets and liabilities, determined drictely by open quoted price and determined by methods of evaluation are as follows:

	Amount determined by open quoted prices Dec31，2006	Amount determined by methods of evaluation Dec31，2006
financial assets		
Available for sale financial assets-current	1,173,146	1,138,359
Financial assets at fair value through profit or loss-non current	-	764,070
Available for sale financial assets-non current	53,380	300,367
financial liabilities		
Financial liabilities at fair value through profit or loss- current	-	5,574
Derivative financial liabilities for hedging-current	-	8,465

(3)The Corporation provides part of government bonds for statutory deposit, please see note VI.

(4)The loss on revaluation of financial assets which estimated by valuation methods is $24,776 in 2006.

(5)Except financial assets at fair value through profit or loss, the interest income of the financial assets is $ 516,423 in 2006.

(6)The amount of available for sale financial assets which are directly recognized as an adjustment of shareholder's equity presently is $ 91,900; the amount of an adjustment of shareholer's equity which is deducted and added into current income is $38,946.

(7)Interest rate risk:

As of December 31 ,2006 , the interest risk of financial instruments the Corporation engaged was sepecified by maturicies as follows:

Fixed interests

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	over 5 years	Total
Cash and cash equivalents	589,410	282,300	-	-	-	-	871,710
Available for sale financial assets - current	300,344	-	-	-	-	-	300,344
Held to maturity finanical assets -current	1,011,831	-	-	-	-	-	1,011,831
Bond portfolios with no active market bonds - current	595,220	-	-	-	-	-	595,220
Available for sale financial assets -non current	-	100,351	738,111	24,717	60,084	228,833	1,152,096
Held to maturity finanical assets -non current	-	600,272	-	-	356,936	-	957,208
Bond portfolios with no active market bonds -non current	-	359,071	395,521	385,114	277,928	732,758	2,150,392

Floated interests

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	over 5 years	Total
Cash and cash equivalents	3,047,823	-	-	-	-	-	3,047,823
Held to maturity finanical assets -current	2,081,637	-	-	-	-	-	2,081,637
Bond portfolios with no active market bonds - current	66,086	-	-	-	-	-	66,086
Financial assets at fair value through profit or losst-non current	-	65,340	-	-	-	713,236	778,576
Held to maturity finanical assets -non current	-	1,300,146	300,000	-	-	-	1,600,146
Bond portfolios with no active market bonds -non current	-	16,025	16,025	114,035	16,025	1,162,117	1,324,227

(8)Credit risk:

The Corporation follows Insurance Law No.146 and related policies and regulations of same organization to invest the limited amount. Therefore, there is no condition of significant credit risk concentration for financial instruments.

(9)Hedge activities:

A. As of December 31, 2006 and 2005, the unsettled balances of derivative financial instruments were as follows:

(a)FX swap contracts and forward exchange contracts

As of December 31, 2006：

Financial instruments	Contract amount (Nominal amount)		Fair value (NTD)	Trade date	Due date	Appointed exchange rate (In Dollars)
FX swap contracts	USD	74,125	($9,392)	2006.11.30 ~2006.12.26	2007.01.02 ~2007.01.31	32.2400～32.5766
	CAD	7,000	927	2006.12.22	2007.03.22	28.1130

China trust

Financial instruments	Nominal amount (USD)	Fair value (NTD)	Trade date	Due date	Forward rate (In Dollars)
Currency basket					
Buy EUR /Sell USD	1,001	$363	2006.11.24	2007.02.27	1.3063
Buy USD /Sell CHF	(935)	(3)	2006.11.24	2007.02.27	1.2145
Buy JPY /Sell USD	1,163	(1,146)	2006.11.24	2007.02.27	114.4400
Buy SGD /Sell USD	544	170	2006.11.24	2007.02.27	1.5432
Buy KRW /Sell USD	3,212	(62)	2006.11.24	2007.02.27	928.4000
Buy HKD /Sell USD	3,239	286	2006.11.24	2007.02.27	7.7797
Buy CAD /Sell USD	353	(219)	2006.11.24	2007.02.27	1.1362
Buy THB /Sell USD	53	4	2006.11.24	2007.02.27	36.5350
Buy IDR /Sell USD	1,890	1,302	2006.11.24	2007.02.27	9190.0000
Buy PHP /Sell USD	510	321	2006.11.24	2007.02.27	49.5800
Buy INR /Sell USD	1,019	235	2006.11.24	2007.02.27	44.8400
Buy USD /Sell AUD	(1,039)	(866)	2006.11.24	2007.02.27	0.7713
Buy USD /Sell GBP	(468)	(394)	2006.11.24	2007.02.27	1.9156
Buy USD /Sell NZD	(542)	(1,057)	2006.11.24	2007.02.27	0.6639

JP Morgan

Financial instruments	Nominal amount (USD)	Fair value (NTD)	Trade date	Due date	Forward rate (In Dollars)
Currency basket					
Buy EUR /Sell USD	1,200	$56	2006.12.15	2007.03.19	1.32080
Buy SGD /Sell USD	2,250	314	2006.12.15	2007.03.19	1.53325
Buy KRW /Sell USD	6,300	(1,554)	2006.12.15	2007.03.19	921.20000
Buy THB /Sell USD	1,500	(1,936)	2006.12.15	2007.03.19	35.20500
Buy IDR /Sell USD	1,800	434	2006.12.15	2007.03.20	9140.00000
Buy PHP /Sell USD	750	173	2006.12.15	2007.03.19	49.24000
Buy GBP /Sell USD	1200	69	2006.12.15	2007.03.19	1.96310

As of December 31, 2005：

Financial instruments	Contract amount (Nominal amount)		Fair value (NTD)	Trade date	Due date	Appointed exchange rate (In Dollars)
FX swap contracts	USD	103,755	($4,369)	2005.12.16 ~2005.12.30	2006.01.04 ~2006.01.27	33.0182～33.3100
	CAD	7,000	(1,373)	2005.12.22	2006.03.22	28.3030

(b) futures contract

As of December 31, 2006：

Item	contract	contract amount	fair value
Open Interest	TX	$76,736	($2,064)

B. 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.

C. 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. The price risk of trading Taiwan stock index futures comes from exchanging futures. Every contract has its fair value and sets up the level of stop and reverse which is based on operating risks. Accruing loss would be within expected range, therefore it should be no significant market price risk.

D. Current risk、cash flow risk and amount, period and uncertainty for future cash demand:

The national principles of currency swap contracts and forward exchange contracts usually are bases to calculate amounts of payment and receivable for each party and they are not actual amount to pay or actual cash demand, moreover the actual settled amounts are smaller than national principles. The transactions of Taiwan stock index futures, which attach to guarantee deposits transactions, need to deposit variation margin before trading. The variation margin would be evaluated on open interest contracts; if variation margin need to be raised and deposited, the Company has sufficient capital to exercise operating. Therefore, the Company has no risk for raising capital, no cash flow risk and no additional significant cash demand.

V、RELATED PARTIES TRANSACTIONS

A. Name and relationship

Name	Relationship
Evergreen International Corp.	the controlling company which obtains a majority of directorships of the corporation
Evergreen Re	the company was invested by the main shareholder of Evergreen International Corporation

B. Significant transactions

a. Accrued Expenses for related parties' transations:

Name of related parties	Dec. 31, 2006	Dec. 31, 2005
Evergreen International Corp.	$363	$-

b. Due from other insurance companies for related parties' transations:

Name of related parties	Dec. 31, 2006
Evergreen Re	$225,464

c. Operating revenues and operating costs for related parties' transations:

		Dec.31,2006	
Name of related parties	Account	Amount	%
Evergreen Re	Gross Premium writen	2,562	0.01
	Retroceded premium	364,379	6.26
	Overriding commissions	2,508	2.08
	Reinsurance Commissions	165	0.00
	Reinsurance commission received on retrocession	98,701	7.83
	Reinsurance claims paid	53	0.00
	Reinsurance claims paid on retrocession	510,718	18.82

d. Operating expenses for related parties' transations:

Name of related parties	Dec. 31, 2006	Dec. 31, 2005
Evergreen International Corp.	$949	$-

VI、ASSETS PLEDGED OR MORTGAGED

A. As of December 31, 2006 and 2005, the assets pledged or mortgaged are as follows:

	December 31		
	2006	2005	Account
Government bonds	$786,000	$751,000	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, 2006 and 2005 respectively.

VII、COMMITMENTS AND CONTINGENCIES

None for 2006 and 2005

VIII、SIGNIFICANT DISASTER LOSS

None for 2006 and 2005

IX、SIGNIFICANT SUBSEQUENT EVENT

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

X、OTHERS

Reclassifications

Before reclassifications - 2005		After reclassifications - 2005	
Account	Amount	Account	Amount
Accrued claim recoverable from reinsurers	48,244	Inward premium receivable	82,033
Due from other insurance companies (net)	817,715	Due from other insurance companies (net)	817,228
Inward premium receivable	33,302		

According to SFAS No.34 and No.36 , certain accounts of 2005 financial statements have been reclassified , to conform with current presentation.

Before reclassifications - 2005		After reclassifications - 2005	
Account	Amount	Account	Amount
Short-term investments(net)	4,305,298	Financial assets at fair value through profit or loss- current	4,100
Investment on other financial instrument - current	285,000	Available for sale financial assets-current	2,710,496
Long-term investment in securities (net) - Cost method	800,009	Financial assets by cost-current	145,000
Long-term investment in bonds	7,880,698	Bond portfolios with no active market bonds- current	443,461
		Financial assets at fair value through profit or loss- non current	618,033
		Available for sale financial assets-non current	276,419
		Held to maturity finanical assets-non current	5,536,277
		Financial assets by cost-non current	181
		Bond portfolios with no active market bonds-non current	3,537,038

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:

	transaction condition				transaction condition and usual condition		Due from other insurance companies		
Name of related parties	items	amount	%	period	price	period	balance	%	Allowance for bad debt
Evergreen International Corp.	Retroceded premium	$364,379	6.26	regulations of contracts	N/A	N/A	$225,464	22.99	$2,255
	Reinsurance claims paid on retrocession	510,718	18.82						

8. Account receivable in related parties is over NT$100,000,000 or 20% of capital: (XI)、A、7

9. Transactions on derivative : (IV) 26

B. Disclosure for investment other than primary operation：None for 2006 and 2005

C. Disclosure for investment in Mainland China：None for 2006 and 2005

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 specific customers of compelling automobile responsibility insurance co-insurance group that contributed over 10% of the total revenues stated on the income statement of the Corporation; premium written 2,744,947 thousands dollars of all years premium written 14.54%.

XIII、 BORROWINGS RESULTED FROM PAYMENT OF CLAIMS

None for 2006 and 2005

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

The Corporation has signed a contract to sell the land , Ximen St. , and received the full payment of $68,500 in 2006 .The transfer of the title has also completed in 2006 .

XV、 IMPORTANT LAWSUITS IN PROGRESS OR ADJUDICATED

None for 2006 and 2005

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

None for 2006 and 2005

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

None for 2006 and 2005

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

None for 2006 and 2005