CENTRAL REINSURANCE CORPORATION

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2007 AND 2006

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

Report of Independent Accountants

PWCR07000611

To Central Reinsurance Corporation

We have audited the accompanying balance sheet of Central Reinsurance Corporation as of December 31, 2007, and the related statements of income, of changes in stockholders' equity and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Central Reinsurance Corporation as of and for the year ended December 31, 2006 were audited by other auditors whose report, dated February 26, 2007, on those statements included an explanatory paragraph that described the Company's adoption of R.O.C. SFAS No. 34 and No. 36 discussed in Note 3 to the financial statements.

We conducted our audit in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 2007, and the results of its operations and its cash flows for the year then ended in conformity with the accounting practices generally accepted in the insurance industry, "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling", "Rules Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China.

February 21, 2008
Taipei, Taiwan

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

CENTRAL REINSURANCE CORPORATION
BALANCE SHEETS
DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars)

	2007 Amount	%	2006 Amount	%
ASSETS				
Current Assets				
Cash and cash equivalents (Note 4(1))	$ 11,328,578	43	$ 6,482,314	27
Financial assets at fair value through profit or loss-current (Note 4(2))	65,993	-	-	-
Available-for-sale financial assets-current (Note 4(3))	3,427,588	13	2,311,505	10
Held-to-maturity financial assets-current (Note 4(4))	1,788,744	7	3,093,468	13
Investment in bonds without active markets-current (Note 4(6))	598,043	3	787,443	3
Notes receivable-net (Note 4(7))	13,213	-	5,715	-
Due from reinsurers and ceding companies (Note 5)	829,437	3	979,664	4
Reinsurance receivables	336,678	1	335,762	1
Income tax recoverable	-	-	6,166	-
Interest and revenue receivable	181,421	1	204,115	1
Other accounts receivable	25,313	-	1,054,322	4
Prepaid expenses	590	-	736	-
Deferred income tax assets-current (Note 4(15))	-	-	8,587	-
Other current assets	50	-	320	-
	18,595,648	71	15,270,117	63
Investments				
Financial assets at fair value through profit or loss-non current (Note 4(2))	606,242	3	764,070	3
Available-for-sale financial assets-non current (Note 4(3))	557,632	2	353,747	2
Held-to-maturity financial assets-non current (Note 4(4))	566,008	2	2,557,354	11
Financial assets carried at cost-non current (Note 4(5))	322	-	322	-
Investment in bonds without active markets-non current (Note 4(6))	4,172,458	16	3,474,619	14
Investments in real estate properties (Note 4(8))	585,529	2	586,156	2
	6,488,191	25	7,736,268	32
Fixed Assets (Note 4(8))				
Cost				
Land	23,536	-	23,536	-
Buildings and equipment	64,529	1	61,512	1
Computer equipment	22,469	-	20,208	-
Transportation equipment	7,911	-	7,493	-
Miscellaneous equipment	7,694	-	7,211	-
Total cost	126,139	1	119,960	1
Revaluation increment	110,299	-	110,299	-
Total cost and revaluation increment	236,438	1	230,259	1
Less: Accumulated depreciation	(73,288)	(1)	(66,929)	-
	163,150	-	163,330	1
Intangible Assets				
Computer software costs (Note 5)	20,192	-	574	-
Deferred pension costs	-	-	824	-
	20,192	-	1,398	-
Other Assets				
Refundable deposits	880,245	3	944,897	4
Funds held by other insurance companies	122,889	1	143,500	-
Deferred income tax assets-non current (Note 4(15))	-	-	12,322	-
	1,003,134	4	1,100,719	4
TOTAL ASSETS	$ 26,270,315	100	$ 24,271,832	100

	2007 Amount	%	2006 Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Financial liabilities at fair value through profit or loss-current (Note 4(9))	$ -	-	$ 5,574	-
Derivative financial liabilities for hedging-current (Note 4(10))	3,414	-	8,465	-
Due to reinsurers and ceding companies	353,472	2	642,294	3
Reinsurance payables	1,227,333	5	974,964	4
Accrued expenses	55,872	-	77,862	1
Tax payable	209,600	1	72,036	-
Other accounts payable	82,314	-	3,200	-
Collections in advance	737	-	12,950	-
Deferred income tax liabilities-current (Note 4(15))	14	-	-	-
Other current liabilities	4,570	-	3,253	-
	1,937,326	8	1,800,598	8
Long-term Liabilities				
Reserve for land revaluation increment tax (Note 4(8))	72,223	-	72,223	-
Accrued pension liabilities (Note 4(11))	1,680	-	1,367	-
	73,903	-	73,590	-
Operating Reserves				
Unearned premium reserve	5,897,148	22	5,971,373	24
Equalisation reserve	4,343,534	17	3,313,856	14
Claims reserve	6,298,723	24	6,223,689	26
	16,539,405	63	15,508,918	64
Other Liabilities				
Deposits-in	6,669	-	6,272	-
Funds held for other insurance companies	-	-	6,427	-
Deferred income tax liabilities-non current (Note 4(15))	962	-	-	-
	7,631	-	12,699	-
TOTAL LIABILITIES	18,558,265	71	17,395,805	72
Stockholders' Equity				
Capital (Note 4(12))				
Common stock	5,250,000	20	5,000,000	21
Capital reserve (Note 4(13))				
Additional paid-in capital	300,000	1	300,000	1
Retained earnings (Note 4(14))				
Legal reserve	452,160	2	382,201	1
Special reserve	-	-	4,055	-
Undistributed earnings	1,677,907	6	991,296	4
Stockholders' equity-others				
Unrealized gains or losses on financial instruments	(121,434)	(1)	47,016	-
Revaluation increment on properties	153,417	1	153,417	1
Unrealized loss on pension cost	-	-	(1,958)	-
TOTAL STOCKHOLDERS' EQUITY	7,712,050	29	6,876,027	28
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 26,270,315	100	$ 24,271,832	100

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

See report of independent accountants dated February 21, 2008.

CENTRAL REINSURANCE CORPORATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	2007		2006	
	Amount	%	Amount	%
Operating revenues				
Gross premium written (Note 5)	$ 17,931,361	125	$ 18,877,665	134
Reinsurance premium ceded (Note 5)	(4,880,562)	(34)	(5,819,614)	(41)
Net premium written	13,050,799	91	13,058,051	93
Overriding commission revenue (Note 5)	83,407	1	120,617	1
Interest income	685,135	5	542,759	4
Gain on valuation of financial assets	29,109	-	-	-
Exchange gain	-	-	27,870	-
Gain on investments in securities	495,543	3	284,654	2
Income from real estate investments, net	17,528	-	19,949	-
Other operating revenues	43,462	-	-	-
Total operating revenues	14,404,983	100	14,053,900	100
Operating costs				
Reinsurance commission expenses (Note 5)	(4,812,004)	(33)	(5,279,101)	(38)
Reinsurance commission revenue (Note 5)	918,630	6	1,260,915	9
	(3,893,374)	(27)	(4,018,186)	(29)
Reinsurance claims paid(Note 5)	(9,155,669)	(64)	(10,453,782)	(74)
Reinsurance claims recovery (Note 5)	1,680,771	12	2,714,012	19
	(7,474,898)	(52)	(7,739,770)	(55)
Provision for unearned premium reserve-net	74,225	1	(86,740)	(1)
Provision for equalisation reserve-net	(1,030,555)	(7)	(485,153)	(3)
Provision for claims reserve-net	(75,034)	(1)	(403,829)	(3)
Overriding commission expenses	(6,207)	-	(4,302)	-
Interest expenses	(382)	-	(302)	-
Loss on valuation of financial assets	-	-	(19,202)	-
Loss on valuation of financial liabilities	-	-	(2,413)	-
Exchange loss	(13,111)	-	-	-
Other operating costs	(86,968)	(1)	(120,554)	(1)
Total operating costs	(12,506,304)	(87)	(12,880,451)	(92)
Gross profit	1,898,679	13	1,173,449	8

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CENTRAL REINSURANCE CORPORATION
STATEMENTS OF INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings per Share)

	2007		2006	
	Amount	%	Amount	%
Operating expenses (Notes 4(16) and 5)				
Operation expenses	($ 241,524)	(1)	($ 260,940)	(2)
Administration expenses	(103,911)	(1)	(96,590)	-
Development expenses	-	-	(1,119)	-
Training expenses	(1,063)	-	(2,801)	-
	(346,498)	(2)	(361,450)	(2)
Net operating income	1,552,181	11	811,999	6
Non-operating income and gains				
Gain on disposal of fixed assets	-	-	53,044	-
Other income	14,148	-	870	-
	14,148	-	53,914	-
Non-operating expenses and losses				
Loss on disposal of fixed assets	(156)	-	-	-
Impairment loss	-	-	(25,000)	-
Other expenses	(34)	-	(14)	-
	(190)	-	(25,014)	-
Income before income taxes	1,566,139	11	840,899	6
Income tax expense (Note 4(15))	(306,743)	(2)	(145,480)	(1)
Income before cumulative effect of changes in accounting principles	1,259,396	9	695,419	5
Cumulative effect of changes in accounting principles (net of income tax of $1,391)	-	-	4,173	-
Net income	$ 1,259,396	9	$ 699,592	5

Earnings per share (NT$)	Before Tax	After Tax	Before Tax	After Tax
Income before cumulative effect of changes in accounting principles	$ 2.98	$ 2.40	$ 1.60	$ 1.32
Cumulative effect of changes in accounting principles	-	-	0.01	0.01
Net income	$ 2.98	$ 2.40	$ 1.61	$ 1.33

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated February 21, 2008.

CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Expressed in Thousands of New Taiwan Dollars)

	Capital	Capital Reserve	Retained Earnings			Stockholders' Equity – Others				
	Common Stock	Additional Paid-in Capital	Legal Reserve	Special Reserve	Undistributed Earnings	Unrealized Gains or Losses on Financial Instruments	Revaluatnion Increment on Properties	Cumulative Translation Adjustment	Unrealized Loss on Pension Cost	Total
Balance at January 1, 2006	$ 5,000,000	$ 300,000	$ 317,548	$ 147	$ 766,745	$ -	$ 188,009	($ 141)	($ 3,914)	$ 6,568,394
Effect on first adoption of SFAS No. 34	-	-	-	-	-	99,970	-	141	-	100,111
Distributions of 2005 net income:										
Reversal of special reserve	-	-	-	(6)	6	-	-	-	-	-
Legal reserve	-	-	64,653	-	(64,653)	-	-	-	-	-
Special reserve	-	-	-	3,914	(3,914)	-	-	-	-	-
Cash dividends	-	-	-	-	(400,000)	-	-	-	-	(400,000)
Directors' and supervisors' remuneration	-	-	-	-	(700)	-	-	-	-	(700)
Employees' bonus	-	-	-	-	(5,780)	-	-	-	-	(5,780)
Net income for 2006	-	-	-	-	699,592	-	-	-	-	699,592
Changes in unrealized losses on financial instruments	-	-	-	-	-	(52,954)	-	-	-	(52,954)
Changes in revaluation increment on properties	-	-	-	-	-	-	(34,592)	-	-	(34,592)
Changes in unrealized loss on pension cost	-	-	-	-	-	-	-	-	1,956	1,956
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
Distributions of 2006 net income:										
Reversal of special reserve	-	-	-	(4,055)	4,055	-	-	-	-	-
Legal reserve	-	-	69,959	-	(69,959)	-	-	-	-	-
Stock dividends	250,000	-	-	-	(250,000)	-	-	-	-	-
Cash dividends	-	-	-	-	(250,000)	-	-	-	-	(250,000)
Directors' and supervisors' remuneration	-	-	-	-	(585)	-	-	-	-	(585)
Employees' bonus	-	-	-	-	(6,296)	-	-	-	-	(6,296)
Net income for 2007	-	-	-	-	1,259,396	-	-	-	-	1,259,396
Changes in unrealized losses on financial instruments	-	-	-	-	-	(168,450)	-	-	-	(168,450)
Change in unrealized loss on pension cost	-	-	-	-	-	-	-	-	1,958	1,958
Balance at December 31, 2007	$ 5,250,000	$ 300,000	$ 452,160	$ -	$ 1,677,907	($ 121,434)	$ 153,417	$ -	$ -	$ 7,712,050

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated February 21, 2008.

CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,259,396	$ 699,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Write-off of bad debts	-	(19)
Depreciation	9,436	11,261
Amortization	2,840	492
Provision for reserves-net	1,030,487	974,950
Amortization of premium on investments in bonds	23,422	43,833
Loss (gain) on disposal of fixed assets	156	(53,044)
Impairment loss	-	25,000
(Gain) loss on valuation of financial assets and liabilities	(29,109)	2,413
Cumulative effect of changes in accounting principles	-	(4,173)
Changes in assets and liabilities:		
Notes receivable	(7,498)	(11,338)
Financial assets-current	144,803	1,147,633
Due from and to reinsurers and ceding companies	(138,595)	73,078
Reinsurance receivables and payables	251,453	(127,452)
Interest and revenue receivable and income tax recoverable	28,860	(55,702)
Other accounts receivable	1,029,009	(854,830)
Prepaid expenses	146	294
Deferred income tax liabilities (assets)	21,885	(9,767)
Other current assets	270	(320)
Accrued expenses	(21,990)	724
Tax payable	137,564	22,812
Other accounts payable	79,114	(147,758)
Collections in advance	(12,213)	12,185
Other current liabilities	1,317	(16,369)
Accrued pension liabilities	3,095	707
Refundable deposits and deposits-in	65,049	(112,881)
Funds held by and for other insurance companies	14,184	(15,836)
Net cash provided by operating activities	3,893,081	1,605,485

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CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES		
Financial assets-non current	$ 1,241,308	($ 1,225,033)
Acquisition of investments in real estate and fixed assets	(8,792)	(9,042)
Proceeds from disposal of fixed assets	6	54,249
Acquisition of computer software costs and other assets	(22,458)	(600)
Net cash provided by (used in) investing activities	1,210,064	(1,180,426)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of directors' and supervisors' remuneration and employees' bonus	(6,881)	(6,480)
Payment of cash dividends	(250,000)	(400,000)
Net cash used in financing activities	(256,881)	(406,480)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,846,264	18,579
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,482,314	6,463,735
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,328,578	$ 6,482,314
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 382	$ 302
Income tax paid	$ 167,262	$ 117,069

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated February 21, 2008.

CENTRAL REINSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Expressed in Thousands of New Taiwan Dollars)

1. HISTORY AND ORGANIZATION

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

The Company was originally a state-owned enterprise. On July 9, 2002, the Ministry of Finance (MOF), the major shareholder of the Company 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%. Consequently, the Company became a privately owned corporation on July 11, 2002 in accordance with Article 11 of "Enforcement Rules of Statute of Privatization of Government-Owned Enterprises".

As of December 31, 2007, the Company had 123 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with the accounting practices generally accepted in the insurance industry, "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling", "Rules Governing the Preparation of Financial Statements by Securities Issuers" and accounting principles generally accepted in the Republic of China. The significant accounting policies are summarized below:

1) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

2) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
   a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
   b) Assets held mainly for trading purposes;
   c) Assets that are expected to be realized within twelve months from the balance sheet date;
   d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
   a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
   b) Liabilities arising mainly from trading activities;
   c) Liabilities that are to be paid off within twelve months from the balance sheet date;
   d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

3) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits, petty cash and short-term investments with immediate maturity and which are subject to insignificant risk of changes in value resulting from fluctuations in market interest rate.

The statement of cash flows is prepared on the basis of cash and cash equivalents.

4) Financial assets and liabilities

Financial assets within the scope of SFAS No. 34 “Accounting for Financial Instruments” and “Rules Governing the Preparation of Financial Statements by Securities Issuers” are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, derivative financial assets for hedging, investment in bonds without active markets, available-for-sale financial assets or financial assets carried at cost, 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, or derivative financial liabilities for hedging.

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

A. Financial assets and liabilities at fair value through profit or loss
Financial assets and liabilities 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 Company as at fair value through profit or loss are classified as financial assets and financial liabilities at fair value through profit or loss.

B. Held-to-maturity financial assets
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold these assets to maturity. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. For investments carried at amortized cost, gains and losses due to fair value changes are recognized in income when the investments are derecognized or impaired, as well as through amortization. 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.

C. Investment in bonds without active markets

Investment in bonds without active markets is 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 rate 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 amortization.

D. Financial assets carried at cost

Financial assets carried at cost are securities which are not listed on the Taiwan Stock Exchange or Gre Tai Securities Market and the Company does not have significant influence on the investee; or derivative financial assets which are embedded in these securities.

E. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are available for sale or are not classified in any of the four preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses, except for impairment loss and the unrealized exchange gain or loss of monetary financial assets, 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.

F. Derivative financial assets and liabilities for hedging

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

G. Fair value

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

5) Derecognition of financial assets and liabilities

A. 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 Company 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 Company accounts for the transfer as a borrowing with collateral.

B. 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 creditor 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 Company 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 recoverable amount shall be measured and the amount of impairment loss shall be recognized based on SFAS No. 34, “Accounting for Financial Instruments” and related policies.

7) Derivative financial instruments and hedging

A derivative financial instrument is initially recognized and subsequently measured at fair value. Financial instrument is recognized as derivative financial asset (liability) if the hedging relationship between the designated hedging instrument and the hedged item meets the criteria specified in SFAS No. 34. “Qualification for hedge accounting”. Those that do not meet the prescribed standard are not qualified for hedge accounting and are recognized as financial asset (liability) at fair value through profit or loss.

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:

A. Fair value hedges

Fair value hedges are hedges of the Company'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 re-measured at fair value and gains and losses from both are taken to profit or loss.

B. 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.

C. 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

The allowance for doubtful accounts is determined based on the recoverability of notes receivable, due from reinsurers and ceding companies, overdue receivables, other accounts receivable and “Guidelines for Handling Assessment of Assets, Loans Overdue, Delinquent Accounts Receivable on Demand by Insurance Enterprises”.

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

Under the regulation as prescribed by the MOF on April 30, 2003, if the ratio of the overdue loans and receivables of the insurance enterprise is less than 1% for 3 consecutive months, the company is exempted from providing an allowance for doubtful accounts equivalent to the amount saved arising from reduced business tax rate, retroactive from the second month.

As the Company does not engage in the business of loans and the overdue ratio was zero from April to June 2003, the Company was exempted from providing an allowance for doubtful accounts effective July 1, 2003. The Company’s overdue accounts pertain to overdue accounts with reinsurers and have been adequately provided with allowance for doubtful accounts.

9) Investments in real estate

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

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

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

10) Fixed assets

Fixed assets 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 betterments are capitalized, while maintenance and repairs are charged to current year income.

Depreciation is computed using straight-line method over the estimated service lives as follows: buildings and equipments, 3 to 60 years; computer equipment, 4 to 6 years; transportation equipment, 3 to 10 years; and miscellaneous equipment, 3 to 10 years.

When an asset is retired or disposed, the cost plus revaluation increment, if any, and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to current income.

11) Impairment of assets

Based on SFAS No. 35 “Accounting for Asset Impairment”, 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) Operating reserves

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 related regulations.

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. 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 related regulations.

D. The reserve for outstanding claims is calculated in accordance with “The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry”, Article 148-3 of Insurance Law and related regulations.

E.`The equalisation reserve is calculated in accordance with “The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry”, Article 148-3 of Insurance Law and related regulations.

13) Reinsurance revenues and costs

Reinsurance premiums income and related costs are recognized upon receipt of the reinsurance statements from the reinsurers (the bills for the current quarter are received in the following quarter), and the Company accrues the unexpired liabilities accordingly. The accounting treatments for reinsurance statements of the Company are the same with the industry practice and are agreed with the competent authorities.

14) Pension cost

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

Upon amendments to the pension plan, the prior service costs are amortized on a straight-line basis over the average period from the amendment date until the benefits become vested. When the benefits have already vested following changes to a defined benefit plan, the Company should recognize the prior service cost as an expense immediately.

15) Foreign currency transactions

A. The Company maintains its accounts in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year’s profit or loss.
B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.
C. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Conversely, when a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

16) Income tax

Based on SFAS No. 22 “Accounting for Income Tax”, the Company adopted inter-period and intra-period tax allocation. Deferred income taxes are recognized for tax effects of temporary differences, and unused tax credits. Valuation allowance is provided on deferred income tax assets to the extent that it is more likely than not that the tax benefits will not be realized. Deferred tax assets and liabilities are classified as current or non-current according to the classification of the related assets and liabilities. Those which cannot be related to the assets or liabilities in the financial statements are classified as current or non-current based on the expected reversal date.

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 stockholders approve to retain the earnings.

Pursuant to Income Basic Tax Act, if the amount of regular income tax is equal to or more than the amount of basic tax, the income tax payable shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas the amount of regular income tax is less than the amount of basic tax, the income tax payable shall be equal to the basic tax.

3. REASONS AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PINCIPLES

Effective January 1, 2006, the Company adopted the R.O.C. SFAS No. 34, “Accounting for Financial Instruments”, and R.O.C. SFAS No. 36, “Disclosure and Presentation of Financial Instruments”. The following sets forth the accounting treatments for financial instruments held as at January 1, 2006:

1) Treatments for financial instruments measured at fair value and at cost after amortization:

   The Company had properly reclassified financial assets and liabilities measured at fair value and at cost after amortization based on its holding purposes in accordance with the standards of the R.O.C. SFAS No. 34 and No. 36 on January 1, 2006 and revaluated those instruments at their fair value and at cost after amortization. Adjustments of the book values attributable to financial instruments at fair value through profit or loss or derivatives held for fair value hedging were included in the cumulative effect of changes in accounting principles and those adjustments attributable to financial instruments measured at cost after amortization and available-for-sale financial instruments measured at fair value were included in stockholders’ equity.

2) Treatments for non-monetary financial assets denominated in foreign currencies originally measured at cost:

   Non-monetary financial assets denominated in foreign currencies originally measured at cost were revaluated using the historical exchange rate at the date of the transaction. The original cumulative translation adjustments under stockholders’ equity and long-term investments were reversed.

As a result of the adoption of SFAS No. 34 and No. 36, current assets and investments increased by $52,997 and $52,537, respectively, as of December 31, 2006, and the cumulative effect increased net income by $4,173 whereas earnings per share increased by $0.01 for the year then ended.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31, 2007	December 31, 2006
Petty cash	$ 111	$ 130
Checking accounts	6,893	3,848
Demand deposits	338,626	189,993
Time deposits	7,110,449	3,729,540
Negotiable certificates of deposit	90,000	411,321
Commercial papers	3,670,801	1,934,155
Treasury bills	-	213,327
Repurchase corporation bonds	111,698	-
	$ 11,328,578	$ 6,482,314

As of December 31, 2007 and 2006, the balance of the time deposits with maturity over one year was $345,783 and $282,300, respectively.

2) Financial assets at fair value through profit or loss

	December 31, 2007	December 31, 2006
Current items:		
Designated as at fair value through profit or loss		
Foreign structured notes	$ 65,004	$ -
Domestic convertible corporate bonds	5,000	-
	70,004	-
Adjustment of designated as at fair value through profit or loss	(4,011)	-
	$ 65,993	$ -

	December 31, 2007	December 31, 2006
Non-current items:		
Designated as at fair value through profit or loss		
Foreign structured notes	$ 583,143	$ 778,576
Domestic convertible corporate notes	2,000	2,000
	585,143	780,576
Adjustment of designated as at fair value through profit or loss	21,099	(16,506)
	$ 606,242	$ 764,070

Foreign structured notes are evaluated by system of market quote, or Black & Scholes Model as of December 31, 2007.

Foreign structured notes are evaluated by system of market quote, Monte Carlo simulation and scenario analysis simulation as of December 31, 2006.

3) Available-for-sale financial assets

	December 31, 2007	December 31, 2006
Current:		
Domestic items:		
Listed (TSE and OTC) stocks	$ 1,458,525	$ 796,676
REITs	255,453	253,721
Financial bonds	248,633	300,344
Corporate bonds	199,536	-
Open-end funds	530,020	449,852
Balanced funds	100,000	-
Private funds-others	120,000	155,000
Foreign items:		
Listed stocks	272,418	153,083
Hedge funds	195,208	195,208
Index funds	192,425	-
	3,572,218	2,303,884
Adjustment of available-for-sale financial assets	(144,630)	7,621
	$ 3,427,588	$ 2,311,505

	December 31,	
	2007	2006
Non-current items:		
Domestic items:		
Listed (TSE and OTC) preferred stocks	$ 51,000	$ 51,000
Government bonds	837,100	851,729
Corporate bonds	-	300,367
Financial bonds	501,118	-
	1,389,218	1,203,096
Adjustment of available-for-sale financial assets	25,566	41,745
Less: statutory deposits	(857,152)	(891,094)
	$ 557,632	$ 353,747

Under the Insurance Law of the Republic of China, the Company deposited 15% of its registered operating capital with Central Bank of the Republic of China. As of December 31, 2007 and 2006, government bonds with par value of $791,000 and $786,000, respectively, were deposited.

4) Held-to-maturity financial assets

	December 31,	
	2007	2006
Current items:		
Domestic items:		
Corporate bonds	$ 488,737	$ 980,000
Financial bonds	1,300,007	2,014,347
Treasury bills	-	99,121
	$ 1,788,744	$ 3,093,468
Non-current items:		
Domestic items:		
Corporate bonds	$ 266,008	$ 957,208
Financial bonds	300,000	1,600,146
	$ 566,008	$ 2,557,354

5) Financial assets carried at cost

	December 31,	
	2007	2006
Non-current item:		
Foreign unlisted stocks	$ 322	$ 322

6) Investments in bonds without active markets

	December 31, 2007	December 31, 2006
Current items:		
Domestic items:		
CDOs	$ 119,433	$ -
Private funds-bonds	100,000	100,000
Financial bonds	-	353,012
Foreign items:		
CDOs	28,420	16,025
CMOs	350,190	292,270
Private funds-bonds	-	26,136
	$ 598,043	$ 787,443
Non-current items:		
Domestic items:		
Unlisted preferred stocks	$ 25,000	$ 25,000
CDOs	377,104	383,896
Private funds-bonds	49,306	-
Foreign items:		
CMOs	1,379,029	1,703,146
CDOs	971,555	1,030,639
Structured notes	1,299,255	260,448
Corporate bonds	96,209	96,490
	4,197,458	3,499,619
Less: Accumulated impairment	(25,000)	(25,000)
	$ 4,172,458	$ 3,474,619

The above unlisted stocks represent preferred stocks issued by Chinese Bank, which was reorganized due to financial difficulty and led to a loss in estimated future cash flows. Accordingly, the Company recognized an impairment loss of $25,000 in profit or loss for the year ended December 31, 2006.

7) Notes receivable-net

	December 31, 2007	December 31, 2006
Notes receivable	$ 13,346	$ 5,773
Less: Allowance for doubtful accounts	(133)	(58)
	$ 13,213	$ 5,715

8) Fixed assets and investments in real estate

	December 31,			
	2007		2006	
	Operations	Investments	Operations	Investments
Cost				
Land	$ 23,536	$ 415,049	$ 23,536	$ 415,049
Buildings and equipment	64,529	76,930	61,512	75,807
Computer equipment	22,469	-	20,208	-
Transportation equipment	7,911	-	7,493	-
Miscellaneous equipment	7,694	-	7,211	-
	126,139	491,979	119,960	490,856
Revaluation increment				
Land	102,282	114,946	102,282	114,946
Buildings and equipment	8,017	394	8,017	394
	110,299	115,340	110,299	115,340
Total cost and revaluation increment	236,438	607,319	230,259	606,196
Accumulated depreciation				
Buildings and equipment	46,157	21,790	42,360	20,040
Computer equipment	15,416	-	13,521	-
Transportation equipment	6,065	-	5,154	-
Miscellaneous equipment	5,650	-	5,894	-
	73,288	21,790	66,929	20,040
Net book value	$ 163,150	$ 585,529	$ 163,330	$ 586,156
Reserve for land revaluation increment tax	$ 35,672	$ 36,551	$ 35,672	$ 36,551

A. The land and buildings were revalued in 1976 and 1996. Such revaluation resulted in the recognition of additional carrying value of fixed assets amounting to $280,477. The above capital surplus was reclassified to other accounts, revaluation increment on properties, under stockholders' equity in accordance with the "Business Entity Accounting Law" and Letter No. 950021958 amended on August 18, 2006.

B. The above assets were not pledged.

9) Financial liabilities at fair value through profit or loss

	December 31,	
	2007	2006
Current item:		
Forward contracts and futures	$ -	$ 5,574

For information on derivative business transactions, please see Note 10. 4).

10) Derivative financial liabilities for hedging-current

	December 31,	
	2007	2006
FX swap contracts	$ 3,414	$ 8,465

11) Pension plan

A. The privatization of the Company 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 Company. After privatization, the employees' pension fund is administered by the committee.

The Company has, in accordance with the provisions of the Labor Standards Laws, a funded defined benefit retirement plan (the "Plan") for providing retirement benefits which apply to the service years of all regular (full-time) employees covered before the Labor Pension Act became effective on July 1, 2005. Benefits under the Plan are based on participants' length of service and average salaries at the time of retirement, with a benefit ceiling of 45 months of salary. The Company makes a monthly provision equal to 8% of employees' salaries, and are contributed to a retirement fund, which is administered by the Employees' Retirement Fund Supervisory Committee and deposited under the Committee's name with the Bank of Taiwan, Department of Trusts, the trustee.

B. The "Labor Pension Act" (the "Act"), which was implemented effective 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. The following sets forth the pension information based on the actuarial report:

a) Actuarial assumptions

	For the years ended December 31,	
	2007	2006
Discount rate	3.00%	2.75%
Expected rate of return on plan assets	3.00%	2.75%
Rate of compensation increase	3.00%	3.00%

Unrecognized net transition obligation is amortized on a straight-line basis over 13 years.

b) Funded status of the pension plan

	December 31,	
	2007	2006
Benefit obligation		
Vested benefit obligation	$ 23,686	$ 17,985
Non-vested benefit obligation	16,481	15,249
Accumulated benefit obligation	40,167	33,234
Effect of future salary increments	6,030	6,451
Projected benefit obligation	46,197	39,685
Fair value of plan assets	(39,277)	(31,867)
Funded status	6,920	7,818
Unrealized net transition obligation	(749)	(824)
Unrecognized loss on plan assets	(4,491)	(8,409)
Additional liabilities	-	2,782
Accrued pension liabilities	$ 1,680	$ 1,367
Vested benefit	$ 27,323	$ 20,808

c) Net pension cost comprises the following:

	For the years ended December 31,	
	2007	2006
Service cost	$ 8,898	$ 9,806
Interest cost	1,091	1,211
Expected return on plan assets	(876)	(910)
Amortization of unrecognized loss on plan assets	370	488
Amortization of unrecognized net transition obligation	75	75
Net pension cost	$ 9,558	$ 10,670

D. Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the “New Plan”) under the “Act”. Under the New Plan, the pension costs for the years ended December 31, 2007 and 2006 were $3,391 and $3,138, respectively.

12) Common stock

A. To increase the Company’s working capital, the Board of Directors’ during its meeting on June 21, 2007 adopted a resolution to issue stock dividends of 25,000,000 shares and to distribute cash dividends of $250,000. This was approved by the Financial Supervisory Commission, Executive Yuan per Letter No. 0960037963 with the effective date set on August 21, 2007.

B. As of December 31, 2007 and 2006, the Company′s authorized capital was

$6,000,000 and $5,000,000, and the paid-in capital was $5,250,000 and $5,000,000, with a par value of $10 (in dollars) per share.

13) Capital reserve

A. The details of this account are as follows:

	December 31,	
	2007	2006
Excess of par value	$ 300,000	$ 300,000

B. In accordance with the ROC Company Law, capital surplus can only be used to offset deficit, 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. In accordance with the regulations of the Securities and Futures Bureau, capital increases by capitalizing paid-in capital in excess of par value should not exceed 10% of total common stock outstanding, and can occur only in the following year.

14) Limitation on distribution of retained earnings and dividend policy

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the meeting of stockholders. The distribution shall be appropriated as follows:

a) Dividends: cash dividend should not be less than 50% of the dividend distributed;
b) Remuneration to directors and supervisors: Less than 1%; and
c) Bonus to employees: Between 0.5% - 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 Company'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 Company's outstanding capital stock, up to 50% thereof may be declared as dividends.

As prescribed by the regulations of the Securities and Futures Bureau, a special reserve equal to the negative items 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 stockholders are based on the balance of Imputation Credit Account (ICA) on the dividend distribution date.

B. Information on the appropriation of the Company's earnings as resolved by the Board of Directors and approved by the meeting of stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

C. The details of distribution are as follows:

	2006	2005
Legal reserve	$ 69,959	$ 64,653
(Reversal of) additional special reserve	(4,055)	3,914
Stock dividends	250,000	-
Cash dividends	250,000	400,000
Directors' and supervisors' remuneration and Employees' bonus	6,881	6,480
Total	$ 572,785	$ 475,047
Dividend per share (NT$)	$ 1.0	$ 0.8

On April 20, 2007, the Board of Directors adopted a resolution to distribute stock dividends of 50 shares per thousand shares and cash dividends of $0.5 per share, which was approved during the meeting of stockholders on June 15, 2007. The ex-right date, ex-dividend date and the dividend payout date were approved by the Board of Directors which was set on August 21, 2007 and September 20, 2007, respectively.

On April 19, 2006, the Board of Directors adopted a resolution to distribute cash dividends of $0.8 per share, which was approved during the meeting of stockholders on June 9, 2006. The ex-dividend date was approved by the Board of Directors which was set on July 24, 2006.

In the earnings appropriation for year 2006 and 2005, the distributions of employees' cash bonus and directors' and supervisors' remuneration were $6,881 and $6,480, respectively. The earnings per share computed after considering employees' cash bonus and directors' and supervisors' remuneration were $1.38 and $1.28 for 2006 and 2005, respectively.

15) <u>Income tax</u>

A. Income tax expense

	For the years ended December 31,	
	2007	2006
Income before income tax	$ 1,566,139	$ 840,899
Gain on sales of securities	(468,507)	(261,392)
Income of separate income tax (20%)	(52,604)	(23,339)
Income of separate income tax (6%)	(18,804)	(5,212)
Others (including temporary differences)	(85,055)	(72)
	941,169	550,884
Income tax payable	235,282	137,711
10% tax on undistributed earnings	12,681	17,148
Effect of deferred income tax	21,885	(9,768)
Tax credits	(318)	(857)
Cumulative effect of changes in accounting principles based on inter-period tax allocation	-	(1,391)
Separate income tax	10,952	4,980
Tax for premium amortization-bonds	26,087	-
Unrealized loss of available-for-sale financial assets-current based on inter-period tax allocation	-	(2,350)
Others	174	7
Income tax expense	$ 306,743	$ 145,480

B. Deferred income tax assets and liabilities are as follows:

	December 31,	
	2007	2006
Current items:		
Deferred income tax assets	$ 9,506	$ 10,937
Deferred income tax liabilities	(9,520)	(2,350)
	($ 14)	$ 8,587
Non-current items:		
Deferred income tax assets	$ 8,117	$ 12,996
Deferred income tax liabilities	(9,079)	(674)
	($ 962)	$ 12,322

C. Deferred tax assets and liabilities arising from temporary differences were detailed as follows:

December 31,

	2007	2006
Current items:		
Bad debts provision	$ 7,597	$ 7,415
Unrealized valuation loss on financial assets	1,122	-
Other expenses	787	787
Unrealized exchange loss	-	2,648
Unrealized valuation loss on financial liabilities	-	87
Unrealized valuation gain on available-for-sale financial assets	(2,371)	(2,350)
Unrealized exchange gain	(7,149)	-
	($ 14)	$ 8,587
Non-current items:		
Unrealized tax effect from impairment loss of financial assets	$ 6,250	$ 6,250
Pension expense	960	186
Other expenses	907	1,695
Cumulative effect of changes in accounting principles	(674)	(674)
Unrealized valuation gain on financial assets	(8,405)	-
Unrealized valuation loss on financial assets	-	4,865
	($ 962)	$ 12,322

D. As of December 31, 2007, the Company's income tax returns through 2005 have been assessed and approved by the Tax Authority.

E. Undistributed retained earnings:

	December 31,	
	2007	2006
Earnings generated in and before 1997	$ -	$ -
Earnings generated in and after 1998	1,677,907	991,296
	$ 1,677,907	$ 991,296

F. In 2007 and 2006, local stockholders' tax credit account and tax credit rate were as follows:

	December 31,	
	2007	2006
Stockholders' tax credit account	$ 195,239	$ 159,280

	2007	2006
	(Estimated)	(Actual)
Tax credit rate	27.65%	24.69%

16) PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation and amortization expenses incurred by function are as follows:

Function / Expense	2007		2006	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Personnel Expenses	$ -	$ 186,637	$ -	$ 194,269
Salaries	-	157,898	-	158,737
Employees' insurance	-	7,404	-	7,722
Pension	-	12,949	-	13,808
Others (note A)	-	8,386	-	14,002
Depreciation (note B)	1,750	7,686	1,621	9,640
Amortization	-	2,840	-	492

Note A: Other personnel expenses include employees' welfare and training expenses.

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

5. RELATED PARTY TRANSACTIONS

1) Names of related parties and their relationship with the Company

Related party	Relationship with the Company
Evergreen International Corp.	The controlling company which has a majority of directorships in the Company
Evergreen Re.	The investee company of a major shareholder of Evergreen International Corporation

2) Significant related party transactions and balances

A. Due from reinsurers and ceding companies

	December 31, 2007		December 31, 2006	
	Amount	%	Amount	%
Evergreen Re.	$ 33,078	4%	$ 225,464	23%

B. Accrued expenses

	December 31, 2007		December 31, 2006	
	Amount	%	Amount	%

Evergreen International Corp.	$ 1,448	2.59%	$ 363	0.47%

C. Operating revenues and operating costs

		For the years ended December 31,			
		2007		2006	
Name of related parties	Account	Amount	%	Amount	%
Evergreen Re.	Gross premium written	$ 9,640	0.05	$ 2,562	0.01
	Reinsurance premium ceded	6,914	0.14	364,379	6.26
	Overriding commission revenue	175	0.21	2,508	2.08
	Reinsurance commission expenses	1,462	0.03	165	-
	Reinsurance commission revenue	4,702	0.51	98,701	7.83
	Reinsurance claims paid	830	0.01	53	-
	Reinsurance claims recovery	120,582	7.17	510,718	18.82

The differences of prices and conditions between related parties and non-related parties were not significant.

D. Operating expenses

	For the years ended December 31,			
	2007		2006	
	Amount	%	Amount	%
Evergreen International Corp.	$ 2,136	0.62%	$ 949	0.26%

The above represents fees paid to the related party as the Company’s stock transfer agent and payment for printing expenses.

E. Computer software

The cost was incurred on the computer systems developed by Evergreen International Corp. As of December 31, 2007, the Company had paid $20,884 to Evergreen International Corp. for the computer systems.

6. PLEDGED ASSETS

Please see Note 4(3).

7. COMMITMENTS AND CONTINGENT LIABILITIES

None.

8. SIGNIFICANT ACCIDENTAL LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

None.

10. OTHERS

1) Financial statement presentation

Certain accounts in the 2006 financial statements were reclassified to conform with the 2007 financial statement presentation.

2) The fair value of the financial instruments

	December 31, 2007			December 31, 2006		
		Fair Value			Fair Value	
Financial Instruments	Book Value	Quotations in an active market	Estimated using a valuation	Book Value	Quotations in an active market	Estimated using a valuation
Non-derivative financial instruments						
ASSETS						
Financial assets with fair values equal to book values	$ 12,714,640	$ -	$ 12,714,640	$ 9,068,058	$ -	$ 9,068,058
Financial assets at fair value through profit or loss	672,235	7,234	665,001	764,070	2,260	761,810
Available-for-sale financial assets (Note)	4,842,372	4,842,372	-	3,556,346	3,556,346	-
Held-to-maturity financial assets	2,354,752	2,546,157	-	5,650,822	5,650,822	-
Financial assets carried at cost	322	-	322	322	-	322
Investments in bonds without active markets	4,770,501	-	4,770,501	4,262,062	-	4,262,062
Refundable deposits	23,093	-	23,093	53,803	-	53,803
Funds held by other insurance companies	122,889	-	122,889	143,500	-	143,500
LIABILITIES						
Financial liabilities with fair values equal to book values	1,933,161	-	1,933,161	1,773,609	-	1 773,609
Deposits-in	6,669	-	6,669	6,272	-	6,272
Funds held for other insurance companies	-	-	-	6,427	-	6,427
Derivative financial instruments						
LIABILITIES						
Forward exchange and Futures contracts	-	-	-	5,574	-	5,574
FX swap contracts	3,414	-	3,414	8,465	-	8,465

Note: Includes statutory deposits.

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

A. For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to Cash and cash equivalents, Note receivable, Due from (to) reinsurers and ceding companies, Reinsurance receivables (payables), Income tax recoverable, Interest and revenue receivable, Other receivable (payable), Funds held by (for) other insurance companies, Accrued expenses, Tax payable and Other current liabilities.

B. Fair value of available-for-sale financial assets is based on quoted price in an active market.

C. Fair value of held-to-maturity financial assets is based on quoted price in an active market.

D. Investment in bonds without active markets is based on amortized costs.

E. Financial assets carried at cost are based on book value.

F. The carrying values of the refundable deposits and deposits-in are equivalent to the fair value of the deposit funds.

G. The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date.

3) Procedure of financial risk control and hedge and information of material financial risk

The financial instruments, expect for derivatives held by the Company, mainly comprise cash and cash equivalents, and all kinds of current and non-current investments. The Company utilizes those instruments to achieve adjustments to operating cash flows. The Company holds other financial assets and liabilities as well, such as notes receivable from operating activities, due from (to) reinsurers and ceding companies, reinsurance receivables (payables), other accounts receivable, and other accounts payable.

The Company undertakes derivative financial instruments such as futures, forward exchange contracts and FX swap contracts to hedge fair value risk arising from fluctuations in stock prices and exchange rates.

The Company's activities expose the Company to a variety of financial risks: interest rate risk, foreign exchange risk, market risk, credit risk, liquidity risk and cash flow risk. The authorized strategies to control financial risks are as follows:

A. Interest rate risk

The Company holds floating rate financial instruments which may cause risk arising from fluctuations in interest rates. The Company evaluated the effects of the risk and determined that these are not significant.

B. Foreign exchange risk

To hedge cash flow fair value risk arising from fluctuations in exchange rates, the Company undertakes derivative financial instruments such as FX swap contracts and forward exchange contracts to hedge recognized assets and liabilities denominated in foreign currencies. The Company estimates that the conditions of the hedge instruments and the hedged items are the same, thus maximizing the hedging effectiveness.

C. Market risk

a) The values of financial instruments may be changed by economic situations, industrial circumstances, market capital flows and government monetary policies. To hedge market value risk exposures, the Company adopts diversified assets allocation strategy taking into account the current trends of financial markets to flexibly adjust assets portfolio under the provisions of Article 146 (1) ~ (8) of the Insurance Act, regulating the limits of funds utilization ratios and accordingly, disperse the market value risk.

b) The Company adopts the FX swap contracts and forward exchange contracts to hedge exchange rate fluctuations risk on foreign-currency assets. As the gain (loss) arising from exchange rate changes will mostly offset against the loss (gain) on hedged objectives, the Company estimates no material market value risk would arise. The Company is exposed to price risk because of investments in Taiwan Stock Index Futures, which have fair value in the active market. The Company sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its market risk.

D. Credit risk

a) When investing in financial instruments, the Company will probably encounter the risks that the transaction counterparties may default on contracts and the custodians may incur operating difficulties. The Company utilizes funds and makes investments in accordance with the Article 146 of Insurance Act and relevant laws, and conducts transactions only with counterparties with good credit ratings, or ensures that financial instruments are issued or guaranteed by reputable financial institutions, or acquires adequate collaterals. The Insurance Act also puts a limit to the transaction amount on an individual counterparty. Accordingly, the Company estimates no material credit risk would arise.

b) The Company utilizes funds and makes investments in financial instruments except for short-term notes and bills, time deposits, demand deposits and cash equivalents in accordance with Article 146 of Insurance Act and related laws, and sets limits to control the investment volume with an individual institution. Therefore, the Company has lower significant concentrations of credit risk.

c) The Company undertakes FX swap contracts and forward exchange contracts only with high-credit-quality financial institutions. If the counterparties of Taiwan Stock Index Futures default, the futures brokers will be liable for the losses incurred on the default. Accordingly, the Company estimates no material credit risk would arise.

E. Liquidity risk and cash flow risk

a) The Company uses short-term notes and bills, time deposits, demand deposits and other cash equivalents to adequately adjust its cash flows. When conducting investment evaluation, the Company will take into account the liquidity of financial instruments in secondary markets and may allocate some funds to lower-liquidity but higher-yield-rate financial instruments on condition that the risk is controlled. Even if those financial instruments are sold in the short-term, there is a weak likelihood that liquidity risk would arise due to the selling price being significantly lower than the fair value. However, those financial instruments are not intended to be sold in the short-term.

b) The nominal principal of FX swap contracts and forward exchange contracts is usually used as a calculation basis of receivables and payables for these transactions, and is not the actual settlement amount. The actual settlement amount is usually lower than the nominal principal. The Company has paid margins in advance before undertaking Taiwan Stock Index Futures transactions, and daily evaluates the unsettled futures positions. In case when additional margins have to be paid later on, the Company has sufficient working capital to fulfill its payment obligations. Accordingly, the Company estimates no material cash flow risk would arise.

4) Derivative financial instruments

A. FX swap contracts

	Designated as hedging instrument		
	Financial instrument was designated as	Fair value	
Hedge item	hedging instrument	December 31, 2007	December 31, 2006
Foreign CDOs, CMOs, and structured notes	FX swap contracts	($ 3,414)	($ 8,465)

As of December 31, 2007 and 2006, the notional amounts of FX swap contracts were USD 66,030 thousand and CAD 7,000 thousand, and USD 74,125 thousand and CAD 7,000 thousand, respectively.

B. Forward exchange contracts

As of December 31, 2007, all forward exchange contracts were fully settled. As of December 31, 2006, the notional amounts and the fair values were USD 25,000 thousand and ($3,510), respectively.

C. Futures contracts

As of December 31, 2007, all futures contracts were settled, and the related margins were $1,923. As of December 31, 2006, the margins and the fair values were $5,250 and ($2,064), respectively.

5) Interest rate risk:

The interest risk of financial instruments the Company entered into were specified by maturities as follows:

A. As of December 31, 2007

Fixed interest rate

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	over 5 years	Total
Cash and cash equivalents	5,290,693	9,900	-	-	-	-	5,300,593
Available-for-sale financial assets – current	553,329	-	-	-	-	-	553,329
Held-to-maturity financial assets – current	488,738	-	-	-	-	-	488,738
Investment in bonds without active markets – current	469,623	-	-	-	-	-	469,623
Available-for-sale financial assets – non current	-	423,669	24,506	58,870	224,895	-	731,940
Held-to-maturity financial assets – non current	-	88,669	88,669	88,669	-	-	266,007
Investment in bonds without active markets – non current	-	358,889	192,899	79,128	37,292	2,155,834	2,824,042

Floating interest rate

	< 1 year	1-2 years	2-3 years	3-4 years	4-5 years	over 5 years	Total
Cash and cash equivalents	5,685,099	335,882	-	-	-	-	6,020,981
Financial assets at fair value through profit or loss – current	65,004	-	-	-	-	-	65,004
Held-to-maturity financial assets – current	1,300,007	-	-	-	-	-	1,300,007
Investment in bonds without active markets – current	28,420	-	-	-	-	-	28,420
Financial assets at fair value through profit or loss – non current	-	-	-	-	-	583,143	583,143
Available-for-sale financial assets – non current	-	201,118	-	-	-	300,000	501,118
Held-to-maturity financial assets – non current	-	300,000	-	-	-	-	300,000
Investment in bonds without active markets – non current	-	28,420	125,926	216,030	28,420	900,314	1,299,110

B. December 31, 2006

Fixed interest rate

	< 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 financial assets – current	1,011,831	-	-	-	-	-	1,011,831
Investment in bonds without active markets – 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 financial assets – non current	-	600,272	-	-	356,936	-	957,208
Investment in bonds without active markets – non current	-	359,071	395,521	385,114	277,928	732,758	2,150,392

Floating interest rate

	< 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 financial assets – current	2,081,637	-	-	-	-	-	2,081,637
Investment in bonds without active markets current	66,086	-	-	-	-	-	66,086
Financial assets at fair value through profit or loss – non current	-	65,340	-	-	-	713,236	778,576
Held-to-maturity financial assets – non current	-	1,300,146	300,000	-	-	-	1,600,146
Investment in bonds without active markets – non current	-	16,025	16,025	114,035	16,025	1,162,117	1,324,227

The interest rate will be readjusted within one year for financial instruments with floating interest rate, while the interest rate of financial instruments with fixed interest rate will not be changed up to the maturity date. Other non-interest-bearing financial instruments are not included in the above table because they are free of interest rate risk.

11. OTHER DISCLOSURES

1) Information of significant transactions

A. Collateral loan to others: Not applicable.

B. As guarantor or surety for others: Not applicable.

C. Holding marketable securities at year end: Not applicable.

D. Accumulated acquisition costs or disposal proceeds for specific marketable securities amounting to more than $100,000 or 20% of capital: Not applicable.

E. Acquisitions of real estate with a value in excess of $100,000 or 20% of capital: None.

F. Disposals of real estate with a value in excess of $100,000 or 20% of capital: None.

G. Related party transactions in excess of $100,000 or 20% of capital:

2007

Name of related parties	Relationship	Item	Amount	%	Period
Evergreen Re.	The investee company of the major stockholder of Evergreen International Corp.	Reinsurance claims recovery	$ 120,582	7.17%	Regulations of Contracts

2006

Name of related parties	Relationship	Item	Amount	%	Period
Evergreen Re.	The investee company of a major stockholder of Evergreen International Corp.	Reinsurance claims recovery	$ 510,718	18.82%	Regulations of contracts
Evergreen Re.	The investee company of a major stockholder of Evergreen International Corp.	Reinsurance premium ceded	$ 364,379	6.26%	Regulations of contracts

H. Accounts receivable from related parties in excess of $100,000 or 20% of capital:

		December 31, 2006		
Name of related parties	Relationship	Item	Amount	Allowance for doubtful accounts
Evergreen Re.	The investee company of a major stockholder of Evergreen International Corp.	Due from reinsurers and ceding companies	$ 225,464	$ 2,255

I. Derivative business transactions: Please see Note 10.4).

2) Information related to long-term investments: None.

3) Investments in Mainland China and business transactions: None.

12. SEGMENT INFORMATION

1) Financial information by industry:
The Company is only engaged in reinsurance. Hence, disclosure of information by industry is not applicable.

2) Financial information by geographic area:
The Company does not have overseas operations. Hence, disclosure of information by geographical area is not applicable.

3) Information of export sales:
Not applicable.

4) Information on major customers:
There are specific customers of Compulsory Motor Insurance Pool that contributed over 10% of the total revenues stated on the income statement of the Company. In 2007 and 2006, gross premium written amounted to $3,000,176 and $2,744,947, constituting 16.73% and 14.54% of the related totals, respectively.

13. BORROWINGS RESULTED FROM PAYMENT OF CLAIMS
None.

14. ACQUISITION, CONSTRUCTION, IDLELIZATION AND SALES OF MAIN OPERATING ASSETS AND REAL ESTATE INVESTMENTS

The Company 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 been completed in 2006.

15. IMPORTANT LAWSUITS IN PROGRESS OR ADJUDICATED

None.

16. IMPORTANT CONTRACTS SIGNED, DISCHARGED BY PERFORMANCE, AGREEMENT, OPERATION OF LAW, OR BREACHED

None.

17. INVESTMENT ITEMS AND INVESTMENT CEILINGS WITH THE INVESTMENT FUNDS BEING HANDLED AND MANAGED BY THE SECURITIES INVESTMENT TRUST COMPANIES OR SECURITIES INVESTMENT CONSULTING COMPANIES

None.

18. ADJUSTMENT OF ORGANIZATION AND SIGNIFICANT CHANGE OR REFORM OF MANAGEMENT MECHANISM

None.

19. EFFECTS OF GOVERNMENT LAWS' SIGNIFICANT CHANGE

None.