

CENTRAL REINSURANCE CORPORATION

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2008 AND 2007

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

PWCR08000377

To Central Reinsurance Corporation

We have audited the accompanying balance sheets of Central Reinsurance Corporation as of December 31, 2008 and 2007, and the related statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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, 2008 and 2007, and the results of its operations and its cash flows for the years 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.

PricewaterhouseCoopers

March 3, 2009

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)

	2008		2007			2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
ASSETS					LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Assets					Current Liabilities				
Cash and cash equivalents (Note 4(1))	\$ 10,054,483	39	\$ 11,328,578	41	Derivative financial liabilities for hedging-current (Note 4(9))	\$ 74,100	-	\$ 3,414	-
Financial assets at fair value through profit or loss-current (Note 4(2))	276,431	1	65,993	-	Due to reinsurers and ceding companies	196,194	1	353,472	1
Available-for-sale financial assets-current (Note 4(3))	4,262,783	16	3,427,588	12	Reinsurance payables	882,603	3	1,227,333	5
Held-to-maturity financial assets-current (Note 4(4))	388,401	2	1,788,744	7	Accrued expenses (Note 5)	32,937	-	55,872	-
Investment in bonds without active markets-current (Note 4(6))	953,087	4	219,433	1	Tax payable	209,469	1	209,600	1
Notes receivable-net (Note 4(7))	10,786	-	13,213	-	Other accounts payable	28,669	-	82,314	-
Prepaid reinsurance expenses	1,063,686	4	1,407,646	5	Collections in advance	533	-	737	-
Due from reinsurers and ceding companies (Note 5)	548,516	2	829,437	3	Deferred income tax liabilities-current (Note 4(14))	-	-	14	-
Reinsurance receivables	227,636	1	336,678	1	Other current liabilities	4,638	-	4,570	-
Interest and revenue receivable	218,042	1	181,421	1		1,429,143	5	1,937,326	7
Other accounts receivable	41,804	-	25,313	-	Long-term Liabilities				
Prepaid expenses (Note 5)	438	-	590	-	Reserve for land revaluation increment tax (Note 4(8))	72,223	-	72,223	-
Deferred income tax assets-current (Note 4(14))	74,521	-	-	-	Accrued pension liabilities (Note 4(10))	4,321	-	1,680	-
Other current assets	2,073	-	50	-		76,544	-	73,903	-
	18,122,687	70	19,624,684	71	Operating Reserves				
Investments					Unearned premium reserve	7,002,462	27	7,304,794	26
Financial assets at fair value through profit or loss-non current (Note 4(2))	647,557	2	606,242	2	Equalisation reserve	5,306,656	21	4,343,534	16
Available-for-sale financial assets-non current (Note 4(3))	1,899,685	7	557,632	2	Claims reserve	6,198,852	24	6,298,723	23
Held-to-maturity financial assets-non current (Note 4(4))	176,803	1	566,008	2	Premium deficiency reserve	10,936	-	-	-
Financial assets carried at cost-non current (Note 4(5))	-	-	322	-		18,518,906	72	17,947,051	65
Investment in bonds without active markets-non current (Note 4(6))	3,031,884	12	4,551,068	17	Other Liabilities				
Investments in real estate properties (Note 4(8))	585,246	2	585,529	2	Deposits-in	5,006	-	6,669	-
	6,341,175	24	6,866,801	25	Deferred income tax liabilities-non current (Note 4(14))	-	-	962	-
Fixed Assets (Note 4(8))						5,006	-	7,631	-
Cost					TOTAL LIABILITIES	20,029,599	77	19,965,911	72
Land	23,536	-	23,536	-	Stockholders' Equity				
Buildings and equipment	65,410	-	64,529	1	Capital (Note 4(11))				
Computer equipment (Note 5)	11,971	-	22,469	-	Common stock	5,512,500	21	5,250,000	19
Transportation equipment	5,321	-	7,911	-	Capital reserve (Note 4(12))				
Miscellaneous equipment	3,180	-	7,694	-	Additional paid-in capital	300,000	1	300,000	1
Total cost	109,418	-	126,139	1	Retained earnings (Note 4(13))				
Revaluation increment	110,299	1	110,299	-	Legal reserve	578,100	2	452,160	2
Total cost and revaluation increment	219,717	1	236,438	1	Undistributed earnings	965,643	4	1,677,907	6
Less: Accumulated depreciation	(59,041)	-	(73,288)	(1)	Stockholders' equity-others				
	160,676	1	163,150	-	Unrealized gains or losses on financial instruments	(1,656,240)	(6)	(121,434)	-
Intangible Asset					Revaluation increment on properties	153,417	1	153,417	-
Computer software costs (Note 5)	22,945	-	20,192	-	TOTAL STOCKHOLDERS' EQUITY	5,853,420	23	7,712,050	28
Other Assets									
Refundable deposits (Note 4(3))	918,646	4	880,245	3	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 25,883,019	100	\$ 27,677,961	100
Funds held by other insurance companies	91,400	-	122,889	1					
Deferred income tax assets-non current (Note 4(14))	225,490	1	-	-					
	1,235,536	5	1,003,134	4					
TOTAL ASSETS	\$ 25,883,019	100	\$ 27,677,961	100					

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

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

	2008		2007	
	Amount	%	Amount	%
Operating revenues				
Gross premiums written (Note 5)	\$ 15,781,483	108	\$ 17,931,361	125
Reinsurance premiums ceded (Note 5)	(1,915,093)	(13)	(4,880,562)	(34)
Net premiums written	13,866,390	95	13,050,799	91
Overriding commission revenue (Note 5)	42,527	-	83,407	1
Interest income	662,782	5	685,135	5
Gain on valuation of financial assets	-	-	29,109	-
Gain on investments in securities	-	-	495,543	3
Income from real estate investments, net	19,005	-	17,528	-
Other operating revenues	22	-	43,462	-
Total operating revenues	14,590,726	100	14,404,983	100
Operating costs (Note 5)				
Reinsurance commission expenses	(4,518,060)	(31)	(4,812,004)	(33)
Reinsurance commission revenue	601,960	4	918,630	6
	(3,916,100)	(27)	(3,893,374)	(27)
Reinsurance claims paid	(9,264,353)	(64)	(9,155,669)	(64)
Reinsurance claims recovery	1,246,808	9	1,680,771	12
	(8,017,545)	(55)	(7,474,898)	(52)
Provision for unearned premium reserve-net	(41,628)	-	74,225	1
Provision for equalisation reserve-net	(963,122)	(7)	(1,030,555)	(7)
Provision for claims reserve-net	99,871	1	(75,034)	(1)
Provision for premium deficiency reserve	(10,936)	-	-	-
Overriding commission expenses (Note 5)	(9,648)	-	(6,207)	-
Interest expenses	(91)	-	(382)	-
Loss on valuation of financial assets	(200,636)	(1)	-	-
Exchange loss	(147,572)	(1)	(100,075)	(1)
Loss on investments in securities	(79,791)	(1)	-	-
Other operating costs	(10)	-	(4)	-
Total operating costs	(13,287,208)	(91)	(12,506,304)	(87)
Gross profit	1,303,518	9	1,898,679	13

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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)

	2008		2007	
	Amount	%	Amount	%
Operating expenses (Notes 4(15) and 5)				
Operation expenses	(\$ 241,478)	(1)	(\$ 241,524)	(1)
Administration expenses	(102,284)	(1)	(103,911)	(1)
Training expenses	(1,184)	-	(1,063)	-
	<u>(344,946)</u>	<u>(2)</u>	<u>(346,498)</u>	<u>(2)</u>
Net operating income	<u>958,572</u>	<u>7</u>	<u>1,552,181</u>	<u>11</u>
Non-operating income and gains				
Other income	<u>15,481</u>	<u>-</u>	<u>14,148</u>	<u>-</u>
Non-operating expenses and losses				
Loss on disposal of fixed assets	-	-	(156)	-
Impairment loss (Note 4(6))	(662,486)	(5)	-	-
Other expenses	(104)	-	(34)	-
	<u>(662,590)</u>	<u>(5)</u>	<u>(190)</u>	<u>-</u>
Income before income tax	311,463	2	1,566,139	11
Income tax expense (Note 4(14))	<u>(97,853)</u>	<u>(1)</u>	<u>(306,743)</u>	<u>(2)</u>
Net income	<u>\$ 213,610</u>	<u>1</u>	<u>\$ 1,259,396</u>	<u>9</u>

	Before Tax	After Tax	Before Tax	After Tax
Earnings per share (NT\$)				
Income before income tax	<u>\$ 0.57</u>	<u>\$ 0.39</u>	<u>\$ 2.84</u>	<u>\$ 2.28</u>
Net income	<u>\$ 0.57</u>	<u>\$ 0.39</u>	<u>\$ 2.84</u>	<u>\$ 2.28</u>

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

CENTRAL REINSURANCE CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Expressed in Thousands of New Taiwan Dollars)

	Capital	Capital Reserve	Retained Earnings			Stockholders' Equity – Others			Total
	Common Stock	Additional Paid-in Capital	Legal Reserve	Special Reserve	Undistributed Earnings	Unrealized Gains or Losses on Financial Instruments	Revaluation Increment on Properties	Unrealized Loss on Pension Cost	
Balance at January 1, 2007	\$ 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)
Changes in unrealized loss on pension cost	-	-	-	-	-	-	-	1,958	1,958
Balance at December 31, 2007	<u>5,250,000</u>	<u>300,000</u>	<u>452,160</u>	<u>-</u>	<u>1,677,907</u>	<u>(121,434)</u>	<u>153,417</u>	<u>-</u>	<u>7,712,050</u>
Distributions of 2007 net income:									
Legal reserve	-	-	125,940	-	(125,940)	-	-	-	-
Stock dividends	262,500	-	-	-	(262,500)	-	-	-	-
Cash dividends	-	-	-	-	(525,000)	-	-	-	(525,000)
Directors' and supervisors' remuneration	-	-	-	-	(1,100)	-	-	-	(1,100)
Employees' bonus	-	-	-	-	(11,334)	-	-	-	(11,334)
Net income for 2008	-	-	-	-	213,610	-	-	-	213,610
Changes in unrealized losses on financial instruments	-	-	-	-	-	(1,534,806)	-	-	(1,534,806)
Balance at December 31, 2008	<u>\$ 5,512,500</u>	<u>\$ 300,000</u>	<u>\$ 578,100</u>	<u>\$ -</u>	<u>\$ 965,643</u>	<u>(\$ 1,656,240)</u>	<u>\$ 153,417</u>	<u>\$ -</u>	<u>\$ 5,853,420</u>

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

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

	2008	2007
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income	\$ 213,610	\$ 1,259,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,546	9,436
Amortization	6,628	2,840
Provision for reserves-net	915,815	1,030,487
Amortization of premium on investments in bonds	15,008	23,422
Loss on disposal of fixed assets	-	156
Loss (gain) on valuation of financial assets and liabilities	200,636	(29,109)
Impairment loss	662,486	-
Changes in assets and liabilities:		
Financial assets at fair value through profit or loss-current	(243,661)	523,392
Notes receivable	2,427	(7,498)
Due from and to reinsurers and ceding companies	123,643	(138,595)
Reinsurance receivables and payables	(235,688)	251,453
Interest and revenue receivable	(36,621)	28,860
Other accounts receivable	(16,491)	1,029,009
Prepaid expenses	152	146
Deferred income tax (assets) liabilities	(300,987)	21,906
Other current assets	(2,023)	270
Accrued expenses	(22,935)	(21,990)
Tax payable	(131)	137,564
Other accounts payable	(53,645)	79,114
Collections in advance	(204)	(12,213)
Other current liabilities	68	1,317
Accrued pension liabilities	2,641	3,095
Refundable deposits and deposits-in	(40,064)	65,049
Funds held by and for other insurance companies	31,489	14,184
Net cash provided by operating activities	1,229,699	4,271,691

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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)

	<u>2008</u>	<u>2007</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
(Increase) decrease in financial assets-non current	(\$ 1,952,190)	\$ 862,698
Acquisition of investments in real estate and fixed assets	(4,789)	(8,792)
Proceeds from disposal of fixed assets	-	6
Acquisition of computer software costs and other assets	(9,381)	(22,458)
Net cash (used in) provided by investing activities	<u>(1,966,360)</u>	<u>831,454</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payment of cash dividends	(525,000)	(250,000)
Payment of directors' and supervisors' remuneration and employees' bonus	(12,434)	(6,881)
Net cash used in financing activities	<u>(537,434)</u>	<u>(256,881)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		
	(1,274,095)	4,846,264
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,328,578</u>	<u>6,482,314</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,054,483</u>	<u>\$ 11,328,578</u>
<u>SUPPLEMENTAL CASH FLOW INFORMATION</u>		
Interest paid	<u>\$ 91</u>	<u>\$ 382</u>
Income tax paid	<u>\$ 337,219</u>	<u>\$ 167,262</u>

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

CENTRAL REINSURANCE CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(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, 2008, the Company had 122 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. Investments in bonds without active markets

Investments in bonds without active markets 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 rate method. Gains and losses are recognized in income when the bond portfolio with no active market 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.

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 3 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, 3 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 “Regulations for Deposit and Management of the Reserve of Compulsory Automobile Liability Insurance”.

B. The equalisation reserve related to residence earthquake insurance is determined in accordance with “Regulations Governing Implementation of the Residential Earthquake Risk Spreading Mechanism”.

C. Until year 2007, reserves excluding the reserve listed above were determined in accordance with related regulations below:

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”, “Insurance Law” and related regulations.

The equalisation reserve and reserve for outstanding claims were calculated in accordance with “The Standard of Calculation of Various Reinsurance Reserves for the Professional Reinsurance Industry”, Insurance Law and related regulations.

D. Effective January 1, 2008, the reserves are determined in accordance with “Regulations Governing Financial and Business Operations of Professional Reinsurance Enterprises”, Letter No. 09602552061 issued by Financial Supervisory Commission, Executive Yuan. The reinsurance contracts are represented in accordance with related Rules Governing the Preparation of Financial Statements by Insurers and the payment for the unearned premium amount for ceded reinsurance treaty originally stated as unearned premium reserve will be reclassified under prepaid reinsurance expense.

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 tax (10%) on undistributed earnings is 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.

- 17) In accordance with the "Accounting for Employees' Bonus and Directors' and Supervisors' Remuneration", EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, employees' bonus and directors' and supervisors' remuneration are recognized as expense and liability when the recognition is required under a legal or constructive obligation and the amounts can be estimated reasonably.

3. CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2008, the Company adopted EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007. The adoption of EITF 96-052 had no effect on income before income tax for 2008 since the Company had no surplus. No expense was recognized after the provision for legal reserve and special reserve for the year ended December 31, 2008.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2008	2007
Petty cash	\$ 112	\$ 111
Checking accounts	8,791	6,893
Demand deposits	1,301,780	338,626
Time deposits	8,743,800	7,110,449
Negotiable certificates of deposit	-	90,000
Commercial papers	-	3,670,801
Repurchase corporate bonds	-	111,698
	<u>\$ 10,054,483</u>	<u>\$ 11,328,578</u>

As of December 31, 2008 and 2007, the balance of the time deposits with maturity over one year was \$5,143 and \$345,783, respectively.

2) Financial assets at fair value through profit or loss

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Current items:		
Financial assets held for trading		
Listed (TSE and OTC) stocks	\$ 123,896	\$ -
Domestic index funds	114,999	-
Foreign listed stocks	4,766	-
Adjustment of financial assets held for trading	(8,041)	-
	<u>235,620</u>	<u>-</u>
Designated as at fair value through profit or loss		
Foreign structured notes	-	65,004
Domestic convertible corporate bonds	39,942	5,000
Adjustment of designated as at fair value through profit or loss	<u>869</u>	<u>(4,011)</u>
	<u>40,811</u>	<u>65,993</u>
	<u>\$ 276,431</u>	<u>\$ 65,993</u>
	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Non-current items:		
Designated as at fair value through profit or loss		
Foreign structured notes	\$ 769,391	\$ 583,143
Domestic convertible corporate bonds	47,584	2,000
Adjustment of designated as at fair value through profit or loss	(169,418)	21,099
	<u>\$ 647,557</u>	<u>\$ 606,242</u>

Foreign structured notes are evaluated by system of market quote.

3) Available-for-sale financial assets

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Current items:		
Domestic items:		
Listed (TSE and OTC) stocks	\$ 2,500,009	\$ 1,458,525
REITs	439,181	255,453
Government bonds	409,246	-
Financial bonds	200,178	248,633
Corporate bonds	99,093	199,536
Open-end funds	1,840,020	530,020
Balanced funds	60,014	100,000
Index funds	77,842	-
Private funds-others	60,000	120,000
Foreign items:		
Listed stocks	439,279	272,418
Hedge funds	295,272	195,208
Index funds	<u>106,592</u>	<u>192,425</u>
	6,526,726	3,572,218
Adjustment of available-for-sale financial assets	(1,851,481)	(144,630)
Less: statutory deposits	<u>(412,462)</u>	<u>-</u>
	<u>\$ 4,262,783</u>	<u>\$ 3,427,588</u>

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Non-current items:		
Domestic items:		
Listed (TSE and OTC) preferred stocks	\$ 51,000	\$ 51,000
Government bonds	302,734	837,100
Corporate bonds	1,198,718	-
Financial bonds	<u>600,000</u>	<u>501,118</u>
	2,152,452	1,389,218
Adjustment of available-for-sale financial assets	74,045	25,566
Less: statutory deposits	<u>(326,812)</u>	<u>(857,152)</u>
	<u>\$ 1,899,685</u>	<u>\$ 557,632</u>

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, 2008 and 2007, government bonds with par value of \$836,000 and \$791,000, respectively, were deposited.

4) Held-to-maturity financial assets

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Current items:		
Domestic items:		
Corporate bonds	\$ 88,401	\$ 488,737
Financial bonds	<u>300,000</u>	<u>1,300,007</u>
	<u>\$ 388,401</u>	<u>\$ 1,788,744</u>
Non-current items:		
Domestic items:		
Corporate bonds	\$ 176,803	\$ 266,008
Financial bonds	-	300,000
Government bonds	149,533	-
Less: statutory deposits	(<u>149,533</u>)	-
	<u>\$ 176,803</u>	<u>\$ 566,008</u>

For information on statutory deposits, please see Note 4. 3).

5) Financial assets carried at cost

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Non-current item:		
Foreign unlisted stocks	<u>\$ -</u>	<u>\$ 322</u>

6) Investments in bonds without active markets

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Current items:		
Domestic items:		
CDOs	\$ 80,296	\$ 119,433
Private funds-bonds	-	100,000
Foreign items:		
CMOs	<u>872,791</u>	<u>-</u>
	<u>\$ 953,087</u>	<u>\$ 219,433</u>

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Non-current items:		
Domestic items:		
Unlisted preferred stocks	\$ 25,000	\$ 25,000
CDOs	291,410	377,104
Private funds-bonds	47,936	49,306
Foreign items:		
CMOs	864,798	1,729,219
CDOs	1,337,753	999,975
Structured notes	1,180,681	1,299,255
Corporate bonds	-	96,209
	<u>3,747,578</u>	<u>4,576,068</u>
Less: Accumulated impairment	(<u>715,694</u>)	(<u>25,000</u>)
	<u>\$ 3,031,884</u>	<u>\$ 4,551,068</u>

- A. 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.
- B. The above foreign structured notes include structured notes issued by Lehman Brothers Holdings Inc., which requested reorganization in September 15, 2008 according to Chapter 11 of the United States Bankruptcy Code. Considering the reorganization plan would lead to a loss in valuation, the Company recognized an impairment loss of \$631,184 for the year ended December 31, 2008.
- C. The above foreign CDOs include CDOs issued by Merrill Lynch & Co., the change of default rate of the CDOs' assets pool led to a loss in estimated future cash flows. Accordingly, the Company recognized an impairment loss of \$31,302 for the year ended December 31, 2008.
- D. The Company recognized a total unrealized exchange loss of \$28,208 for the accumulated impairments listed above for the year ended December 31, 2008.

7) Notes receivable-net

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Notes receivable	\$ 10,895	\$ 13,346
Less: Allowance for doubtful accounts	(<u>109</u>)	(<u>133</u>)
	<u>\$ 10,786</u>	<u>\$ 13,213</u>

8) Fixed assets and investments in real estate

	December 31,			
	2008		2007	
	<u>Operations</u>	<u>Investments</u>	<u>Operations</u>	<u>Investments</u>
Cost				
Land	\$ 23,536	\$ 415,049	\$ 23,536	\$ 415,049
Buildings and equipment	65,410	78,532	64,529	76,930
Computer equipment	11,971	-	22,469	-
Transportation equipment	5,321	-	7,911	-
Miscellaneous equipment	3,180	-	7,694	-
	<u>109,418</u>	<u>493,581</u>	<u>126,139</u>	<u>491,979</u>
Revaluation increment				
Land	102,282	114,946	102,282	114,946
Buildings and equipment	8,017	394	8,017	394
	<u>110,299</u>	<u>115,340</u>	<u>110,299</u>	<u>115,340</u>
Total cost and revaluation increment	<u>219,717</u>	<u>608,921</u>	<u>236,438</u>	<u>607,319</u>
Accumulated depreciation				
Buildings and equipment	48,312	23,675	46,157	21,790
Computer equipment	4,991	-	15,416	-
Transportation equipment	4,362	-	6,065	-
Miscellaneous equipment	1,376	-	5,650	-
	<u>59,041</u>	<u>23,675</u>	<u>73,288</u>	<u>21,790</u>
Net book value	<u>\$ 160,676</u>	<u>\$ 585,246</u>	<u>\$ 163,150</u>	<u>\$ 585,529</u>
Reserve for land revaluation increment tax	<u>\$ 35,672</u>	<u>\$ 36,551</u>	<u>\$ 35,672</u>	<u>\$ 36,551</u>

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) Derivative financial liabilities for hedging-current

	December 31,	
	2008	2007
FX swap contracts	<u>\$ 74,100</u>	<u>\$ 3,414</u>

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

10) 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 Law, 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

	<u>For the years ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Discount rate	2.50%	3.00%
Expected rate of return on plan assets	2.50%	3.00%
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

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Benefit obligation		
Vested benefit obligation	\$ 27,017	\$ 23,686
Non-vested benefit obligation	<u>19,286</u>	<u>16,481</u>
Accumulated benefit obligation	46,303	40,167
Effect of future salary increments	<u>8,652</u>	<u>6,030</u>
Projected benefit obligation	54,955	46,197
Fair value of plan assets	(<u>46,610</u>)	(<u>39,277</u>)
Funded status	8,345	6,920
Unrealized net transition obligation	(674)	(749)
Unrecognized loss on plan assets	(<u>3,350</u>)	(<u>4,491</u>)
Accrued pension liabilities	<u>\$ 4,321</u>	<u>\$ 1,680</u>
Vested benefit	<u>\$ 33,411</u>	<u>\$ 27,323</u>

c) Net pension cost comprises the following:

	<u>For the years ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Service cost	\$ 8,644	\$ 8,898
Interest cost	1,386	1,091
Expected return on plan assets	(1,178)	(876)
Amortization of unrecognized loss on plan assets	-	370
Amortization of unrecognized net transition obligation	<u>75</u>	<u>75</u>
Net pension cost	<u>\$ 8,927</u>	<u>\$ 9,558</u>

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, 2008 and 2007 were \$3,809 and \$3,391, respectively.

11) Common stock

- A. As of December 31, 2008 and 2007, the Company’s authorized capital was \$6,000,000 for both years, and the paid-in capital was \$5,512,500 and \$5,250,000, respectively, with a par value of \$10 (in dollars) per share.
- B. To increase the Company’s working capital, the Board of Directors’ during its meeting on June 13, 2008 adopted a resolution to issue stock dividends of 26,250,000 shares. This was approved by the Financial Supervisory Commission, Executive Yuan per Letter No. 0970036541 with the effective date set on August 22,

2008.

- C. 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.

12) Capital reserve

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

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Excess of par value	<u>\$ 300,000</u>	<u>\$ 300,000</u>

- 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.

13) 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 20% (10% for previous years) 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 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 in the form of cash or stock 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. The details of distribution are as follows:

	<u>2007 earnings</u>		<u>2006 earnings</u>	
	<u>Amount</u>	<u>Dividend per share</u>	<u>Amount</u>	<u>Dividend per share</u>
Legal reserve	\$ 125,940	\$ -	\$ 69,959	\$ -
Reversal of special reserve	-	-	(4,055)	-
Stock dividends	262,500	0.5	250,000	0.5
Cash dividends	525,000	1.0	250,000	0.5
Directors' and supervisors' remuneration	1,100	-	585	-
Employees' bonus	11,334	-	6,296	-
	<u>\$ 925,874</u>	<u>\$ 1.5</u>	<u>\$ 572,785</u>	<u>\$ 1.0</u>

The above distribution of retained earnings approved by the stockholders was the same with the appropriation resolved by the Board of Directors on April 23, 2008. Information on the appropriation will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

C. The Company estimates employees' bonus based on a certain percentage of net income in accordance with the Company's Articles of Incorporation and previous years' experiences. The directors' and supervisors' remuneration is estimated by an average per person each year in the past. The difference between estimated amount and actual payment will be recognized in profit or loss of the following year.

14) Income tax

A. Income tax expense

	<u>For the years ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Income before income tax	\$ 311,463	\$ 1,566,139
Gain on sales of securities	(26,386)	(468,507)
Income of separate income tax (20%)	(61,293)	(52,604)
Income of separate income tax (6%)	(35,084)	(18,804)
Others (including temporary differences)	<u>979,024</u>	<u>(85,055)</u>
	<u>1,167,724</u>	<u>941,169</u>
Income tax payable	291,921	235,282
10% tax on undistributed earnings	33,352	12,681
Effect of deferred income tax	(300,987)	21,906
Tax credits	(355)	(318)
Separate income tax	14,651	10,952
Tax for premium amortization-bonds	-	26,087
Unrealized loss (gain) of available-for-sale financial assets-current based on inter- period tax allocation	57,710	(21)
Adjustments of prior year's tax	1,561	-
Others	<u>-</u>	<u>174</u>
Income tax expense	<u>\$ 97,853</u>	<u>\$ 306,743</u>

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

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Current items:		
Deferred income tax assets	\$ 90,985	\$ 9,506
Deferred income tax liabilities	<u>(16,464)</u>	<u>(9,520)</u>
	<u>\$ 74,521</u>	<u>(\$ 14)</u>
Non-current items:		
Deferred income tax assets	\$ 227,643	\$ 8,117
Deferred income tax liabilities	<u>(2,153)</u>	<u>(9,079)</u>
	<u>\$ 225,490</u>	<u>(\$ 962)</u>

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

	December 31,	
	2008	2007
Current items:		
Bad debts provision	\$ 8,256	\$ 7,597
Unrealized valuation loss on financial assets	2,094	1,122
Other expenses	632	787
Unrealized exchange loss (gain)	8,200	(7,149)
Unrealized valuation loss (gain) on available-for-sale financial assets	71,803	(2,371)
Unrealized exchange gain on available-for-sale financial assets	(16,464)	-
	<u>\$ 74,521</u>	<u>(\$ 14)</u>
Non-current items:		
Unrealized tax effect from impairment loss of financial assets	\$ 171,872	\$ 6,250
Pension expense	1,620	960
Other expenses	275	907
Cumulative effect of changes in accounting principles	(2,153)	(674)
Unrealized valuation loss (gain) on financial assets	41,678	(8,405)
Unrealized exchange loss	12,198	-
	<u>\$ 225,490</u>	<u>(\$ 962)</u>

D. As of December 31, 2008, the Company's income tax returns through 2005 have been assessed and approved by the Tax Authority.

E. Undistributed retained earnings:

	December 31,	
	2008	2007
Earnings generated in and before 1997	\$ -	\$ -
Earnings generated in and after 1998	965,643	1,677,907
	<u>\$ 965,643</u>	<u>\$ 1,677,907</u>

F. In 2008 and 2007, local stockholders' tax credit account and tax credit rate were as follows:

	December 31,	
	2008	2007
Stockholders' tax credit account	<u>\$ 327,297</u>	<u>\$ 195,592</u>
	2008	2007
Tax credit rate	(Estimated) <u>33.89%</u>	(Actual) <u>22.78%</u>

15) PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

Function Expense	2008		2007	
	Operating Costs	Operating Expenses	Operating Costs	Operating Expenses
Personnel Expenses	\$ -	\$ 177,247	\$ -	\$ 186,637
Salaries	-	148,222	-	157,898
Employees' insurance	-	7,850	-	7,404
Pension	-	12,736	-	12,949
Others (Note A)	-	8,439	-	8,386
Depreciation (Note B)	1,885	5,661	1,750	7,686
Amortization	-	6,628	-	2,840

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

<u>Related party</u>	<u>Relationship with the Company</u>
Evergreen International Corp.	The Company's Corporate director
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

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Evergreen Re.	<u>\$ 4,898</u>	<u>0.89</u>	<u>\$ 33,078</u>	<u>3.99</u>

B. Accrued expenses

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Evergreen International Corp.	<u>\$ 2,216</u>	<u>6.73</u>	<u>\$ 1,448</u>	<u>2.59</u>

C. Operating revenues and operating costs

Name of related parties	Account	<u>For the years ended December 31,</u>			
		<u>2008</u>		<u>2007</u>	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Evergreen Re.	Gross premiums written	\$ 5,858	0.04	\$ 9,640	0.05
	Reinsurance premiums ceded	1,759	0.09	6,914	0.14
	Overriding commission revenue	38	0.09	175	0.21
	Reinsurance commission expenses	1,645	0.04	1,462	0.03
	Reinsurance commission revenue	327	0.05	4,702	0.51
	Reinsurance claims paid	1,067	0.01	830	0.01
	Reinsurance claims recovery	44,602	3.58	120,582	7.17

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

D. Operating expenses

	<u>For the years ended December 31,</u>			
	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Evergreen International Corp.	<u>\$ 14,472</u>	<u>4.20</u>	<u>\$ 2,136</u>	<u>0.62</u>

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

E. Computer software

The cost was incurred on the computer systems developed by Evergreen International Corp. As of December 31, 2008, the Company had paid \$9,167 to Evergreen International Corp. for the computer systems.

F. Salary and remuneration paid for directors, supervisors, general managers, vice general managers, and other major management personnel.

	<u>2008</u>	<u>2007</u>
Salary	\$ 15,070	\$ 12,048
Bonus	2,330	6,889
Service execution expense	1,274	1,312
Earnings distribution	<u>-</u>	<u>1,914</u>
	<u>\$ 18,674</u>	<u>\$ 22,163</u>

- a) Salary includes salary, service pay, pension, severance pay, etc.
- b) Bonus includes each kind of bonus, bounty, etc.
- c) Service execution expense includes travel allowance, special expenditures and subsidies.
- d) Earnings distribution refers to the estimated directors' and supervisors' remuneration and employee bonus of the current year.
- e) For more information, please refer to the Company's annual report.

6. PLEDGED ASSETS

Please see Notes 4. 3) and 4. 4).

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 2007 financial statements were reclassified to conform with the 2008 financial statement presentation.

2) The fair value of the financial instruments

<u>Financial Instruments</u>	<u>December 31, 2008</u>			<u>December 31, 2007</u>		
	<u>Book Value</u>	<u>Fair Value</u>		<u>Book Value</u>	<u>Fair Value</u>	
		<u>Quotations in an active market</u>	<u>Estimated using a valuation technique</u>		<u>Quotations in an active market</u>	<u>Estimated using a valuation technique</u>
<u>Non-derivative financial instruments</u>						
ASSETS						
Financial assets with fair values equal to book values	\$ 11,192,667	\$ -	\$ 11,192,667	\$ 12,837,529	\$ -	\$ 12,837,529
Financial assets at fair value through profit or loss	923,988	321,310	602,678	672,235	7,234	665,001
Available-for-sale financial assets (Note)	6,901,742	6,544,717	357,025	4,842,372	4,491,774	350,598
Held-to-maturity financial assets (Note)	714,737	708,576	-	2,354,752	2,546,157	-
Financial assets carried at cost	-	-	-	322	-	322
Investments in bonds without active markets	3,984,971	-	3,984,971	4,770,501	-	4,770,501
Refundable deposits	29,839	-	29,839	23,093	-	23,093
LIABILITIES						
Financial liabilities with fair values equal to book values	1,349,872	-	1,349,872	1,928,591	-	1,928,591
Deposits-in	5,006	-	5,006	6,669	-	6,669
<u>Derivative financial instruments</u>						
LIABILITIES						
FX swap contracts	74,100	-	74,100	3,414	-	3,414

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, Notes receivable, Due from (to) reinsurers and ceding companies, Reinsurance receivables (payables), Income tax recoverable, Interest and revenue receivable, Other receivables (payables), Funds held by (for) other insurance companies, Accrued expenses and Tax payable.
- B. Fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is based on quoted price in an active market. If the market for a financial instrument is not active, broker quotation is used.
- 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

Except for derivatives held by the Company, the Company's financial instruments 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 less 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

<u>Hedge item</u>	<u>Financial instrument was designated as hedging instrument</u>	<u>Designated as hedging instrument</u>	
		<u>Fair value</u>	
		<u>December 31, 2008</u>	<u>December 31, 2007</u>
Foreign CDOs, CMOs, and structured notes	FX swap contracts	\$ 74,100	\$ 3,414

As of December 31, 2008 and 2007, the notional amounts of FX swap contracts were USD 87,645 thousand and CAD 7,000 thousand, and USD 66,030 thousand and CAD 7,000 thousand, respectively.

B. Futures contracts

As of December 31, 2008 and 2007, all futures contracts were settled, and the related margins were \$8,739 and \$1,923, respectively.

5) Interest rate risk:

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

A. December 31, 2008

Fixed interest rate

	<u>< 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Cash and cash equivalents	5,804,743	-	-	-	-	-	5,804,743
Available-for-sale financial assets – current	508,339	-	-	-	-	-	508,339
Held-to-maturity financial assets – current	88,401	-	-	-	-	-	88,401
Investments in bonds without active markets – current	953,087	-	-	-	-	-	953,087
Available-for-sale financial assets – non current	-	123,378	357,627	220,822	300,000	799,625	1,801,452
Held-to-maturity financial assets – non current	-	138,309	138,116	-	49,911	-	326,336
Investments in bonds without active markets – non current	-	849,425	11,066	4,307	-	-	864,798

Floating interest rate

	<u>< 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Cash and cash equivalents	4,235,694	5,143	-	-	-	-	4,240,837
Available-for-sale financial assets – current	200,178	-	-	-	-	-	200,178
Held-to-maturity financial assets – current	300,000	-	-	-	-	-	300,000
Financial assets at fair value through profit or loss – non current	-	-	113,169	-	590,606	65,616	769,391
Available-for-sale financial assets – non current	-	-	-	-	-	300,000	300,000
Investments in bonds without active markets – non current	-	98,424	191,410	-	-	2,520,010	2,809,844

B. December 31, 2007

Fixed interest rate

	<u>< 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>over 5 years</u>	<u>Total</u>
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
Investments in bonds without active markets – current	119,433	-	-	-	-	-	119,433
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
Investments in bonds without active markets – non current	-	709,079	192,899	79,128	37,292	2,155,834	3,174,232

Floating interest rate

	<u>< 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>over 5 years</u>	<u>Total</u>
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
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
Investments in bonds without active markets – non current	-	56,840	125,926	216,030	28,420	900,314	1,327,530

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

<u>Name of related parties</u>	<u>Relationship</u>	<u>Item</u>	<u>Amount</u>	<u>%</u>	<u>Period</u>
Evergreen Re.	The investee company of the major stockholder of Evergreen International Corp.	Reinsurance claims recovery	<u>\$ 120,582</u>	<u>7.17%</u>	Contract term

- H. Accounts receivable from related parties in excess of \$100,000 or 20% of capital: None.
- 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 2008 and 2007, gross premiums written amounted to \$3,173,146 and \$3,000,176, constituting 20.11% and 16.73% 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

None.

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.