

To Our Shareholders



Taiwan's economy rebounded swiftly in 2004

as global recovery gathered pace. The global economy — despite lingering concerns in the second half on higher oil prices and the economic slowdown in Mainland China — had remained robust throughout the year. Taiwan, with its export-orientated economy, benefited from this trend and had maintained a strong growth path.

On the financial industry front, consolidation trend remained unabated. At the global level, financial institutions were eager to achieve scale economy through active M&A strategies. At the regional front, Japan's financial restructuring effort created banking giants through consolidation; Korea facilitated the formation of leading financial companies by introducing foreign participation. These examples contrasted with Taiwan's slow progress in financial reform and its lack of dominant players. Nevertheless, with intensified competition and the government's support, financial reform in Taiwan should speed up and go forward.

Despite the competitive business landscape, Chinatrust Financial Holding Company (CFHC) was able to deliver another year of strong performance. Having successfully implemented the “bank-centric” strategy and having fully integrated the subsidiaries to create synergy, the management team had once again demonstrated the capability to meet the expectations and challenges entrusted to them by the shareholders.

Outstanding Financial Results with Effective Integration of Expanded Network

2004 was an excellent year for the CFHC. Compared to 2003, our earnings grew from NT\$ 7.7 billion to NT\$ 15.4 billion, an increase of 99%. Chinatrust Commercial

Bank, our flagship company, with its total assets at NT\$1.3 trillion, total loans at NT\$0.8 trillion, total deposits at NT\$1.0 trillion, and pretax profit at a record NT\$18.2 billion, maintained its position as the largest private and most profitable bank in Taiwan.

The success of our “bank-centric” strategy is built on our ability to fulfill the financial needs of our customers through an extensive network and an “open architecture” that provides “best-of-breed” products and services. Since the completion of system integration with Grand Commercial Bank in January 2004, the CFHC has begun to introduce our business model to the newly acquired branches. Strong earnings and growth momentum achieved at these branches demonstrated our effective approach and outstanding execution capability.

As part of our strategy to extend our network, we have also participated in the auctioning processes of troubled financial institutions held by Central Deposit Insurance Corporation during 2004. The successful acquisition of Fengshan Credit Cooperative in October further increased the number of our bank branches from 101 to 111, allowing us to provide greater access and better service to a broader customer base.

Subsidiaries Combined to Provide an Integrated and Comprehensive Service

Through effective integration of the subsidiaries' resources, such as human resources, IT, customers, products, and channels, the CFHC has strengthened its ability to provide an integrated and comprehensive financial service to our customers. We are constantly improving our skills and capabilities by adding new subsidiaries to the family. Chinatrust Bills Finance Corporation, our latest member company, joined the CFHC in March 2004 and increased the total number of CFHC's subsidiaries to



six. While the new member would bring additional product capabilities to the CFHC, it should also benefit from the resources available at the CFHC.

All CFHC's subsidiaries had an outstanding performance in 2004. Chinatrust Insurance Brokers Company now offers a wide range of insurance products and services. Not surprisingly, it recorded a pretax profit growth of 22% in comparison to 2003. Likewise, in just over a year, Chinatrust Asset Management Company — established to explore opportunities in the restructuring of non-performing assets — recorded a significant growth in pretax profits. Chinatrust Venture Capital Corp. focuses on investment and provides financial and management consultation for corporations. Its business scope covers both foreign and local venture capital

markets. Despite the sluggish stock market, Chinatrust Securities Company also posted an outstanding result in 2004, particularly in warrants and futures trading.

Strong Growth in both Retail and Corporate Businesses

We have placed strong emphasis on both retail and corporate businesses and witnessed solid results in both areas in 2004. Compared to 2003, the income before tax for our retail and corporate businesses grew by 30% and 51% respectively, as we benefited significantly from increased cooperation between the subsidiaries. Fee income remained a key management focus and reached NT\$18.9 billion, a remarkable 44% growth. Wealth management business and new corporate products again provided the primary sources of our fee-income growth.

The outstanding business performance has not gone unnoticed. *Global Finance* named us the “Best Foreign Exchange Bank in Taiwan,” and *Asiamoney* called us “The Best Cash Management Bank in Taiwan” and “The Best Trade Finance Bank.” The *IRF* awarded Chinatrust the title “Top Bookrunners for Taiwan Syndicated Loans.” The *Asian Banker Journal* selected Chinatrust as the “Best Retail Bank in Taiwan.”

Professional Management Earning Recognition by Domestic and Foreign Institutions

CFHC’s management capability has long been recognized domestically and internationally. *FinanceAsia* named us one of the “Top 10 Asia’s Best Companies.” Our top position in the five main categories — Best Managed Company, Best Corporate Governance, Best Investor Relations, Most Committed to Strong Dividend Policy, and Best IR Representative — is a proof of our leading position in the Taiwan financial industry.

The management has placed great emphasis on operational improvements and risk management. CFHC’s cost-income ratio improved by 7% in 2004, a proof of the success of our recent operations. In asset quality, we maintained a narrow-based NPL ratio of 1.71% and a broad-based NPL ratio of 1.90%, in-line with international standards. Our coverage ratio of 83.72% was far above the industry standard. We have already begun preparations for implementation of the Basel II Capital Accord, and are currently in the process of restructuring our credit risk management systems. We believe that proactive risk management is an essential part of our growth strategy, and we aspire to develop a world-class risk management system at the CFHC.

Our prudent business approach is also reflected in our ratings results. The latest review conducted by Taiwan Ratings (S&P) on December 24, 2004 and other recent rating results confirmed a sound and stable outlook for the CFHC:

Type	Name	Credit Rating		Outlook	Additional Notes	Effective Date
		Long Term	Short Term			
International	Moody’s	-	-	Stable	Issuer Rate: Baa 1	2004.9.1
	Fitch	A-	F2	Stable	Individual: B/C Support: 5	2004.10.6
	Standard & Poor’s	BBB	A-3	Stable	-	2004.11.17
Domestic	Fitch (twn)	AA-(twn)	F1(twn)	Stable	-	2004.10.6
	Taiwan Ratings (S&P)	twAA-	twA-1	Stable	Debt Capability: Very Strong	2004.12.24

Recognition

Our Commitment to be a “Caring, Professional, and Trustworthy” Organization

As competition intensifies, our commitment to being a “caring, professional, and trustworthy” organization has become even stronger. Our belief in the “We are Family” motto encourages us to proactively identify the needs of our customers and provide the right products and services. Satisfied and loyal customers are central to our long-term success.

The CFHC makes every effort to win the trust and satisfaction of the customers, as well as that of our employees. Professional and skilled employees are critical to fulfilling the needs of our customers. That is why we actively exhort our employees to help pave the way to a long-lasting customer relationship with Chinatrust. We continue working on building team spirit, trust, and confidence among our employees.

Chinatrust remains committed to social responsibility. This is evident in our regular contribution to charity and social work, which has increased every year. In addition to collaborating with Taiwan Fund for Children and Families to hold the annual “Light Up a Life” campaign, Chinatrust Commercial Bank has also set up a separate Chinatrust Charity Fund to take care of disabled and underprivileged children. Our employees act as volunteers to these activities.

A Strong Growth Momentum to Deliver Sustainable Shareholder Value

In 2005, we will continue to build up our competitive advantages, focus on both increased productivity and revenue growth. Chinatrust will continue to explore the

market in the Greater China region and develop a brand that can effectively compete in the global arena. In brief, our plan for this year includes:

- Identify merger and acquisition opportunities to reach economy of scale
- Improve competitiveness through domestic and foreign alliances
- Strengthen overall brand value
- Develop Mainland China and other overseas markets

With the dedication and commitment of the company, and the support of our shareholders, we are well positioned to create and deliver a sustainable shareholder value.



Jeffrey L.S. Koo
Chairman