

**CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2004 AND 2003
AND
INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

**Address: No. 3 Sung Shou Road, Taipei, Taiwan,
ROC**

Telephone: 886-2-2722-2002

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.

FINANCIAL STATEMENTS

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Independent Accountants' Review Report

The Board of Directors
Chinatrust Financial Holding Company, Ltd.:

We have reviewed the accompanying balance sheets of Chinatrust Financial Holding Company, Ltd. as of March 31, 2004 and 2003, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We reviewed these financial statements in accordance with Statements of Auditing Standards No. 36 "Review of Financial Statements." A review is limited primarily to inquiries of company personnel and applying analytical procedures to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with generally accepted accounting principles in the Republic of China.

Chinatrust Financial Holding Company, Ltd. has prepared consolidated financial statements, on which we have issued an unqualified review report for reference.

Taipei, Taiwan, ROC
April 26, 2004

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

Reviewed only, not audited in accordance with generally accepted auditing standards.
CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
BALANCE SHEETS
March 31, 2004 and 2003
(New Taiwan Dollars in Thousands)

	March 31, 2004		March 31, 2003	
	Amount	%	Amount	%
<u>ASSETS</u>				
Current assets:				
Cash and cash equivalents (Notes 2 and 3)	\$ 7,793,603	6	\$ 4,341,773	4
Short-term investments, net (Notes 2 and 4)	2,767,455	2	1,212,972	1
Receivables (Note 5)	338,606	-	3,433,468	5
Other current financial assets	-	-	2,900	-
Other current assets	7,653	-	-	-
	10,907,317	8	8,991,113	10
Long-term equity investments accounted for under the equity method (Notes 2 and 6)	124,126,457	92	87,747,897	90
Other non-current financial assets (Notes 2 and 15)	883	-	145,471	-
Other non-current assets :				
Deferred income tax assets - non-current (Notes 2 and 11)	253,924	-	106,681	-
Deferred expense	84,831	-	152,070	-
TOTAL ASSETS	\$ 135,373,412	100	\$ 97,143,232	100
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>				
Current Liabilities:				
Commercial paper payable (Note 7)	\$ 299,993	-	\$ -	-
Payables	2,520,319	2	198,642	-
Other current liabilities	143,660	-	182	-
	2,963,972	2	198,824	-
Long-term Liabilities:				
Bonds payable (Note 2 and 8)	35,153,298	26	14,328,237	15
Foreign exchange forward contracts payable	112,230	-	-	-
Total liabilities	38,229,500	28	14,527,061	15
Stockholders' Equity				
Capital stock				
Common stock (Note 12)	54,972,422	41	46,054,268	47
Preferred stock (Note 12)	2,500,000	2	2,500,000	3
Capital surplus (Note 12)	32,114,926	24	30,530,624	32
Retained earnings				
Legal reserve	657,724	-	-	-
Special reserve	110,852	-	-	-
Undistributed earnings (Note 12)	12,099,960	9	9,999,305	10
Other adjustments to stockholders' equity:				
Unrealized losses on long-term equity investments	(700,498)	(1)	(1,234,389)	(1)
Cumulative translation adjustments	(1,324,099)	(1)	(600,409)	(1)
Treasury stock - common stock (Notes 2 and 13)	(3,287,375)	(2)	(4,633,228)	(5)
Total stockholders' equity	97,143,912	72	82,616,171	85
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 135,373,412	100	\$ 97,143,232	100

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

Reviewed only, not audited in accordance with generally accepted auditing standards.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.

STATEMENTS OF INCOME

Three Months Ended March 31, 2004 and 2003

(New Taiwan Dollars in Thousands, Except for Per Share Data)

	For the Three Months Ended March 31, 2004		For the Three Months Ended March 31, 2003	
	Amount	%	Amount	%
Revenues:				
Interest income	\$ 156,005	3	\$ 61,158	2
Investment income accounted for under the equity method, net (Notes 2 and 6)	4,816,940	93	3,624,555	98
Net gains from foreign exchange	172,583	3	548	-
Gain on reversal of unrealized losses in short-term investments	48,842	1	-	-
Total Revenues	5,194,370	100	3,686,261	100
Expenses:				
Interest expense	(344,368)	(7)	(168,986)	(5)
Operating expense	(422,836)	(8)	(18,626)	(1)
Unrealized loss on short-term investments	-	-	(1,872)	-
Total Expenses	(767,204)	(15)	(189,484)	(6)
Income Before Income Tax	4,427,166	85	3,496,777	94
Income Tax Benefit (Notes 2 and 15)	110,889	2	31,515	1
Net Income	\$ 4,538,055	87	\$ 3,528,292	95

	Before income tax	After income tax	Before income tax	After income tax
Basic EPS (Notes 2 and 14)	\$ 0.80	\$ 0.82	\$ 0.76	\$ 0.77
Basic EPS - retroactively adjusted	\$ -	\$ -	\$ 0.69	\$ 0.69
Diluted EPS (Notes 2 and 14)	\$ 0.77	\$ 0.78	\$ 0.73	\$ 0.73
Diluted EPS - retroactively adjusted	\$ -	\$ -	\$ 0.66	\$ 0.66

Pro forma data assuming Company shares in which subsidiaries trade or invest in are not considered treasury stock:

Net Income	\$ 4,538,055	\$ 3,528,292
	Before income tax	After income tax
Basic EPS	\$ 0.78	\$ 0.80
Diluted EPS	\$ 0.75	\$ 0.76
	Before income tax	After income tax
Basic EPS	\$ 0.66	\$ 0.66
Diluted EPS	\$ 0.63	\$ 0.63

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

Reviewed only, not audited in accordance with generally accepted auditing standards.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.

STATEMENTS OF CASH FLOWS

Three Months Ended March 31, 2004 and 2003

(New Taiwan Dollars in Thousands)

	<u>For the Three Months Ended March 31, 2004</u>	<u>For the Three Months Ended March 31, 2003</u>
Cash flows from operating activities:		
Net income	\$ 4,538,055	\$ 3,528,292
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Investment income accounted for under the equity method	(4,816,940)	(3,624,555)
Amortization	16,742	16,756
Provision for (reversal of) unrealized losses in short-term investments	(48,842)	1,872
Net change in:		
Accrued interest on convertible bonds and foreign exchange gains	(262,063)	145,195
Short-term investments	4,300	(1,214,844)
Receivables	(128,413)	14,803
Other current financial assets	-	(2,900)
Deferred income tax assets	(21,073)	(34,381)
Other non-current financial assets	27,672	(1,580)
Payables	471,833	161,610
Other current assets	(7,269)	360
Forward exchange contract payable	168,255	-
Collection in advance	(5,906)	45
Net cash used in operating activities	<u>(63,649)</u>	<u>(1,009,327)</u>
Cash flows from investing activities:		
Increase in long-term equity investments	(10,877,588)	(3,799,624)
Net cash flow used in investing activities	<u>(10,877,588)</u>	<u>(3,799,624)</u>
Cash flows from financing activities:		
Short-term borrowings	(100,000)	-
Issuance of commercial paper	(349,917)	-
Issuance of corporate bonds	2,000,000	-
Sale of treasury stock - common stock	155,595	-
Purchase of Treasury stock - preferred stock	(343,005)	-
Net cash provided by financing activities	<u>1,362,673</u>	<u>-</u>
Net decrease in cash and cash equivalents	<u>(9,578,564)</u>	<u>(4,808,951)</u>
Cash and cash equivalents, beginning of the period	<u>17,372,167</u>	<u>9,150,724</u>
Cash and cash equivalents, end of the period	<u>\$ 7,793,603</u>	<u>\$ 4,341,773</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$ 56,074</u>	<u>\$ 184,581</u>
Investing and financing activities with no cash flow effect:		
Dividend receivable	<u>\$ -</u>	<u>\$ 3,375,256</u>
Treasury stock purchased- preferred stock	<u>\$ 2,118,113</u>	<u>\$ -</u>
Less: Payables, end of the period	<u>(1,775,108)</u>	<u>-</u>
	<u>\$ 343,005</u>	<u>\$ -</u>
Convertible bonds payable converted to common stock	<u>\$ 35,672</u>	<u>\$ -</u>

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

Review only, not audited in accordance to general accepted auditing standards.
CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS
Three Months Ended March 31, 2004 and 2003
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

(1) Overview

Chinatrust Financial Holding Company, Ltd. (the “Company”) was established on May 17, 2002 through a stock conversion (conversion ratio: one to one) with Chinatrust Commercial Bank, Ltd. On the same date, after approval from the Securities & Futures Commission (“SFC”) under the Ministry of Finance (“MOF”) the shares of the Company started to trade publicly, while shares of Chinatrust Commercial Bank, Ltd. were delisted.

The Company conducts business in the following areas:

- (a) The Company has been approved to invest in the following businesses:
 - (i) Banking.
 - (ii) Bills financing.
 - (iii) Credit cards.
 - (iv) Trusts.
 - (v) Insurance.
 - (vi) Securities.
 - (vii) Futures.
 - (viii) Venture capital.
 - (ix) Investments in overseas financial institutions as approved by the MOF.
 - (x) Other related financing as approved by the MOF.
 - (xi) Other related investments.
- (b) Management of the above businesses.
- (c) Investments in businesses other than the ones listed in (a) as approved by the MOF.
- (d) Other related businesses as approved by the MOF.

As of March 31, 2004, total number of Company employees was 24.

(2) Summary of Significant Accounting Policies

The Company’s financial statements were prepared in accordance with generally accepted accounting principles of the Republic of China. These significant accounting policies and their measurement basis are summarized as follows:

(a) Statements of Cash Flows

Compilation of statements of cash flows is based upon cash and cash equivalents. Cash includes cash on hand, savings accounts, checking accounts, unrestricted time deposits, negotiable time deposits, and cash equivalents. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amount of cash with maturities within three months so that the interest rate fluctuations have little effect on their value. Cash equivalents include Treasury bills, commercial paper, and banker’s acceptances.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(b) Short-Term Investments

Short-term investments are valued at the lower of total cost or market. Government bonds are valued at the lower of total cost or market if market quotes are available; otherwise bonds are carried at par and adjusted by accumulated amortization of discount or premium. Commercial paper is carried at cost.

Loss due to market decline or gain on recovery in market value arising from valuation of marketable securities at the lower of total cost or market are classified as unrealized gain or loss on marketable securities. Gain on short-term notes transactions is accounted for as interest income.

(c) Long-Term Equity Investments

Under the Interpretation Letter No. (90) 182 issued by the Accounting Research and Development Foundation of the Republic of China on October 29, 2001, when a financial holding company is established through conversion of shares of a financial institution, the invested capital acquired by the financial holding company is valued on the basis of the difference between the book value of their assets and liabilities. Portion of the investment acquired equal to par value of the shares issued is accounted for as capital stock and that portion exceeding par value is accounted for as capital surplus.

Long-term equity investments are carried at cost. Investments in listed companies with less than 20% ownership are valued at the lower of total cost or market value, and the unrealized loss from the decline in market value below cost is charged against stockholders' equity. Investments in non-listed companies are carried at cost. If the impairment in the value of investment is other than temporary and the recovery of the carrying amount is deemed unlikely, loss on investment is recognized currently.

Affiliates with equity ownership of 20% to 50% are accounted for under the equity method. The Company prepares consolidated financial statements every quarter for majority-owned affiliates, in accordance with the Financial Holding Company Law. However, consolidated statements are not prepared if the total assets and operating revenues of a subsidiary (excluding subsidiary banks and those required by MOF) do not exceed 10% of those of the Company's accounts, and if the combined assets or operating revenues of all of these subsidiaries do not each exceed 30% of those of the Company's accounts.

The moving-average method is adopted in calculating the cost upon the sale of long-term equity investments carried at cost, with gains or losses included in current earnings.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(d) Convertible Bonds

Due to the inseparability of its conversion option and debt elements convertible bond is stated at the total proceeds received on issuance day.

The direct and necessary cost of issuing convertible bond is recognized as issue expense and amortized using the straight-line method over the term of the bond or over the period from issuance to expiry of the put option, whichever is shorter. If repayment occurs prior to maturity, then the remaining unamortized issue expense is recognized as current expense in proportion of early redemption.

The redemption premium of puttable convertible bonds, which represents the difference between the specified put price and par value, is amortized using the interest method and is recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option.

When bondholders exercise their conversion rights, the issuer writes off the unamortized issue costs, redemption premium, and par value of the convertible bonds. The common stock exchange certificate and the common stock are valued at net written-off amount (book value approach). The excess of the net written-off carrying amount over the par value of the common stock exchange certificate or common stock is recognized as additional paid-in capital.

(e) Income Taxes

The Company adopts the Statement of Financial Accounting Standards (“SFAS”) No. 22 “Accounting for Income Taxes” for purposes of making inter- and intra- period income tax allocation, in addition to calculating the current income tax expense (benefit). Furthermore, the income tax effects from taxable temporary differences are recognized as deferred tax liability, while those deductible temporary differences, prior years’ loss carryforward benefits, and investment tax credits are accounted for as deferred tax assets but subject to management’s judgment that realization is more likely than not.

(f) Treasury Stock

The Company adopts SFAS No. 30 “Accounting for Treasury Stock” to account for repurchase of its outstanding shares, carried at cost. Upon the disposition of this treasury stock, the excess of selling price over its book value is recorded as “capital surplus—treasury stock.” If the selling price is lower than book value, the difference is charged against capital surplus from treasury stock in the same category, and any deficit is debited against retained earnings. The book value of treasury stock is separately computed by reasons of purchase and using the weighted-average method.

Upon retirement, the “capital surplus—premium on issuance of capital stock” is debited on a pro rata basis. If the book value exceeds the premium on issuance of capital stock, the difference is offset against “capital surplus—treasury stock” in the same classification, and any deficit is charge against retained earnings. If the book value is lower than the total of capital stock and premium on stock issuance, the difference is credited to “capital surplus—treasury stock” in the same.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT'D)

The Company treats the treasury stock held by subsidiaries prior to stock conversion as treasury stock and as deduction from stockholders' equity.

Under the SFC Letter Ruling No. (6) 111467, a financial institution which purchases its treasury stock pursuant to Article 28-2, Paragraph 1 of Securities Trading Law, and it subsequently becomes a subsidiary of a financial holding company through a stock conversion, its treasury stock is converted to shares of the financial holding company in accordance with Article 31 of Financial Holding Company Law. The financial institution shall continue to treat the converted shares as treasury stock and as deduction from stockholders' equity. The financial holding company shall treat these converted shares as treasury stock.

(g) Earnings per share ("EPS")

Basic EPS is calculated by dividing net income, net of preferred stock dividends by the weighted-average shares outstanding during the period. Diluted EPS is calculated by dividing current net income, net of preferred stock dividends and after-tax interest expense of convertible bonds by the weighted-average number of outstanding common shares and the total number of convertible bonds and stock warrants with dilutive effect. In the case of capital increase through capitalization of retained earnings, capital surplus, or employee bonuses, basic EPS is retroactively adjusted regardless of the outstanding period when incremental shares are issued.

(h) Foreign Currency Translation

Foreign currency transactions are recorded in their original currency. Foreign exchange gains and losses arising from settlement of foreign-currency-denominated assets and liabilities and adjustments from translating such assets and liabilities at spot rates on balance sheet date are included in current earnings.

(i) Financial Derivatives

Memorandum entries of notional principals are made on the contract date for cross currency swaps. Forward accounts receivables offset payables on balance sheet date with the difference reflected as an asset or a liability. For non-trading swaps, interest is accrued based on contract terms and principal repayment period, resulting from the realization of either receivables or payables and the hedged positions reported as current interest revenue or expense.

Memorandum entries of notional principals are made on contract date for foreign currency swaps. On balance sheet date, forward accounts receivables are offset against payables with difference reflected either as an asset or a liability. Interest is accrued on non-trading currency swaps over the period of the contracts. Receivables or payables accrued and the hedged positions are reported as current interest revenue or expense.

Since there is no physical transfer of principal, only memorandum entries of notional principals are made for interest rate swaps. For non-trading swaps, interest receivables or payables on settlement or balance sheet date and the hedged positions are reported as current interest revenue or expense.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

(3) Cash and Cash Equivalents

	<u>2004.3.31</u>	<u>2003.3.31</u>
Savings account	\$ 12,026	\$ 92,078
Savings account-foreign currency	108,767	184,719
Time deposits-foreign currency	125,476	3,865,623
Cash equivalents	7,547,334	199,353
Total	<u>\$ 7,793,603</u>	<u>\$ 4,341,773</u>

(4) Short-Term Investments

	<u>2004.3.31</u>		<u>2003.3.31</u>	
	<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>
Government bonds	\$ 3,016,392	<u>\$ 2,767,455</u>	\$ 1,214,844	<u>\$ 1,212,972</u>
Less: Allowance for market decline	(248,937)		(1,872)	
Total	<u>\$ 2,767,455</u>		<u>\$ 1,212,972</u>	

(5) Receivables

	<u>2004.3.31</u>	<u>2003.3.31</u>
Tax refund receivable	\$ 15,081	\$ 14,760
Dividend receivable	-	3,375,256
Interest receivable	191,723	43,404
Other receivables	131,802	48
Total	<u>\$ 338,606</u>	<u>\$ 3,433,468</u>

(6) Long Term Equity Investments accounted for under the equity method

		<u>2004.1.1~2004.3.31</u>			
<u>Investee Company</u>		<u>Amount</u>	<u>Direct Shareholding Ratio (%)</u>	<u>Original Investment</u>	<u>Gain (loss) on Long-Term Equity Investments</u>
Chinatrust Commercial Bank, Ltd.	Common stock 5,065,969,466 shares	\$ 78,477,888	100.00	\$ 62,912,357	\$ 3,944,005
	Preferred stock 250,000,000 shares	10,000,000	100.00	10,000,000	153,000
Chinatrust Insurance Brokers Corp., Ltd	Common stock 38,660,241 shares	1,978,355	100.00	186,279	421,805
Chinatrust Securities Corp., Ltd.	Common stock 498,287,797 shares	5,748,489	99.66	5,619,196	280,855
Chinatrust Venture Capital Corp.	Common stock 200,000,000 shares	2,033,825	100.00	2,000,000	19,982
Chinatrust Asset Management Company	Common stock 2,000,000,000 shares	19,755,450	100.00	20,000,000	(93,645)
Chinatrust Bills Finance Corp., Ltd.	Common stock 408,000,000 shares	6,132,450	100.00	5,877,588	90,938
		<u>\$ 124,126,457</u>		<u>\$ 106,595,420</u>	<u>\$ 4,816,940</u>

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

		2003.1.1~2003.3.31			
Investee Company		Amount	Direct Shareholding Ratio (%)	Original Investment	Gain (loss) on Long-Term Equity Investments
Chinatrust Commercial Bank, Ltd.	Common stock 4,605,426,788 shares	\$ 69,892,568	100.00	\$ 62,912,357	\$ 3,278,070
	Preferred stock 250,000,000 shares	10,000,000	100.00	10,000,000	153,000
Chinatrust Insurance Brokers Corp.,Ltd	Common stock 200,000 shares	654,579	100.00	186,279	221,595
Chinatrust Securities Corp., Ltd.	Common stock 498,017,231 shares	5,201,061	99.60	5,616,548	(27,799)
Chinatrust Venture Capital Corp.	Common stock 200,000,000 shares	1,999,689	100.00	2,000,000	(311)
		<u>\$ 87,747,897</u>		<u>\$ 80,715,184</u>	<u>\$ 3,624,555</u>

In March 2003, the Company purchased 149,968,656 shares, totaling \$1,799,624, issued by Chinatrust Securities Corp. during cash capitalization. Since the company did not purchase shares according to ownership, ownership increased from 99.44% to 99.60%. From April to June 2003, the Company purchased 270,566 shares, totaling \$2,649 and ownership increased from 99.60% to 99.66%.

In February 2003, the Company invested in Chinatrust Venture Capital Corp., which engages mainly in venture capital.

In April 2003 and January 2004, the Company invested in Chinatrust Asset Management Company, which engages mainly in asset management.

In September 2003, Grand Commercial Bank became a wholly-owned subsidiary of the Company through a stock conversion. The acquisition was accounted for using the purchase method. The original purchase cost was transferred to Chinatrust Commercial Bank, Ltd. through a cash transaction. Grand Commercial Bank was dissolved after the merger. Due to the restructuring nature of the transaction, the difference between the payment of shares sold and their original book value was reflected under retained earnings.

In order to increase profits, the Company made a restructuring on its long-term equity investment for cross selling plan and to purchase common shares of Chinatrust Bills Finance Corp., Ltd. from Chinatrust Commercial Bank, Ltd. on March 31, 2004. Due to the restructuring nature of the transaction, the difference between the payment of shares sold and their original book value was reflected under retained earnings.

(7) Commercial Paper Payable

	2004.3.31		2003.3.31	
	Interest rate	Amount	Interest rate	Amount
Commercial paper payable	0.96%	\$ 300,000	-	\$ -
Less: Unamortized discount		(7)		-
Net		<u>\$ 299,993</u>		<u>\$ -</u>

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

(8) Bonds Payable

	<u>2004.3.31</u>	<u>2003.3.31</u>
Convertible bonds	\$ 14,153,298	\$ 14,328,237
First issue of unsecured subordinated bonds in 2003	5,000,000	-
Second issue of unsecured subordinated bonds in 2003	3,000,000	-
Third issue of unsecured subordinated bonds in 2003	11,000,000	-
First issue of unsecured subordinated bonds in 2004	2,000,000	
Total	<u>\$ 35,153,298</u>	<u>\$ 14,328,237</u>

In 2002, the Company issued overseas unsecured convertible bonds with maturity period of 5 years.

	<u>2004.3.31</u>	<u>2003.3.31</u>
Original issue size(US 400,000)	\$ 13,452,400	\$ 13,452,400
Converted amount(US 1,000 and US 0 for the three months ended March 31, 2004 and 2003)	(33,631)	-
Redemption premium payable(US 29,628 and US 12,323 for the three months ended March 31, 2004 and 2003)	978,318	428,237
Exchange loss (gain)	(243,789)	447,600
Ending balance	<u>\$ 14,153,298</u>	<u>\$ 14,328,237</u>

(a) Issue Date:

July 8, 2002.

(b) Place of issue:

Luxembourg Stock Exchange.

(c) Size:

USD 400 million.

(d) Duration:

Five years, from July 8, 2002 to July 8, 2007.

(e) Coupon rate:

0% per annum.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT'D)

(f) Repayment of principal:

Unless previously redeemed, converted into common shares, or resold to the Company, the bonds will be redeemed on maturity (July 8, 2007) according to par value plus yield rate at maturity.

(g) Conversion period and adjustment:

From August 7, 2002 to July 1, 2007, bondholders can elect to have bonds converted into common stocks or GDSs (Global Depository Shares)

(h) Conversion price and adjustment:

The initial conversion price is \$37.16 dollar per common share. The applicable conversion price is subject to adjustment for, among other things, subdivision or consolidation of common shares, rights issues, cash or common share dividends and reorganization and other dilutive events. (The price is adjusted downward but not upward.) Effective August 27, 2003, the conversion price was \$32.269 dollars.

(i) Resale rights of the bondholders:

The bondholders have the right to require the Company to repurchase the bonds at issue price on the original issue date with a gross compound yield of 4.17% per annum (calculated on a semi-annual basis) if any of the following events occur:

- (i) Unless the bonds have been previously redeemed, repurchased and cancelled, or converted, the bondholders have the right to require the Company to repurchase all or part of the bonds on July 8, 2005.
- (ii) If at any time the common shares of the Company are officially delisted from the Taiwan Stock Exchange for a period exceeding five consecutive trading days.
- (iii) If at any time a change of control occurs with respect to the Company.

(j) The Company's rights to repurchase the bond:

The Company may, at issue price on the original issue date with a gross compound yield of 4.17% per annum (calculated on a semi-annual basis), repurchase the bonds if any of the following events occur:

- (i) On or at any time after July 8, 2005, if the closing price of the common shares of the Company on Taiwan Stock Exchange for 30 consecutive trading days is at least 130% of the conversion price.
- (ii) At any time, if the principal amount of the bonds outstanding is equal to or less than 10% of the original aggregate principal amount of bonds.
- (iii) If as a result of certain changes in ROC laws or regulations occurring after the closing date, the Company becomes obligated to pay additional tax amounts.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

In 2003, the Company issued unsecured subordinated bonds. The terms of issue were as follows:

Type of bond issued	First issue of unsecured subordinated bonds	Second issue of unsecured subordinated bonds
Issue date	April 7, 2003	From June 24, 2003 to June 27, 2003
Size	\$ 5,000,000	\$ 3,000,000
Coupon rate	There are 12 categories of bonds. For the first year, the coupon rate is 3%. Starting from the second year, the coupon rate ranges from 4.0000% - 6 Month Libor to 4.0011% - 6 Month Libor. The above coupon rates are subject to a minimum of 0%.	There are 3 categories of bonds. The coupon rate for category A is 1.5%. Simple interest is accrued annually. The coupon rate for category B is 1.4944%. Compound interest is accrued semi-annually. The coupon rate for category C is 1.4916%. Compound interest is accrued quarterly. All interest for bonds totaling \$1,000 is computed to the unit's digit and decimals are rounded up.
Maturity date	April 7, 2010	From June 24, 2008 to June 27, 2008
Repayment method	The principal of all bonds is repayable at maturity.	The principal of all bonds is repayable at maturity.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

Type of bond issued	Third issue of unsecured subordinated bonds
Issue date	October 13, 2003 to October 22, 2003
Size	\$11,000,000
Coupon rate	<p>There are 15 categories of bonds.</p> <p>Categories A to G: If the 6 Month LIBOR is below 0.60%, then the coupon rate is 6 Month LIBOR + 0.0001% to 0.0007%. If the 6 Month LIBOR is between 0.60% and 2.50%, then the coupon rate is 5.50%. If the 6 Month LIBOR exceeds 2.50%, then the coupon rate is 6.55% - 6 Month LIBOR and subject to a minimum of 0%.</p> <p>Categories H to O: 120 basic point above the fixed rate of the USD 6-month LIBOR as it appears on Moneyline Telerate page 6165 at 11 am London time. The annual interest rates for categories H to O are adjusted every 3 months. If the date of adjustment is a non-business day in the location of payment, then the interest rates are adjusted on the following business day.</p>
Maturity date	October 13, 2010 to October 22, 2010
Repayment method	The principal of all bonds is repayable at maturity.

In 2004, the Company issued unsecured subordinated bonds (first issue) with maturity period of 5 years. The terms of issue were as follows:

Type of bond issued	First issue of unsecured subordinated bonds
Issue date	March 3, 2004
Size	\$2,000,000
Coupon rate	<p>There are 8 categories of bonds.</p> <p>Categories A to B: If the USD 6 Month LIBOR is below 1.05%, then the coupon rate is USD 6 Month LIBOR to USD 6 Month LIBOR + 0.01%. If the USD 6 Month LIBOR exceeds 1.05%, then the coupon rate is 5.00% - USD 6 Month LIBOR to 5.0001% - USD 6 Month LIBOR and subject to a minimum of 0%.</p> <p>Categories C to H: If the USD 6 Month LIBOR is below 1.10%, then the coupon rate is USD 6 Month LIBOR to USD 6 Month LIBOR + .05%. If the USD 6 Month LIBOR is between 1.10% and 2.00%, then the coupon rate is 3.80% to 3.8005%. If the USD 6 Month LIBOR exceeds 2.00%, then the coupon rate is 4.7995% - USD 6 Month LIBOR to 4.80% - USD 6 Month LIBOR and subject to a minimum of 0%.</p>
Maturity date	March 3, 2009
Repayment method	Repayment of principal occurs at maturity.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

(10) Stock Option Plan

On January 3, 2002, the Company's subsidiary, Chinatrust Commercial Bank, Ltd., granted 65,000 units of stock option to its employees, and each unit of a stock option is endowed with the right to purchase 1,000 common shares of the Chinatrust Commercial Bank, Ltd. Shares of Chinatrust Commercial Bank, Ltd. were converted to shares of the Company on May 17, 2002 the employees are now endowed with the right to purchase 1,000 common shares of the Company. After the 2nd anniversary of option granting, its holder may exercise the right to purchase the Company's common stock at \$21.1 dollars per share. If there is any change in the structure of the Company's common stock, exercise price will change accordingly. As of March 31, 2004, the new price after adjustment was \$17.3 dollars per share.

Details of changes in stock options were as follows:

	Three months ended March 31, 2004
Outstanding, at the beginning of the period	\$ 65,000
Granted	-
Exercised	(38,962)
Outstanding, at the end of the period	<u><u>\$ 26,038</u></u>

(11) Income Taxes

The Company's deferred taxes assets and liabilities were as follows:

	2004.3.31	2003.3.31
Temporary differences:		
Deductible (taxable) temporary difference due to unrealized exchange loss (gain)	\$ (172,583)	\$ (548)
Deductible temporary difference due to recognition of redemption premium payable from convertible bonds	1,015,697	426,723
	<u><u>\$ 843,114</u></u>	<u><u>\$ 426,175</u></u>
	2004.3.31	2003.3.31
Deferred tax assets - non-current	<u><u>\$ 253,924</u></u>	<u><u>\$ 106,681</u></u>
Deferred tax liabilities - current	<u><u>\$ (43,146)</u></u>	<u><u>\$ (137)</u></u>

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

	2004.1.1~ 2004.3.31	2003.1.1~ 2003.3.31
Current income tax payable	\$ -	\$ 2,778
Add (less): Tax effects of temporary differences		
Net unrealized gain (loss) due to foreign exchange	14,865	2,206
Redemption premium payable from convertible bonds	(35,939)	(36,587)
Income tax separately levied	4,797	88
Tax incentives resulting from joint filing of tax return	(94,612)	-
Income tax benefit	\$ (110,889)	\$ (31,515)

As of March 31, 2004, balance of stockholders' imputation credit account amounted to \$459,714. Estimated deductible ratio of 2003 earnings distributed is 15.96%.

(12) Stockholders' Equity

(a) Capital Stock

The Company converted shares with Chinatrust Commercial Bank, Ltd. on May 17, 2002. The conversion ratio was 1:1 and only shares were converted. The Company converted 4,605,426,788 shares of common stock and 250,000,000 shares of preferred stock. Shares issued with a par value of \$10 per share.

In August 2000, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. issued preferred shares at \$40 per share, totaling \$10,000,000, with a term of 6 years. The preferred cash dividend is payable on a lump sum basis at 6.12% per annum. In the event of no earnings or insufficient earnings, dividends are distributed once there is a sufficient amount of earnings. Holders of preferred stock are not allowed to participate in the distribution of earnings for cash and capitalization of earnings and capital surplus. During the common shareholders' meetings, preferred shareholders are not granted the right to vote on issues nor the right to vote for election of officers but are granted the right to be elected as members of the board of directors and supervisors. The Company acquired the above preferred stock of its subsidiary after converting its preferred stock under similar terms and conditions.

On June 6, 2003, the Company's stockholders resolved to capitalize the Company's undistributed earnings of \$439,338 and the undistributed earnings of Chinatrust Commercial Bank, Ltd. before the stock conversion, which amounted to \$4,393,387 and was accounted for under the Company's capital surplus. The outstanding capital increased to \$4,393,387 following after the capital increase totaled \$53,386,993.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

On August 20, 2003, the Company's shareholders resolved to acquire Grand Commercial Bank through a stock conversion on September 30, 2003. Each share of the common stock of Grand Commercial Bank was exchanged for 0.633 shares of the Company's preferred stock and 0.254 shares of the Company's common stock. The Company issued 1,015,542,920 shares of Series B preferred stock with par value of \$10 and 407,500,634 shares of common stock with par value \$10 to acquire full ownership of Grand Commercial Bank. Following the stock conversion, Grand Commercial Bank became a wholly owned subsidiary of the Company.

In 2004, convertible bonds converted into common stock totaled 1,042,206 shares with additional paid-in capital transferred to capital surplus(including convertible bond issue costs) amounting to \$25,023.

As of March 31, 2004, the Company's authorized capital was \$100,000,000, paid-in capital on common stock was \$54,972,422, and on preferred stock was \$2,500,000.

(b) Capital Surplus

Capital surplus consisted of the following :

	<u>2004.3.31</u>	<u>2003.3.31</u>
Additional paid-in capital - common stock	\$ 24,609,571	\$ 23,025,860
Additional paid-in capital - preferred stock	7,500,000	7,500,000
Asset revaluation appreciation - subsidiary	5,355	4,764
Total	<u>\$ 32,114,926</u>	<u>\$ 30,530,624</u>

Under the Company Law, capital surplus is used exclusively to offset cumulative losses when legal reserve is not sufficient to offset losses or to increase capital pursuant to Article 241, Paragraph 1 of Company Law. Furthermore, Article 8 of Securities Exchange Law Implementation Rules requires that the amount of additional paid-in capital used to increase capital shall not exceed 10% of total paid-in capital. The capital surplus arising from a capital increase can be capitalized only in the following fiscal year after being registered by the company with the competent authority for approval.

Under the Financial Holding Company Law, the unappropriated earnings of financial institutions which are converted into financial holding companies, are accounted for as capital surplus of the financial holding companies but are not subject to restriction under Article 241, Paragraph 1 of the Company Law.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

Based on the SFC Letter Ruling No. (1) 005946, the unappropriated earnings of financial institutions which are converted into financial holding companies, are accounted for as capital surplus of the financial holding companies pursuant to Article 47, Paragraph 4 of Financial Holding Company Law and Article 41, Paragraph 2 of Securities Exchange Law. Article 232, Paragraph 1 of the Company Law and Article 41, Paragraph 2 of Securities Exchange Law require that capital surplus shall be used to offset against cumulative losses before it can be used to increase capital. The amount of capital surplus used to increase capital is not subject to restriction under Article 41, Paragraph 2 of Securities Exchange Law and Article 8 of Securities Exchange Law Implementation Rule.

Pursuant to Letter Ruling No. (90) 182 of the Accounting Research and Development Foundation of the Republic of China dated October 29, 2001, additional paid-in capital of \$30,896,474 was recognized from the stock conversion between the Company and Chinatrust Commercial Bank, Ltd.

As of March 31, 2004, the unappropriated earnings of \$753,523 of Chinatrust Commercial Bank, Ltd. before the stock conversion were accounted for in the Company's books as capital surplus.

(c) Earnings Distribution and Dividend Policy

	For the three months ended March 31, 2004	For the three months ended March 31, 2003
Undistributed retained earnings as of January 1	\$ 7,746,609	\$ 6,577,241
Earnings distribution:		
Recognition of undistributed retained earnings of subsidiaries	(289,732)	(106,228)
Effect of restructuring on long-term investments	163,923	-
Sale of treasury stock	(58,895)	-
Net income	4,538,055	3,528,292
Undistributed retained earnings as of March 31	<u>\$ 12,099,960</u>	<u>\$ 9,999,305</u>

The Company adopted the residual dividend policy to maintain on-going expansion, profit growth, and conform to related regulations. In consideration of the Company's operating plan, stock dividends are distributed in order to retain essential earnings for funding needs, and the remainder is distributed as cash dividends. Cash dividends shall not be less than 10% of total dividends. No cash dividend is distributed if it is less than \$0.1. The board of directors may adjust the earnings distribution upon approval of a resolution approved by the shareholders during their meeting.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

After-tax earnings, if any, are used to pay for taxes, offset cumulative losses, appropriate legal reserve and special reserve. Then, preferred stock dividends are distributed prior to the other distribution of the remaining earnings. The total amount for the distribution of employee bonus is based on rates ranging from 0.01% and 0.05%. The total amount for the remuneration to directors and supervisors is determined at the rate of 4% and any adjustments thereon are made in accordance with the resolution approved by the shareholders during their meeting.

Distributions of employees bonus and actual earnings as discussed above are subject to resolutions by the board of directors. If new shares are issued for employees bonus, the employees of the Company's subsidiaries may receive the shares in compliance with the Company Law. The board of directors will decide on the terms and conditions of the issuance of such shares.

The proposal for earnings distribution in 2003 has yet to be presented in the shareholders' meeting. Information regarding earnings distribution can be found on the market observation post system after the related meetings are held.

(13) Treasury Stock

(a) Common stock

	share data in thousands			
Repurchase Reason	Beginning of the Period	Current Increase	Current Decrease	End of the Period
Held by the Company:				
Transfer to employee	18,985	-	(7,310)	11,675
Held by the subsidiary:				
Transfer to employees	94,504	-	(10,548)	83,956
Issuance of stock options	87,420	-	(38,962)	48,458
Total	200,909	-	(56,820)	144,089

(ii) Under the Securities Exchange Law, a company's repurchase of treasury stock shall not exceed 10% of total issued and outstanding shares, and the acquisition amount shall not exceed the sum of retained earnings, additional paid-in capital, and realized capital surplus. The maximum allowable amount of treasury stock repurchased was \$36,428,173 with September 30, 2003 as the measurement date.

(iii) For the three months ended March 31, 2004, the maximum number of treasury shares held was 200,909,000, and the amount was \$4,439,539, in complied with the Securities Exchange Law.

(iv) In accordance the Securities Exchange Law, treasury shares held by a company and its subsidiary cannot be pledged. Furthermore, these shares are not granted with shareholders' rights prior to transfer.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

(v) Chinatrust Commercial Bank, Ltd. owns shares of the Company amounting to \$2,938,773. Pursuant to Letter Ruling No. 0920004165, shares that are not disposed within 3 years are considered as non-issued shares and should be cancelled.

(vi) As of March 31, 2004, the Company's shares have a market price of \$39.5 dollars.

(b) Preferred stock

For the three months ended March 31, 2004, 1,015,542,920 Series B preferred shares worth \$ 10,155,429,200 were redeemed . As of March 31, 2004, the Company redeemed and retired all Series B preferred shares and is applying for the relevant registration change .

(14) Earnings Per Share

For the three months ended March 31, 2004 and 2003, basic and diluted earnings per share were the following:

	2004.1.1~2004.3.31	
	Before Tax	After Tax
Basic EPS		
Net income	\$ 4,427,166	\$ 4,538,055
Preferred stock dividends	(153,000)	(153,000)
Net income available to common shareholders	4,274,166	4,385,055
Weighted-average common shares outstanding, in thousands	5,334,015	5,334,015
Basic EPS	\$ 0.80	\$ 0.82
Diluted EPS		
Net income	\$ 4,427,166	\$ 4,538,055
Preferred stock dividends	(153,000)	(153,000)
Influence on potentially dilutive shares:		
Convertible bonds	146,105	109,579
Net income used to calculate diluted EPS	\$ 4,420,271	\$ 4,494,634
Weighted-average common shares outstanding, in thousands	5,334,015	5,334,015
Influence on potentially dilutive shares:		
Stock options	20,127	20,127
Convertible bonds	416,536	416,536
Weighted-average common shares outstanding used to calculate diluted EPS	5,770,678	5,770,678
Diluted EPS	\$ 0.77	\$ 0.78

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

	2003.1.1~2003.3.31	
	Before Tax	After Tax
Basic EPS		
Net income	\$ 3,496,777	\$ 3,528,292
Preferred stock dividends	(153,000)	(153,000)
Net income available to common shareholders	\$ 3,343,777	\$ 3,375,292
Weighted-average common shares outstanding, in thousands	4,389,728	4,389,728
Weighted-average common shares outstanding, in thousands -retroactively adjusted	4,872,598	4,872,598
Basic EPS	\$ 0.76	\$ 0.77
Basic EPS- retroactively adjusted	\$ 0.69	\$ 0.69
Diluted EPS		
Net income	\$ 3,496,777	\$ 3,528,292
Preferred stock dividends	(153,000)	(153,000)
Influence on potentially dilutive shares:		
Convertible bonds	146,347	109,761
Net income used to calculate diluted EPS	\$ 3,490,124	\$ 3,485,053
Weighted-average common shares outstanding, in thousands	4,389,728	4,389,728
Weighted-average common shares outstanding, in thousands -retroactively adjusted	4,872,598	4,872,598
Influence on potentially dilutive shares:		
Stock options	17,663	17,663
Convertible bonds	362,024	362,024
Stock options- retroactively adjusted	26,188	26,188
Convertible bonds- retroactively adjusted	416,883	416,883
Weighted-average common shares outstanding used to calculate diluted EPS	4,769,415	4,769,415
Weighted-average common shares outstanding used to calculate diluted EPS-retroactively adjusted	5,315,669	5,315,669
Diluted EPS	\$ 0.73	\$ 0.73
Diluted EPS- retroactively adjusted	\$ 0.66	\$ 0.66

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

(15) Financial Instruments

(a) Financial Derivatives:

The Company's foreign currency swaps transactions, cross currency swaps to hedge foreign exchange risk and interest rate swaps to hedge fluctuations in market interest rates for New Taiwan Dollar-denominated bonds were as follows:

(i) Contract Amount or Notional Principal and Credit Risk

2004.3.31		
Financial Instrument	Contract Amount (notional principle)	Credit Risk
Non-trading		
Currency swaps	\$ 5,499,570	\$ -
Cross currency swaps	6,290,310	-
Interest rate swaps	9,000,000	111,408

2003.3.31		
Financial Instrument	Contract Amount (notional principle)	Credit Risk
Non-trading		
Currency swaps	\$ 3,475,000	\$ -
Cross currency swaps	4,517,500	196,705

The amount of credit risk is the sum of contracts with positive fair market value at the balance sheet date, and represents the Company's possible loss in the event of default by counterparties. The counterparties are mostly reputable financial institutions with good credit ratings. As a result, the management deems the possibility of default was low.

(ii) Market Risk

The Company engages in foreign currency swaps and cross currency swaps with fixed interest rates and therefore, the market risk resulting from interest rates fluctuation is minimal. Interest rates swaps for which the Company had entered into have a hedging characteristic, whereby the gains or losses resulting from changes in interest rates are offset by gains or losses on the hedged items. Therefore, market risk is not significant. Any market risk that the Company is subject to is offset by exchange gain on hedged foreign-denominated claims and obligations.

(iii) Liquidity Risk, Cash Flow Risk and Amount, Period, and Uncertainty of Future Demand for Cash

The Company entered into cross currency swaps and currency swaps transactions that have corresponding incoming and outgoing cash flow at maturity. Because the exchange rates of these swaps are fixed, there are minimal liquidity risk and cash flow risk.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

The Company entered into interest rate swap transactions. On settlement date, the Company collects or pays interest calculated by multiplying the notional principal by the differences in interest rates. The amounts are insignificant because there are no incoming and outgoing cash flow of principal at maturity. Therefore, there is no additional demand for cash.

(iv) Type, Purpose and Strategy of financial derivatives held by the Company:

The Company entered into foreign currency swaps and cross currency swaps to hedge risk from potential fluctuations in exchange rates on foreign-denominated obligations. Also, it entered into interest rate swaps to hedge the risk of interest rate fluctuations on New Taiwan Dollars-denominated obligations. The Company periodically evaluates the fair value of financial derivatives, which have movements opposite with fair values of hedged items.

(b) Fair Value of Derivative Financial Instruments

2004.3.31		
Financial Assets	Book value	Fair value
Non-trading		
Currency swaps	\$ (54,364)	\$ (111,105)
Cross currency swaps	(142,265)	(145,599)
Interest rate swaps	66,184	62,457
2003.3.31		
Financial Assets	Book value	Fair value
Non-trading		
Currency swaps	\$ 2,900	\$ (150)
Cross currency swaps	155,838	196,705

The Company engages in derivative financial instruments for hedging purposes. The fair value of financial derivatives have movements opposite with fair values of hedged items.

(c) Fair Value of Non-Derivative Financial Instruments of the Company

2004.3.31		
Non-Derivative Financial Instruments	Book Value	Fair Value
Financial Assets:		
Book value equal to fair value	\$ 10,733,624	\$ 10,733,624
Long-term equity investments	124,126,457	124,126,457
Total	\$ 134,860,081	\$ 134,860,081
Financial Liabilities:		
Book value equal to fair value	\$ 2,731,254	\$ 2,731,254
Long-term debt	35,153,298	35,153,298
Total	\$ 37,884,552	\$ 37,884,552

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

	2003.3.31	
Non-Derivative Financial Instruments	Book Value	Fair Value
Financial Assets:		
Book value equal to fair value	\$ 8,956,968	\$ 8,956,968
Long-term equity investments	87,747,897	87,747,897
Total	\$ 96,704,865	\$ 96,704,865
Financial Liabilities:		
Book value equal to fair value	\$ 177,764	\$ 177,764
Long-term debt	14,328,237	14,328,237
Total	\$ 14,506,001	\$ 14,506,001

Methods and assumptions used by the Company for evaluation of financial instruments are as follows:

- (i) Fair value of short-term financial instruments is estimated by their face value on the balance sheet. Since such instruments will mature shortly, face value is a reasonable basis in estimating the fair value. Such is applicable to cash in bank, short-term investments, other financial assets, payables, and other current liabilities.
- (ii) The book value of long-term investments is accounted for under the equity method based on audited financial statements of investee companies. Since there are no market quotes or reference reports for non-listed companies, fair value of these investments are determined by their net equity value.
- (iii) With respect to financial instruments such as refundable deposits that are indispensable guarantee for the ongoing operations of the Company, it is impossible to estimate the time necessary to accomplish exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. The book value is used as the fair market value.
- (iv) The fair market value of long-term debt is determined by the present value of future cash flows. Since the values derived by using floating interest rates for discounting are close to the book values, the book values are their fair market values.

**CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT'D)**

(16) Related Party Transactions

(a) Name of Related Party and Relationship with the Company

Name of Related Party	Relationship with the Company
Chinatrust Commercial Bank, Ltd.	A subsidiary in which the Company has controlling interests
Chinatrust Securities Corp., Ltd.	"
Chinatrust Insurance Brokers Corp., Ltd.	"
Chinatrust Venture Capital Corp.	"
Chinatrust Asset Management Company	"
Chinatrust Bills Finance Corp., Ltd.	"
Other related parties	The Company's directors, supervisors, relatives and spouses

(b) Significant Transactions with Related Parties

(i) The Company's deposits at Chinatrust Commercial Bank, Ltd. are as follows:

Name of Related parties	2004.1.1-2004.3.31				
	Maximum Balance	Date of Maximum Balance	Ending Balance	Interest rate	Interest Revenue
Chinatrust Commercial Bank, Ltd.	\$ 11,888,515	January 2, 2004	\$ 4,080,408	0~1.04%	\$ 3,356

Name of Related parties	2003.1.1-2003.3.31				
	Maximum Balance	Date of Maximum Balance	Ending Balance	Interest rate	Interest Revenue
Chinatrust Commercial Bank, Ltd.	\$ 9,175,577	February 6, 2003	\$ 3,964,367	0.1~1.45%	\$ 25,804

(ii) As of March 31, 2004, foreign currency swaps transactions and cross currency swaps transactions between the Company and Chinatrust Commercial Bank, Ltd. totaled US\$50,000 and US\$40,500, respectively, reflected as forward exchange contract payable.

(iii) In order to increase profits, the Company made a restructuring on its long-term equity investment for cross selling plan and to purchase common shares of Chinatrust Bills Finance Corp., Ltd. from Chinatrust Commercial Bank, Ltd. on March 31, 2004. The details of the transaction are shown below:

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

Name	Shares (in thousands)	%	Amount	Difference between price and cost
Chinatrust Bills Finance Corp., Ltd.	407,994	99.998%	\$5,877,497	(163,923)

For information regarding the effect of restructuring on long-term investments and its corresponding item reflected under unappropriated earnings, refer to note 6.

- (iv) In March 2003 the Company received common cash dividends and preferred dividends from Chinatrust Commercial Bank, Ltd. totaling \$3,375,256, reflected under receivables.
- (v) For the three months ended March 31, 2004, rent and refundable deposits paid to Chinatrust Commercial Bank, Ltd. was \$588 and \$833, respectively.

(17) Pledged Assets

Asset	2004.03.31	
	Face value	Book value
Central government bonds 92-4	\$ 400,000	\$ 416,743
Central government bonds 90-7	700,000	850,634
Negotiable time deposits	1,200,000	1,200,000

For the three months ended March 31, 2004, the credit limit for the above collateral, which was pledged for loans and financial transactions, amounted to \$2,000,000.

(18) Significant Commitments And Contingencies

For the three months ended March 31, 2004, the Company issued promissory notes totaling \$3,400,000, as collateral for short-term borrowings and commercial paper issued.

(19) Other

- (a) The Company's personnel, depreciation, and amortization expense are as follows:

Nature	2004.1.1~2004.3.31	2003.1.1~2003.3.31
	Operating Expense	Operating Expense
Personnel Expense	\$ 401,170	\$ 1,170
Amortization Expense	16,742	16,756
	\$ 417,912	\$ 17,926

- (b) Account Reclassification:

Certain prior year accounts of the financial statements were reclassified to conform to the presentation in these financial statements.