

**CHINATRUST FINANCIAL HOLDING COMPANY, LTD.**  
**FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2004 AND 2003**  
**AND**  
**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

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# CHINATRUST FINANCIAL HOLDING COMPANY, LTD.

## FINANCIAL STATEMENTS

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## **Independent Accountant's 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 September 30, 2004 and 2003, and the related statements of income, and cash flows for the nine months ended September 30, 2004, and 2003. 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 a modified unqualified review report for reference.

Taipei, Taiwan, R.O.C.  
October 28, 2004

### Notice to Readers

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 audit 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

September 30, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars)

	September 30, 2004		September 30, 2003	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and cash equivalents (Notes 2, 4(a)and5)	\$ 5,908,531	4	\$ 3,047,801	2
Short-term investments, net (Notes 2, 4(b), and 6)	1,985,681	2	3,287,655	3
Receivables (Note 4(c))	376,181	-	166,517	-
Other Financial assets—current(Notes 2 and 6)	2,129,697	2	-	-
Other current assets (Notes 2 and 4(g))	24,505	-	27,500	-
	<u>10,424,595</u>	<u>8</u>	<u>6,529,473</u>	<u>5</u>
<b>Long-term equity investments (Notes 2 and 4(d))</b>	<u>125,555,693</u>	<u>92</u>	<u>121,155,560</u>	<u>95</u>
<b>Other financial assets—non-current</b>	882	-	1,771	-
<b>Other assets:</b>				
Deferred expense (Notes 2)	51,402	-	118,557	-
Deferred income tax assets—non-current (Notes 2 and 4(g))	330,191	-	180,601	-
	<u>330,191</u>	<u>-</u>	<u>180,601</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b>\$ 136,311,361</b>	<b>100</b>	<b>\$ 127,867,405</b>	<b>100</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities:</b>				
Payables	\$ 876,775	1	\$ 156,184	-
Other current liabilities (Note 2 and 4(g))	18,079	-	127,038	-
	<u>894,854</u>	<u>1</u>	<u>283,222</u>	<u>-</u>
<b>Long-term Liabilities:</b>				
Bonds payable (Note 2 and 4(e))	35,869,787	26	22,218,493	17
<b>Total liabilities</b>	<u>36,764,641</u>	<u>27</u>	<u>22,501,715</u>	<u>17</u>
<b>Stockholders' Equity</b>				
Capital stock				
Common stock (Note 4(h))	58,186,136	43	54,962,000	43
Preferred stock (Note 4(h))	2,500,000	2	12,655,429	10
Capital surplus (Note 4(h))	28,902,025	21	32,088,580	25
Retained earnings				
Legal reserve	1,429,334	1	657,724	1
Special reserve (Note 4(h))	141,362	-	110,852	-
Unappropriated retained earnings (Note 4(h))	12,446,767	9	11,452,656	9
Other adjustments to stockholders' equity:				
Unrealized devaluation of long-term equity investments	(722,175)	-	(1,198,231)	(1)
Cumulative translation adjustments	(924,550)	(1)	(871,719)	(1)
Treasury stock—common stock (Notes 2 and 4(i))	(2,360,777)	(2)	(4,373,044)	(3)
<b>Total stockholders' equity</b>	<u>99,598,122</u>	<u>73</u>	<u>105,484,247</u>	<u>83</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 136,362,763</b>	<b>100</b>	<b>\$ 127,985,962</b>	<b>100</b>

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

Nine Months Ended September 30, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars, Except for EPS)

	Nine months Ended September 30, 2004		Nine months Ended September 30, 2003	
	Amount	%	Amount	%
<b>Revenues:</b>				
Interest income	\$ 469,369	3	\$ 265,633	2
Gain on sale of short-term investments	-	-	105,113	1
Investment income accounted for under the equity method, net (Notes 2 and 4(d))	13,724,353	96	11,939,658	96
Net gains on foreign exchange	-	-	126,950	1
Unrealized gain on short-term investment	188,674	1	-	-
Other income	1,107	-	-	-
<b>Total Revenues</b>	<b>14,383,503</b>	<b>100</b>	<b>12,437,354</b>	<b>100</b>
<b>Expenses:</b>				
Interest expense	(1,074,886)	(8)	(630,754)	(5)
Unrealized loss on short-term investments	-	-	(462,018)	(4)
Losses on sales of short-term investments	(184,478)	(1)	-	-
Operating expense	(583,346)	(4)	(105,118)	(1)
Net losses on foreign exchange	(45,446)	-	-	-
<b>Total Expenses</b>	<b>(1,888,156)</b>	<b>(13)</b>	<b>(1,197,890)</b>	<b>(10)</b>
Income Before Income Tax	12,495,347	87	11,239,464	90
Income Tax Benefit (Notes 2 and 4(g))	312,118	2	72,901	1
<b>Net Income</b>	<b>\$ 12,807,465</b>	<b>89</b>	<b>\$ 11,312,365</b>	<b>91</b>

	Before income tax	After income tax	Before income tax	After income tax
<b>Basic EPS (Notes 2 and 4(j))</b>	<b>\$ 2.12</b>	<b>\$ 2.17</b>	<b>\$ 2.21</b>	<b>\$ 2.23</b>
<b>Basic EPS—retroactively adjusted</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2.09</b>	<b>\$ 2.10</b>
<b>Diluted EPS (Notes 2 and 4(j))</b>	<b>\$ 2.03</b>	<b>\$ 2.06</b>	<b>\$ 2.11</b>	<b>\$ 2.10</b>
<b>Diluted EPS—retroactively adjusted</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1.98</b>	<b>\$ 1.98</b>

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

<b>Net Income</b>	<b>\$ 12,807,465</b>	<b>\$ 11,312,365</b>
	<b>Before income tax</b>	<b>After income tax</b>
<b>Basic EPS</b>	<b>\$ 2.07</b>	<b>\$ 2.12</b>
<b>Diluted EPS</b>	<b>\$ 1.99</b>	<b>\$ 2.02</b>

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

Nine Months Ended September 30, 2004 and 2003

(Expressed in Thousands of New Taiwan Dollars)

	<u>Nine Months Ended September 30, 2004</u>	<u>Nine Months Ended September 30, 2003</u>
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,807,465	\$ 11,312,365
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on investments recognized under the equity method over cash dividends received	(5,290,987)	(8,564,401)
Amortization	50,172	50,269
Provision for (reversal of) allowance for market value decline in short-term investments	(188,674)	462,018
Changes in operating assets and liabilities:		
Short-term investments	925,906	(3,749,673)
Receivables	(165,988)	(93,504)
Other financial assets—current	(2,129,697)	-
Other current asset	(12,557)	(27,500)
Other financial assets—non-current	27,673	142,119
Deferred income tax	(152,050)	(76,700)
Payables	600,236	119,152
Other current liabilities	(32,316)	95,300
Redemption premium accrued on convertible bonds payable and foreign exchange gain	454,425	35,451
<b>Net cash provided by (used in) operating activities</b>	<u>6,893,608</u>	<u>(295,104)</u>
<b>Cash flows from investing activities:</b>		
Increase in long-term equity investments	(10,877,588)	(8,802,273)
Decrease in other assets	-	361
<b>Net cash flow used in investing activities</b>	<u>(10,877,588)</u>	<u>(8,801,912)</u>
<b>Cash flow from financing activities:</b>		
Short-term borrowings	(100,000)	-
Issuance of commercial paper	(649,910)	-
Issuance of corporate bonds	2,000,000	8,000,000
Employee bonuses	-	(520)
Cash dividends—preferred stock	(622,540)	(612,000)
Cash dividends—common stock	(5,891,810)	(4,393,387)
Remuneration to directors and supervisors	(252,878)	-
Disposal of treasury stock—common stock	155,595	-
Redemption of treasury stock—preferred stock	(2,118,113)	-
<b>Net cash provided by (used in) financing activities</b>	<u>(7,479,656)</u>	<u>2,994,093</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(11,463,636)</u>	<u>(6,102,923)</u>
<b>Cash and cash equivalents, at beginning of the period</b>	<u>17,372,167</u>	<u>9,150,724</u>
<b>Cash and cash equivalents, at end of the period</b>	<u>\$ 5,908,531</u>	<u>\$ 3,047,801</u>
<b>Supplemental disclosures of cash flows information:</b>		
Interest paid	<u>\$ 354,108</u>	<u>\$ 83,808</u>
Income tax paid	<u>\$ 13,620</u>	<u>\$ 3,801</u>
<b>Investing and financing activities not affecting cash flows:</b>		
Employee bonuses	<u>\$ 3,161</u>	<u>\$ -</u>
Increase in long-term investments due to stock conversion	<u>\$ -</u>	<u>\$ 20,182,512</u>

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

**CHINATRUST FINANCIAL HOLDING COMPANY, LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003**  
**(Expressed in Thousands of New Taiwan Dollars, 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 Co., Ltd. On the same date, after approval from the Securities & Futures Bureau (the “SFB”) under the Ministry of Finance (the “MOF”) the shares of the Company started to trade publicly, while shares of the Chinatrust Commercial Bank Co., Ltd. were delisted.

The Company conducts business in the following areas:

- (a) The Company is 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 September 30, 2004, the number of employees was 17.

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

**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. The significant accounting policies and bases of measurement adopted in preparing these financial statements 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, and negotiable certificates of deposits. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amount of cash with mature with short notice so that the interest rate fluctuations have little effect on their value. Cash equivalents include Treasury bills, commercial paper, and banker's acceptances.

**(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 unamortized 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.

Short-Term Investments under repurchase agreements or restricted should be stated.

**(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.



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

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 the 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.

**(d) Bills and Bonds Sold Under Repurchase Agreement**

When bills and bonds sold under repurchase agreements are sold and the benefits and risks are not transferred within the transaction period, then the transaction is treated as a financing transaction. When such bills and bonds are sold, they are recorded at their sales price and reflected under "bills and bonds sold under repurchase agreements." The difference between the sales price and repurchase price is reflected as interest expense.

**(e) 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.

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

**(f) Income Taxes**

The Company adopted the Statements of Financial Accounting Standards (“SFAS”) No. 22, “Accounting for Income Taxes” to make inter- and intra-period income tax allocation. Deferred income taxes reflect net tax effects of temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for income tax purposes. Tax effects of deductible temporary differences, unused investment tax credits, and operating loss carry forwards are treated as deferred tax assets, whereas those of taxable temporary differences are accounted for as deferred tax liabilities. A valuation allowance is provided for deferred tax assets by assessing whether it is more likely than not such assets will realize.

Investment tax credits are recognized currently.

Adjustments to prior year’s income tax expenses are charged against current income tax expense.

The 10% surtax on undistributed earnings is recorded as current expense on the date when the stockholders resolved not to distribute the earnings.

When the Company files a consolidated corporate income tax return for the affiliated group pursuant to the ordinance of consolidated taxation, it shall determine the income tax liability of each individual member of the group in accordance with SFAS No. 22, “Accounting for Income Taxes”. During the period of consolidation, the members of the group calculate and adjust deferred tax assets (liabilities) or current income tax payable (receivable) accordingly based on a reasonable, consistent and systematic method, and such adjustments should be reflected as other receivable (payable) in income tax recognition.

**(g) 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.

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

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

Under the SFB Letter Ruling No. (6) 111467, a financial institution which purchases its treasury stock pursuant to Article 28-2, Paragraph 1 of Securities and Exchange 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.

**(h) 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 event 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.

**(i) 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.

**(j) 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. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES: NONE.**

**4. SUMMARY OF MAJOR ACCOUNTS**

**(a) CASH AND CASH EQUIVALENTS**

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Savings account	\$ 26,383	\$ 181,926
Time deposits	475,776	1,368,090
Negotiable certificates of deposits	4,071,091	705,706
Cash equivalents	1,335,281	792,079
Total	<u>\$ 5,908,531</u>	<u>\$ 3,047,801</u>

**(b) SHORT-TERM INVESTMENTS**

	<u>September 30, 2004</u>		<u>September 30, 2003</u>	
	<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>
Government bonds	\$ 2,094,785	<u>\$ 1,985,681</u>	\$ 3,749,673	<u>\$ 3,287,655</u>
Less: Allowance for market value decline	(109,104)		(462,018)	
Total	<u>\$ 1,985,681</u>		<u>\$ 3,287,655</u>	

**(c) RECEIVABLES**

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Tax refund receivable	\$ 6,129	\$ 9,158
Interest receivable	195,106	157,359
Other receivable	174,946	-
Total	<u>\$ 376,181</u>	<u>\$ 166,517</u>

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

**(d) LONG-TERM EQUITY INVESTMENTS**

		September 30, 2004			
<u>Investee Company</u>		<u>Amount</u>	<u>Direct Shareholding Ratio (%)</u>	<u>Original Investment</u>	<u>Long-Term Equity Investments Income</u>
Chinatrust Commercial Bank Co., Ltd.	Common stock 5,065,969 thousand shares	\$ 80,673,060	100.00	\$ 62,912,357	\$ 11,747,837
	Preferred stock 250,000 thousand shares	10,000,000	100.00	10,000,000	459,000
Chinatrust Insurance Brokers Corp., Ltd.	Common stock 38,660 thousand shares	1,540,584	100.00	186,279	994,578
Chinatrust Securities Corp., Ltd.	Common stock 498,288 thousand shares	5,385,593	99.66	5,619,196	10,635
Chinatrust Venture Capital Corp.	Common stock 200,000 thousand shares	2,054,647	100.00	2,000,000	52,955
Chinatrust Asset Management Company	Common stock 2,000,000 thousand shares	20,042,492	100.00	20,000,000	29,542
Chinatrust Bills Financial Corp., Ltd	Common stock 408,000 thousand shares	5,859,317	100.00	5,877,588	429,806
		<u>\$ 125,555,693</u>		<u>\$ 106,595,420</u>	<u>\$ 13,724,353</u>

		September 30, 2003			
<u>Investee Company</u>		<u>Amount</u>	<u>Direct Shareholding Ratio (%)</u>	<u>Original Investment</u>	<u>Long-Term Equity Investments Income (Loss)</u>
Chinatrust Commercial Bank Co., Ltd.	Common stock 5,065,969 thousand shares	\$ 77,434,883	100.00	\$ 62,912,357	\$ 10,597,869
	Preferred stock 250,000 thousand shares	10,000,000	100.00	10,000,000	459,000
Chinatrust Insurance Brokers Corp., Ltd	Common stock 200 thousand shares	1,236,370	100.00	186,279	803,386
Chinatrust Securities Corp., Ltd.	Common stock 498,288 thousand shares	5,333,321	99.66	5,619,196	108,377
Chinatrust Venture Capital Corp.	Common stock 200,000 thousand shares	2,019,081	100.00	2,000,000	19,081
Chinatrust Asset Management Company	Common stock 500,000 thousand shares	4,946,099	100.00	5,000,000	(51,349)
Grand Commercial Bank, Ltd.	Common stock 1,604,333 thousand shares	20,185,806	100.00	20,182,512	3,294
		<u>\$ 121,155,560</u>		<u>\$ 105,900,344</u>	<u>\$ 11,939,658</u>

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

In March 2003, the Company purchased 149,968 thousand 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 271 thousand 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 Co., 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 stocks of Chinatrust Bills Finance Corp., Ltd. from Chinatrust Commercial Bank Co., 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.

**(e) BONDS PAYABLE**

	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Oversea convertible bonds	\$ 14,869,787	\$ 14,218,493
First issue of unsecured subordinated bonds in 2003	5,000,000	5,000,000
Second issue of unsecured subordinated bonds in 2003	3,000,000	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>\$ 35,869,787</u>	<u>\$ 22,218,493</u>

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

In 2002, the Company issued oversea unsecured convertible bonds with a period of maturity of 5 years. The terms of issue were as follow:

	<b>US Dollars in thousands</b>	
	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Original issue size (USD400,000)	\$ 13,452,400	\$ 13,452,400
Accumulated converted amount (USD1,000 and USD0 for the nine months ended September 30, 2004 and 2003)	(33,631)	-
Redemption premium payable (USD38,553 and USD20,915 for the nine months ended September 30, 2004 and 2003)	1,310,171	706,493
Unrealized exchange loss	140,847	59,600
Ending balance	<u>\$ 14,869,787</u>	<u>\$ 14,218,493</u>

(i) Issue Date:

July 8, 2002.

(ii) Place of issue:

Luxembourg Stock Exchange.

(iii) Size:

US\$ 400 million.

(iv) Duration:

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

(v) Coupon rate:

0% per annum.

(vi) 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.

(vii) 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 Depositary Shares)

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

(viii) Conversion price and adjustment:

The initial conversion price is \$37.16 dollar per common share. The applicable conversion price will be 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 and will not be adjusted upward.) Effective August 31, 2004, the conversion price is \$29.541 dollars.

(ix) Resale rights of the bondholders:

The bondholders will have the right to require the Company to repurchase the bonds at the 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:

- (1) Unless the bonds have been previously redeemed, repurchased and cancelled, or converted, the bondholders will have the right to require the Company to repurchase all or part of the bonds on July 8, 2005.
- (2) 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, then the bondholders can require the Company to repurchase all rather than part of the bonds.
- (3) If at any time a change of control occurs with respect to the Company, the bondholders will have the right to require the Company to repurchase all or part of the bonds.

(x) The Company's rights to redeem the bond:

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

- (1) 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 then the company can redeem all rather than part of the bonds.
- (2) 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 then the bondholders can require the Company to redeem all rather than part of the bonds.
- (3) 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 the Company can redeem all rather than part of the bonds.



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

In 2003, the Company issued seven-year unsecured subordinated bonds (first issue). The terms of issue were as follows:

(in thousands)

Type of bond issued	First issue of unsecured subordinated bonds
Issue date	April 7, 2003
Size	\$ 5,000,000
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%.
Maturity date	April 7, 2010
Repayment method	The principal of all bonds is repayable at maturity.

In 2003, the Company issued five-year unsecured subordinated bonds (second issue). The terms of issue were as follows:

(in thousands)

Type of bond issued	Second issue of unsecured subordinated bonds
Issue date	From June 24, 2003 to June 27, 2003
Size	\$ 3,000,000
Coupon rate	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	From June 24, 2008 to June 27, 2008
Repayment method	The principal of all bonds is repayable at maturity.

In 2003, the Company issued seven-year unsecured subordinated bonds (third issue). The terms of issue were as follows:

(in thousands)

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	There are 15 categories of bonds. Categories A to G: If the 6 Month LIBOR is below 0.60%, then the coupon rate ranges from 6 Month LIBOR + 0.0001% to 6 Month LIBOR + 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%. Categories H to O: 120 basis point above the prime rate, which is based on the page code 6165 of Associated Press, the fixed interest rate of 90-day CP/BA at 11:00am. 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.
Maturity date	October 13, 2010 to October 22, 2010

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

Type of bond issued	Third issue of unsecured subordinated bonds
Repayment method	The principal of all bonds is repayable at maturity.

In 2004, the Company issued five-years unsecured subordinated bonds (first issue). The terms of issue were as follows:

(in thousands)

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

**(f) STOCK OPTION PLAN**

On September 4, 2001, the ROC SFB approved the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd.'s issuance of employee stock options of 100,000 units. Each unit of stock options was endowed with the right to purchase 1,000 common shares of the Chinatrust Commercial Bank Co., Ltd., at exercise price equal to the closing price on the date of issuance of the Chinatrust Commercial Bank Co., Ltd. employee stock options. On January 3, 2002, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd., granted 65,000 units of stock option to its employees. The stock options are valid and can not be transferred for 2 years and 8 months from issuance date. After the 2nd anniversary of option grant, the holder of such option may exercise the right to purchase the Bank's shares at \$21.1 dollars per share. As the shares of Chinatrust Commercial Bank Co., Ltd were converted into the shares of the Company, each option is endowed with the right to purchase 1,000 common shares of the Company. If there is any change in the structure of the Company's common stock, the exercise price will change accordingly. The new exercise price after adjustment was \$15.29 dollars per share.

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

The changes in stock option plan were as follows:

	<b>Nine months ended September 30, 2004</b>
Beginning current outstanding units	65,000
Current grants	-
Current exercise	(47,852)
Current expired	(17,148)
Options outstanding, end of the period	-

**(g) INCOME TAXES**

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

	<b>September 30, 2004</b>	<b>September 30, 2003</b>
Temporary differences:		
Deductible (taxable) temporary difference due to	\$ 45,446	\$ (126,950)
Deductible temporary difference due to issue costs deferred of convertible bonds	4,320	-
Deductible temporary difference due to recognition of redemption premium payable from convertible bonds	1,317,251	722,406
Total	<b>\$ 1,367,017</b>	<b>\$ 595,456</b>
Deferred tax assets—non-current	<b>\$ 330,191</b>	<b>\$ 180,601</b>
Deferred tax assets—current	<b>\$ 11,564</b>	<b>\$ -</b>
Deferred tax liabilities—current	<b>\$ -</b>	<b>\$ 31,738</b>

	<b>Nine months ended September 30</b>	
	<b>2004</b>	<b>2003</b>
Current income tax payable	\$ -	\$ -
Add (less): Tax effects of temporary differences		
Net unrealized foreign exchange gain (loss)	(39,642)	33,806
Redemption premium payable from convertible bonds	(111,327)	(110,508)
Deferred amount of convertible bonds issued cost	(1,080)	-
Uner-accrual of prior year's income tax	1,257	-
Income tax separately levied	13,620	3,801
Income tax benefit resulting from jointly filing of taxes	(174,946)	-
Income tax benefit	<b>\$ (312,118)</b>	<b>\$ (72,901)</b>

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

As of September 30, 2004, balance of stockholders' imputation credit account amounted to \$259,905. Estimated deductible ratio of 2004 earnings distributed is 28.02%. Actual deductible ratio of 2003 earnings distributed is 23.76% for cash dividends.

**(h) STOCKHOLDERS' EQUITY**

**(i) Capital Stock**

The Company converted shares with Chinatrust Commercial Bank Co., Ltd. on May 17, 2002. The Company converted 4,605,427 thousand shares of common stock and 250,000 thousand shares of preferred stock with conversion ratio of 1:1. Shares were issued with a par value of \$10 dollars per share.

In August 2000, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. issued preferred shares at \$40 dollars 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 Co., Ltd. before the stock conversion, which amounted to \$4,393,387 and was accounted for under the Company's capital surplus. Capital after the capital increase totaled \$53,386,993.

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 1,015,543 thousand shares of Series B preferred stock with par value of \$10 dollars and 407,501 thousand shares of common stock with par value \$10 dollars to acquire full ownership of Grand Commercial Bank. Following the stock conversion, Grand Commercial Bank became a wholly owned subsidiary of the Company. As of April 30, 2004, all the Series B preferred stocks have been redeemed and retired.

For the nine months ended September 30, 2004, convertible bonds converted into common stock totaled 1,042 thousand shares with additional paid-in capital transferred to capital surplus (including convertible bond issue costs) amounting to \$25,023.

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

On June 11, 2004, the Company's stockholders' meeting resolved to capitalize capital surplus earnings amounting to \$3,213,715. Capital after the capital increase totaled \$60,686,136.

As of September 30, 2004, the Company's authorized capital was \$100,000,000, paid-in capital on common stock was \$58,186,136, and on preferred stock was \$2,500,000.

(ii) Capital Surplus

Information regarding capital surplus was as follows:

	<b>September 30, 2004</b>	<b>September 30, 2003</b>
Additional paid-in capital—common stock	\$ 21,395,856	\$ 24,584,548
Additional paid-in capital—preferred stock	7,500,000	7,500,000
Assets revaluation appreciation—subsidiary	6,169	4,032
Total	<b>\$ 28,902,025</b>	<b>\$ 32,088,580</b>

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 and 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 undistributed 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.

Based on the SFB Letter Ruling No. (1) 005946, the undistributed 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 and Exchange Law. Article 232, Paragraph 1 of the Company Law and Article 41, Paragraph 2 of Securities and 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 and Exchange Law and Article 8 of Securities and 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 Co., Ltd.

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

As of September 30, 2004, the undistributed earnings of \$752,523 of Chinatrust Commercial Bank Co., Ltd. before the stock conversion were accounted for in the Company's books as capital surplus.

(iii) Earnings Distribution and Dividend Policy

	<b>Nine months ended September 30</b>	
	<b>2004</b>	<b>2003</b>
Beginning balance—January 1	\$ 7,746,609	\$ 6,577,241
Appropriation and distribution of earnings :		
Legal reserve	(771,610)	(657,724)
Special reserve	(30,510)	(110,852)
Remuneration to directors and supervisors	(252,878)	-
Employee bonuses	(3,161)	(520)
Cash dividends—common stock	(5,891,810)	(4,393,387)
Stock dividends—common stock	-	(439,338)
Cash dividends—preferred stock	(622,540)	(612,000)
Recognition of undistributed retained earning of subsidiaries	(639,826)	(221,878)
Decrease in unappropriated earnings due to non-subscription of newly issued investee shares according to ownership	-	(1,251)
Effect of restructuring on long-term investments	163,923	-
Sale of treasury stock	(58,895)	-
Net income for the nine months ended September 30, 2004 and 2003	12,807,465	11,312,365
Ending balance—September 30	<b>\$ 12,446,767</b>	<b>\$ 11,452,656</b>

Refer to Note 4(d) information regarding adjustments to undistributed earnings resulting from the restricting of long-term investments.

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 operation planning, stock dividends are distributed in order to retain essential earnings for funding needs, and the remainder is distributed as cash dividends. The cash dividends shall not be less than 10% of total dividends. No cash dividend is distributed if it is less than \$0.1(in dollars). The board of directors may adjust the earnings distribution upon approval of a resolution approved by the shareholders during their meeting.

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.

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

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.

Information about distributed earning for employee bonuses and remuneration to directors and supervisors of 2003 as follow:

	<b>Amount</b>
Employee bonuses—cash	\$ 3,161
Remuneration to directors and supervisors	252,878
	<b>\$ 256,039</b>

The proposal for earnings distribution for 2003 was approved by the shareholders' meeting on June 11, 2004.

**(i) TREASURY STOCK**

	<b>share data in thousands</b>			
<b>Repurchase Reason</b>	<b>Beginning of the Period</b>	<b>Current Increase</b>	<b>Current Decrease</b>	<b>End of the Period</b>
Held by the Company:				
Transfer to employees	18,985	-	(7,310)	11,675
Held by the subsidiaries:				
Transfer to employees	94,504	-	(41,500)	53,004
Issuance of stock options	87,420	-	(47,852)	39,568
Total	<b>200,909</b>	-	<b>(96,662)</b>	<b>104,247</b>

- (ii) Under the Securities and 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 common stock repurchased was \$28,763,598 with June 30, 2004 as the measurement date.
- (iii) For the nine months ended September 30, 2004, the maximum number of treasury stock held was 200,909 thousand shares and the amount was \$4,439,539, in compliance with the Securities and Exchange Law.
- (iv) In accordance with the Securities and Exchange Law, treasury stock 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 Co., Ltd. owns shares of the Company amounting to \$2,012,176. Pursuant to the SFB Letter Ruling No. (3) 0920004165, shares that are not adjusted within 3 years are considered as non-issued shares and should be cancelled. In consideration of the expiration of the employee stock options issued, on September 24, 2004, the board of directors resolved to cancel treasury stocks amounted to 39,568 thousand shares to be in compliance with the regulation. The measurement date for such cancellation was October 11, 2004. The Bank has filed for registration changes to the Ministry of Economic Affairs.
- (vi) On September 30, 2004, the Company's common stocks have a market price of \$36.704 dollars per share.

**(j) EARNINGS PER SHARE**

For nine months ended September 30, 2004 and 2003, basic and diluted earnings per share were the following:

	<b>Nine Months Ended September 30, 2004</b>	
	<b>Before Tax</b>	<b>After Tax</b>
<b>Basic EPS</b>		
Net income	\$ 12,495,347	\$ 12,807,465
Preferred stock dividends	(459,000)	(459,000)
Net income available to common shareholders	<u>12,036,347</u>	<u>12,348,465</u>
Weighted-average shares of common stocks outstanding (in thousands)	5,680,670	5,680,670
Basic EPS	<u><u>\$ 2.12</u></u>	<u><u>\$ 2.17</u></u>
<b>Diluted EPS</b>		
Net income	\$ 12,495,347	\$ 12,807,465
Preferred stock dividends	(459,000)	(459,000)
Influence on potentially dilutive shares:		
Convertible bonds	447,659	335,744
Net income used to calculate diluted EPS	<u><u>\$ 12,484,006</u></u>	<u><u>\$ 12,684,209</u></u>
Weighted-average shares of common stocks outstanding (in thousands)	5,680,670	5,680,670
Influence on potentially dilutive shares:		
Stock options	15,866	15,866
Convertible bonds	454,495	454,495
Weighted-average shares of common stocks outstanding used to calculate diluted EPS (in thousands)	<u>6,151,031</u>	<u>6,151,031</u>
Diluted EPS	<u><u>\$ 2.03</u></u>	<u><u>\$ 2.06</u></u>



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

	<b>Nine Months Ended September 30, 2003</b>	
	<b>Before Tax</b>	<b>After Tax</b>
<b>Basic EPS</b>		
Net income	\$ 11,239,464	\$ 11,312,365
Preferred stock dividends	(459,628)	(459,628)
Net income available to common shareholders	<u>10,779,836</u>	<u>10,852,737</u>
Weighted-average shares of common stocks outstanding (in thousands)	<u>4,877,216</u>	<u>4,877,216</u>
Weighted-average shares of common stocks outstanding —retroactively adjusted(in thousands)	<u>5,169,849</u>	<u>5,169,849</u>
Basic EPS	<u><b>\$ 2.21</b></u>	<u><b>\$ 2.23</b></u>
Basic EPS—retroactively adjusted	<u><b>\$ 2.09</b></u>	<u><b>\$ 2.10</b></u>
<b>Diluted EPS</b>		
Net income	\$ 11,239,464	\$ 11,312,365
Preferred stock dividends	(459,628)	(459,628)
Influence on potentially dilutive shares:		
Convertible bonds	442,031	331,523
Net income used to calculate diluted EPS	<u><b>\$ 11,221,867</b></u>	<u><b>\$ 11,184,260</b></u>
Weighted-average shares of common stocks outstanding (in thousands)	4,877,216	4,877,216
Influence on potentially dilutive shares:		
Stock options	24,852	24,852
Convertible bonds	<u>416,883</u>	<u>416,883</u>
Weighted-average shares of common stocks outstanding used to calculate diluted EPS (in thousands)	<u>5,318,951</u>	<u>5,318,951</u>
Weighted-average shares of common stocks outstanding —retroactively adjusted (in thousands)	5,169,849	5,169,849
Influence on potentially dilutive shares:		
Stock options—retroactively adjusted	29,516	29,516
Convertible bonds—retroactively adjusted	<u>455,381</u>	<u>455,381</u>
Weighted-average shares of common stocks outstanding used to calculate diluted EPS—retroactively adjusted (in thousands)	<u>5,654,746</u>	<u>5,654,746</u>
Diluted EPS	<u><b>\$ 2.11</b></u>	<u><b>\$ 2.10</b></u>
Diluted EPS—retroactively adjusted	<u><b>\$ 1.98</b></u>	<u><b>\$ 1.98</b></u>

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

**(k) FINANCIAL INSTRUMENTS**

(i) Financial Derivatives:

The Company hedges its exposure to fluctuations in exchange rates for its foreign currency-denominated obligations and engages in cross currency swaps and foreign currency swaps. The Company also engages in interest rate swaps to hedge the risks of interest rate fluctuations for New Taiwan Dollar-denominated obligations. For the nine months ended September 30, 2004 and 2003, the Company held the following financial derivatives:

(1) Contract Amount or Notional Principle and Credit Risk

<b>Financial Instrument</b>	<b>September 30, 2004</b>	
	<b>Contract Amount (notional principle)</b>	<b>Credit Risk</b>
Non-trading		
Cross currency swaps	\$ 6,473,952	\$ 41,501
Interest rate swaps	9,000,000	-
<b>Financial Instrument</b>	<b>September 30, 2003</b>	
	<b>Contract Amount (notional principle)</b>	<b>Credit Risk</b>
Non-trading		
Currency swaps	\$ 5,168,340	\$ -
Cross currency swaps	5,067,000	-
Interest rate swaps	7,000,000	99,622

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.

(2) 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 currency-denominated claims and obligations.

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

(3) 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.

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.

(4) Financial derivatives held by the Company, their Category, Purpose, and Strategy

The Company hedges its exposure to fluctuations in exchange rates for its foreign currency-denominated obligations and engages in cross currency swaps and foreign currency swaps. The purposes for interest rate swap are to hedge the Company's risks of interest rate fluctuations for New Taiwan Dollar-denominated obligations.

The Company selects financial derivatives with opposite correlation to the fair values of the hedged items as hedging tools and evaluates such instruments periodically.

(ii) Fair Value of Derivative Financial Instruments

<b>Financial Assets</b>	<b>September 30, 2004</b>	
	<b>Book value</b>	<b>Fair value</b>
Non-trading		
Cross currency swaps	\$ 42,730	\$ 41,501
Interest rate swaps	60,733	(44,709)
<b>Financial Assets</b>	<b>September 30, 2003</b>	
	<b>Book value</b>	<b>Fair value</b>
Non-trading		
Currency swaps	\$ (76,805)	\$ (100,235)
Cross currency swaps	13,417	(42,635)
Interest rate swaps	37,370	99,622

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

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

(iii) Fair Value of Non-Derivative Financial Instruments

<b>Non-Derivative Financial Instruments</b>	<b>September 30, 2004</b>	
	<b>Book Value</b>	<b>Fair Value</b>
Financial Assets:		
Book value equal to fair value	\$ 10,237,531	\$ 10,237,531
Long-term equity investments	125,555,693	125,555,693
<b>Total</b>	<b>\$ 135,793,224</b>	<b>\$ 135,793,224</b>
Financial Liabilities:		
Book value equal to fair value	\$ 805,180	\$ 805,180
Long-term debt	35,869,787	35,869,787
<b>Total</b>	<b>\$ 36,674,967</b>	<b>\$ 36,674,967</b>
<b>September 30, 2003</b>		
<b>Non-Derivative Financial Instruments</b>	<b>Book Value</b>	<b>Fair Value</b>
Financial Assets:		
Book value equal to fair value	\$ 6,395,741	\$ 6,395,741
Long-term equity investments	121,155,560	121,155,560
<b>Total</b>	<b>\$ 127,551,301</b>	<b>\$ 127,551,301</b>
Financial Liabilities:		
Book value equal to fair value	\$ 98,969	\$ 98,969
Long-term debt	22,218,493	22,218,493
<b>Total</b>	<b>\$ 22,317,462</b>	<b>\$ 22,317,462</b>

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

- (1) Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since such instruments will mature shortly, book value is a reasonable basis in estimating the fair value. Such is applicable to cash in bank, short-term investments, other financial assets, payables, receivable, and other current liabilities.
- (2) 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.
- (3) 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.
- (4) The fair market value of long-term debt is determined by the present value of future cash flows. Since the present 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)**

**5. RELATED PARTY TRANSACTIONS**

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

Name of Related Party	Relationship with the Company
Chinatrust Commercial Bank Co., 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 Co., Ltd.	"
Chinatrust Bills Financial Corp., Ltd.	"
China Development Financial Holding Corporation	An immediate family member of the Chairman of the Company is its President
China Development Industrial Bank	An immediate family member of the Chairman of the Company is its Chairman
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 Co., Ltd. were as follows:

Name of Related parties	Nine Months Ended September 30, 2004				
	Maximum Balance	Date of Maximum	Ending Balance	Interest rate	Interest Revenue
Chinatrust Commercial Bank Co., Ltd.	<u>\$ 15,648,515</u>	January 2, 2004	<u>\$ 5,744,903</u>	0.10~1.74%	<u>\$ 37,606</u>

Name of Related parties	Nine Months Ended September 30, 2004				
	Maximum Balance	Date of Maximum	Ending Balance	Interest rate	Interest Revenue
Chinatrust Commercial Bank Co., Ltd.	<u>\$ 12,238,645</u>	April 7, 2003	<u>\$ 1,994,755</u>	0.10~1.45%	<u>\$ 31,839</u>

(ii) As of September 30, 2004 and 2003, foreign currency swaps transactions and cross currency swaps transactions between the Company and Chinatrust Commercial Bank Co., Ltd. totaled USD40,500 and USD100,000, respectively, reflected as forward exchange contract payable.

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

- (iii) In order to increase profits of the Company and Chinatrust Commercial Bank Co., Ltd., the Company undertook a joint cross selling plan with Chinatrust Commercial Bank Co., Ltd. and purchased common shares of Chinatrust Bills Finance Corp. Ltd. from Chinatrust Commercial Bank Co., Ltd. in March 2004.

The details of the transaction were shown below:

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

Note: For information regarding the effect of restructuring on long-term investments and its corresponding item reflected under undistributed earnings, refer to note 4 (d) and (h).

- (iv) For the nine months ended September 30, 2004, rent and refundable deposits paid to Chinatrust Commercial Bank Co., Ltd. was \$2,353 and \$882, respectively.
- (v) For the nine months ended September 30, 2004 and 2003, the Company paid to Chinatrust Securities Corp., Ltd. property consulting fees \$1,000 and \$8,000, respectively.
- (vi) For the nine months ended September 30, 2004 the Company paid to Chinatrust Commercial Bank Co., Ltd. \$40,690 and \$3,903 for stock agency and company bonds issued and securities maintained fees, respectively.
- (vii) As of September 30, 2003, expenses related to the third issuance of subordinated bonds paid to Chinatrust Securities Corp., Ltd. totaled \$27,500, reflected as other current assets.

**6. PLEDGED ASSETS**

<u>Asset</u>	<u>September 30, 2004</u>	<u>September 30, 2003</u>
Central government bonds 92-4 (short-term investment)	\$ -	\$ 313,611
Central government bonds 90-7 (short-term investment)	845,241	-
Central government bonds 92-5 (short-term investment)	-	701,424
Negotiable certificates of deposits (other financial assets— current)	2,100,000	-

As of September 30, 2004 and 2003, the credit limit for the above collateral, which was pledged for loans and financial transactions, amounted to \$2,500,000 and \$2,000,000, respectively.

**7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

For the nine months ended September 30, 2004 the Company issued promissory notes totaling \$4,900,000, as collateral for short-term borrowings and commercial paper issued.

**8. SIGNIFICANT CATASTROPHIC LOSSES: NONE.**

**9. SIGNIFICANT SUBSEQUENT EVENTS: NONE.**

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

**10. OTHER**

The Company's personnel, depreciation, and amortization expenses were as follows:

<u>Nature</u>	<u>Nine Months Ended September 30, 2004</u> <u>Operating Expense</u>	<u>Nine Months Ended September 30, 2003</u> <u>Operating Expense</u>
Personnel Expense	\$ 403,510	\$ 3,510
Amortization Expense	50,172	50,269