

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
AND
INDEPENDENT AUDITORS' REPORT

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CHINATRUST FINANCIAL HOLDING COMPANY, LTD.

FINANCIAL STATEMENTS

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Independent Auditors' Report

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

We have audited the accompanying balance sheets of Chinatrust Financial Holding Company, Ltd. as of December 31, 2004 and 2003, and the related statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2004, and 2003. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chinatrust Financial Holding Company, Ltd. as of December 31, 2004 and 2003, and the results of its operations and cash flows for the years then ended 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 expressed an unqualified opinion with an added explanatory paragraph.

Taipei, Taiwan, R.O.C.
March 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.

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
BALANCE SHEETS
December 31, 2004 and 2003
(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2004		December 31, 2003	
	Amount	%	Amount	%
ASSETS				
Current assets:				
Cash and cash equivalents (Notes 2, 4(a)and5)	\$ 7,046,938	5	\$ 17,372,167	14
Short-term investments, net (Notes 2, 4(b), and 6)	-	-	2,722,913	2
Receivables (Note 4(c))	278,306	-	210,193	-
Other financial assets—current(Note 6)	2,100,000	2	-	-
Other current assets	7,421	-	384	-
Total current assets	9,432,665	7	20,305,657	16
Long-term equity investments				
Accounted for under the equity method (Notes 2 and 4(d))	127,403,272	93	107,848,549	84
Accounted for under the cost method (Notes 2 and 4(d))	450,000	-	-	-
Total long-term equity investments	127,853,272	93	107,848,549	84
Other financial assets—non-current (Notes 2, 4(m) and 5)	882	-	28,555	-
Other assets:				
Deferred expense (Note 2)	34,625	-	101,800	-
Deferred income tax assets—non-current (Notes 2 and 4(i))	287,514	-	217,986	-
Total other assets	322,139	-	319,786	-
TOTAL ASSETS	\$ 137,608,958	100	\$ 128,502,547	100
 LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities:				
Short-term borrowings (Note 4(e))	\$ -	-	\$ 100,000	-
Commercial paper payable (Note(f))	999,869	1	649,910	1
Payables	236,319	-	273,378	-
Forward exchange contract payable (Notes 2 and 4(m))	372,141	-	39,995	-
Other current liabilities (Notes 2 and 4(i))	43,749	-	38,681	-
Total current Liabilities	1,652,078	1	1,101,964	1
Long-term Liabilities:				
Bonds payable (Notes 2 and 4(g))	35,084,512	26	33,451,033	26
Total liabilities	36,736,590	27	34,552,997	27
Stockholders' Equity				
Capital stock				
Common stock (Note 4(j))	57,798,995	42	54,962,000	43
Preferred stock (Note 4(j))	2,500,000	2	12,655,429	10
Capital surplus (Note 4(j))	28,774,389	21	32,089,783	25
Retained earnings				
Legal reserve	1,429,334	1	657,724	1
Special reserve (Note 4(j))	141,362	-	110,852	-
Unappropriated retained earnings (Note 4(j))	14,874,762	11	7,746,609	6
Other adjustments to stockholders' equity:				
Unrealized devaluation of long-term equity investments	(943,028)	(1)	(970,608)	(1)
Cumulative translation adjustments	(2,040,140)	(2)	(819,365)	(1)
Treasury stock—common stock (Notes 2 and 4(k))	(1,663,306)	(1)	(4,445,558)	(4)
Treasury stock—preferred stock (Notes 2 and 6(k))	-	-	(8,037,316)	(6)
Total stockholders' equity	100,872,368	73	93,949,550	73
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 137,608,958	100	\$ 128,502,547	100

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

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
STATEMENTS OF INCOME
For The Years Ended December 31, 2004 and 2003
(Expressed in Thousands of New Taiwan Dollars, Except for EPS)

	Year Ended December 31, 2004		Year Ended December 31, 2003	
	Amount	%	Amount	%
Revenues:				
Interest income	\$ 611,450	3	\$ 408,455	5
Gain on sale of short-term investments	-	-	49,586	
Investment income accounted for under the equity method, net (Notes 2 and 4(d))	16,141,536	94	8,397,078	94
Net gains on foreign exchange	108,637	1	113,124	1
Reversal of unrealized loss on short-term investments	297,779	2	-	-
Other income	2,164	-	819	-
	<u>17,161,566</u>	<u>100</u>	<u>8,969,062</u>	<u>100</u>
Expenses:				
Interest expense	(1,426,660)	(8)	(949,496)	(11)
Unrealized loss on short-term investments	-	-	(297,779)	(3)
Losses on sales of short-term investments	(288,156)	(2)	-	-
Operating expense	(323,745)	(2)	(153,142)	(2)
	<u>(2,038,561)</u>	<u>(12)</u>	<u>(1,400,417)</u>	<u>(16)</u>
Income Before Income Tax	15,123,005	88	7,568,645	84
Income Tax Benefit (Notes 2 and 4(i))	262,731	2	147,455	2
Net Income	<u>\$ 15,385,736</u>	<u>90</u>	<u>\$ 7,716,100</u>	<u>86</u>

	Before tax	After tax	Before tax	After tax
Basic EPS (Notes 2 and 4(l))	<u>\$ 2.55</u>	<u>\$ 2.60</u>	<u>\$ 1.39</u>	<u>\$ 1.42</u>
Basic EPS—retroactively adjusted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1.31</u>	<u>\$ 1.34</u>
Diluted EPS (Notes 2 and 4(l))	<u>\$ 2.46</u>	<u>\$ 2.47</u>	<u>\$ 1.39</u>	<u>\$ 1.39</u>
Diluted EPS—retroactively adjusted	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1.31</u>	<u>\$ 1.31</u>

Pro forma data assuming the Company shares held by its subsidiaries are not considered treasury stock:

Net Income	<u>\$ 15,385,736</u>	<u>\$ 7,716,100</u>
	Before tax	After tax
Basic EPS	<u>\$ 2.50</u>	<u>\$ 2.54</u>
Diluted EPS	<u>\$ 2.41</u>	<u>\$ 2.42</u>
	Before tax	After tax
	<u>\$ 1.26</u>	<u>\$ 1.29</u>
	<u>\$ 1.26</u>	<u>\$ 1.26</u>

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

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For The Year Ended December 31, 2004 and 2003
(Expressed in Thousands of New Taiwan Dollars)

	Common stock	Preferred stock	Capital surplus	Retained earnings		Undistributed retained earnings	Unrealized losses on long-term equity investments	Cumulative translation adjustments	Treasury stock - common stock	Treasury stock - preferred stock	Total
				Legal reserve	Special reserve						
Beginning Balance - January 1, 2003	\$ 46,054,268	\$ 2,500,000	\$ 30,902,024	\$ -	\$ -	\$ 6,577,241	\$ (1,270,188)	\$ (604,964)	\$ (5,011,963)	\$ -	\$ 79,146,418
Appropriation and distribution of 2002 earnings											
Legal reserve	-	-	-	657,724	-	(657,724)	-	-	-	-	-
Special reserve	-	-	-	-	110,852	(110,852)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	(520)	-	-	-	-	(520)
Cash dividends - common stock	-	-	-	-	-	(4,393,387)	-	-	-	-	(4,393,387)
Stock dividends - common stock	439,338	-	-	-	-	(439,338)	-	-	-	-	-
Cash dividends - preferred stock	-	-	-	-	-	(612,000)	-	-	-	-	(612,000)
Capitalization of capital surplus	4,393,387	-	(4,393,387)	-	-	-	-	-	-	-	-
Stock Converted - Acquisition of Grand Commercial Bank	4,075,007	10,155,429	5,952,076	-	-	-	-	-	-	-	20,182,512
Recognition of capital surplus of subsidiaries	-	-	(370,930)	-	-	-	-	-	-	-	(370,930)
Recognition of translation adjustment of subsidiaries	-	-	-	-	-	-	-	(214,401)	-	-	(214,401)
Recognition of unrealized loss on long-term equity investments	-	-	-	-	-	-	299,580	-	-	-	299,580
Recognition of undistributed earnings of subsidiaries	-	-	-	-	-	(483,463)	-	-	-	-	(483,463)
Recognition of treasury stock of subsidiaries	-	-	-	-	-	-	-	-	885,602	-	885,602
Effect of restructuring on long term equity investments (Note 4(d))	-	-	-	-	-	151,803	-	-	-	-	151,803
Decrease in undistributed earnings due to non-subscription of newly issued investee shares according to ownership	-	-	-	-	-	(1,251)	-	-	-	-	(1,251)
Purchase of treasury stock	-	-	-	-	-	-	-	-	(319,197)	(8,037,316)	(8,356,513)
Net income for the year ended December 31, 2003	-	-	-	-	-	7,716,100	-	-	-	-	7,716,100
Ending Balance - December 31, 2003	\$ 54,962,000	\$ 12,655,429	\$ 32,089,783	\$ 657,724	\$ 110,852	\$ 7,746,609	\$ (970,608)	\$ (819,365)	\$ (4,445,558)	\$ (8,037,316)	\$ 93,949,550
Appropriation and distribution of 2003 earnings											
Legal reserve	-	-	-	771,610	-	(771,610)	-	-	-	-	-
Special reserve	-	-	-	-	30,510	(30,510)	-	-	-	-	-
Employee bonuses	-	-	-	-	-	(3,161)	-	-	-	-	(3,161)
Remuneration to directors and supervisors	-	-	-	-	-	(252,878)	-	-	-	-	(252,878)
Cash dividends - common stock	-	-	-	-	-	(5,891,810)	-	-	-	-	(5,891,810)
Cash dividends - preferred stock	-	-	-	-	-	(622,540)	-	-	-	-	(622,540)
Capitalization of capital surplus	3,213,715	-	(3,213,715)	-	-	-	-	-	-	-	-
Convertible Bonds transfer into common stocks	18,960	-	43,257	-	-	-	-	-	-	-	62,217
Recognition of capital surplus of subsidiaries	-	-	561	-	-	-	-	-	-	-	561
Recognition of translation adjustment of subsidiaries	-	-	-	-	-	-	-	(1,465,079)	-	-	(1,465,079)
Recognition of unrealized loss on long-term equity investments	-	-	-	-	-	-	27,580	-	-	-	27,580
Recognition of undistributed earnings of subsidiaries	-	-	-	-	-	(639,826)	-	-	-	-	(639,826)
Recognition of treasury stock of subsidiaries	-	-	-	-	-	-	-	-	1,876,309	-	1,876,309
Effect of restructuring on long term equity investments (Note 4(d))	-	-	-	-	-	163,923	-	-	-	-	163,923
Disposal of treasury stock	-	-	-	-	-	(58,895)	-	-	214,490	-	155,595
Purchase of treasury stock	-	-	-	-	-	-	-	-	-	(2,118,113)	(2,118,113)
Retired of treasury stock - preferred stock (Note 4(j))	-	(10,155,429)	-	-	-	-	-	-	-	10,155,429	-
Retired of treasury stock - common stock (Note 4(j))	(395,680)	-	(145,497)	-	-	(150,276)	-	-	691,453	-	-
Effect of hedging against fluctuations in exchange rates of foreign investments	-	-	-	-	-	-	-	244,304	-	-	244,304
Net income for the year ended December 31, 2004	-	-	-	-	-	15,385,736	-	-	-	-	15,385,736
Ending Balance - December 31, 2004	\$ 57,798,995	\$ 2,500,000	\$ 28,774,389	\$ 1,429,334	\$ 141,362	\$ 14,874,762	\$ (943,028)	\$ (2,040,140)	\$ (1,663,306)	\$ -	\$ 100,872,368

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

CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2004 and 2003
(Expressed in Thousands of New Taiwan Dollars)

	<u>Year Ended</u> <u>December 31, 2004</u>	<u>Year Ended</u> <u>December 31, 2003</u>
Cash flows from operating activities:		
Net income	\$ 15,385,736	\$ 7,716,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on investments recognized under the equity method over cash dividends received	(8,713,668)	(5,021,821)
Amortization	66,873	67,026
Provision for (reversal of) allowance for market value decline in short-term investments	(297,779)	297,779
Changes in operating assets and liabilities:		
Short-term investments	3,020,692	(3,020,692)
Receivables	(68,113)	(137,180)
Other financial assets—current	(2,100,000)	-
Other current asset	(7,037)	(384)
Other financial assets—non-current	27,673	115,336
Deferred income tax	(153,573)	(117,542)
Payables	(37,059)	236,346
Forward exchange payable	332,146	39,995
Other current liabilities	7,679	10,400
Redemption premium accrued on convertible bonds payable and foreign exchange gain	21,737	267,991
Net cash provided by operating activities	<u>7,485,307</u>	<u>453,354</u>
Cash flows from investing activities:		
Increase in long-term equity investments	(11,327,588)	(18,802,273)
Decrease in long-term equity investments	-	20,182,512
Decrease in other assets	-	360
Net cash flow provided by (used in) investing activities	<u>(11,327,588)</u>	<u>1,380,599</u>
Cash flow from financing activities:		
Short-term borrowings	(100,000)	100,000
Issuance of commercial paper	349,959	649,910
Issuance of corporate bonds	2,000,000	19,000,000
Employee bonuses	(3,161)	(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 (purchase of) treasury stock—common stock	155,595	(319,197)
Purchase of treasury stock—preferred stock	(2,118,113)	(8,037,316)
Net cash provided by (used in) financing activities	<u>(6,482,948)</u>	<u>6,387,490</u>
Net increase(decrease) in cash and cash equivalents	<u>(10,325,229)</u>	<u>8,221,443</u>
Cash and cash equivalents, at beginning of the year	<u>17,372,167</u>	<u>9,150,724</u>
Cash and cash equivalents, at end of the year	<u>\$ 7,046,938</u>	<u>\$ 17,372,167</u>
Supplemental disclosures of cash flows information:		
Interest paid	<u>\$ 802,463</u>	<u>\$ 287,151</u>
Income tax paid	<u>\$ 16,939</u>	<u>\$ 7,277</u>
Investing and financing activities not affecting cash flows:		
Convertible Bonds transfer into common stocks	<u>\$ 62,521</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
DECEMBER 31, 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 December 31, 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 with maturity less than three months from investment date.

(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 sale of 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.

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

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 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 Agreements

If bills and bonds are sold under repurchase agreements in which beneficial interests and risks are not transferred within the transaction period, the transactions are treated as financing transactions. When such bills and bonds are sold, sales prices are recognized as "bills and bonds sold under repurchase agreements." The difference between the sales price and repurchase price is recognized as interest expense.

(e) Convertible Bonds

Due to the inseparability of the conversion option and debt elements convertible bonds are stated at the total issue prices on issuance day.

The direct and necessary costs of issuing convertible bonds are recognized as deferred expenses and amortized using the straight-line method over the term of the bonds or over the period from issuance date to expiry date of the put option, whichever is shorter. If repayment occurs prior to maturity, the remaining unamortized deferred expenses are recognized as current expenses 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 the liability and interest expense 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 unamortized issue costs, redemption premium, and par value of the convertible bonds are converted into the common stock exchange certificates or the capital stocks in the amount of par value, while the excess amount were recorded into capital surplus.

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

(f) Income Taxes

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). Accordingly, the income tax effects from taxable temporary differences are recognized as deferred tax liability, while those deductible temporary differences, prior years’ loss carry forward 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. Adjustments to prior year’s income tax expenses are charged against current income tax expense. Investment tax credits are recognized currently. Income taxes separately levied on interest revenue from short-term bills are reported as 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 disposal, the excess of selling price over book value is recorded as “capital surplus-treasury stock transaction.” If the selling price is lower than book value, the difference is charged against capital surplus from treasury stock, and any deficit is debited against retained earnings. The book value of purchased treasury stock is separately calculated using the weighted-average method.

Upon retirement, the “capital surplus—paid-in capital in excess of par” 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 of treasury stock is lower than the total of capital stock and premium on stock issuance, the difference is credited to “capital surplus-treasury stock.”

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 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.

The exchange difference of foreign currency-denominated assets and liabilities hedging against the fluctuation in exchange rates of net investments of overseas subsidiaries were reflected as cumulated translation adjustments under stockholders' equity.

(j) Financial Derivatives

Memo entries of notional principals are made on the contract date for cross-currency swaps. Forward accounts receivables are offset against payables on the balance sheet date, with the difference reflected either as an asset or a liability. For non-trading swaps, interest is accrued based on contract terms and principal repayment period, with interest revenue and expense recognized in the same period that the hedged items affect earnings.

Memorandum entries of notional principals are made on the contract date for foreign currency swaps. On the balance sheet date, forward accounts receivables are offset against payables, with the 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.

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

Because there is no physical transfer of principal, only memo entries of notional principals are made for interest rate swaps. For non-trading swaps, interest is accrued based on contract terms with interest revenue and expense recognized in the same period that the hedged items affect earnings.

3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES: NONE.

4. SUMMARY OF MAJOR ACCOUNTS

(a) CASH AND CASH EQUIVALENTS

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Savings account	\$ 54,167	\$ 10,679,537
Time deposits	-	612,113
Negotiable certificates of deposits	2,910,056	2,050,351
Cash equivalents	4,082,715	4,030,166
Total	<u>\$ 7,046,938</u>	<u>\$ 17,372,167</u>

(b) SHORT-TERM INVESTMENTS

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	<u>Book Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Market Value</u>
Government bonds	\$ -	<u>\$ -</u>	\$ 3,020,692	<u>\$ 2,722,913</u>
Less: Allowance for market value decline	-		(297,779)	
Total	<u>\$ -</u>		<u>\$ 2,722,913</u>	

(c) RECEIVABLES

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Tax refund receivable	\$ 4,746	\$ 11,926
Interest receivable	141,918	161,077
Other receivable	131,642	37,190
Total	<u>\$ 278,306</u>	<u>\$ 210,193</u>

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

(d) LONG-TERM EQUITY INVESTMENTS

<u>Accounted for under the cost method</u>	December 31, 2004		December 31, 2003	
	(%)	Book Value	(%)	Book Value
Taipei Financial Center Corp.	3.06%	\$ 450,000	-	\$ -

<u>Accounted for under the equity method</u>		December 31, 2004			
		Amount	Direct Shareholding Ratio (%)	Original Investment	Long-Term Equity Investments Income
Chinatrust Commercial Bank Co., Ltd.	Common stock 5,026,401 thousand shares	\$ 81,403,184	100.00	\$ 62,912,357	\$ 13,402,521
	Preferred stock 250,000 thousand shares	10,000,000	100.00	10,000,000	612,000
Chinatrust Insurance Brokers Corp., Ltd.	Common stock 139,679 thousand shares	2,874,335	100.00	186,279	1,317,785
Chinatrust Securities Corp., Ltd.	Common stock 498,288 thousand shares	5,378,635	99.66	5,619,196	19,645
Chinatrust Venture Capital Corp.	Common stock 200,000 thousand shares	2,007,972	100.00	2,000,000	23,109
Chinatrust Asset Management Company	Common stock 2,000,000 thousand shares	19,696,307	100.00	20,000,000	153,148
Chinatrust Bills Finance Corp.,Ltd	Common stock 408,000 thousand shares	6,042,839	100.00	5,877,588	613,328
		<u>\$ 127,403,272</u>		<u>\$ 106,595,420</u>	<u>\$ 16,141,536</u>

<u>Accounted for under the equity method</u>		December 31, 2003			
		Amount	Direct Shareholding Ratio (%)	Original Investment	Long-Term Equity Investments Income (Loss)
Chinatrust Commercial Bank Co., Ltd.	Common stock 5,065,969 thousand shares	\$ 73,823,305	100.00	\$ 62,912,357	\$ 6,565,528
	Preferred stock 250,000 thousand shares	10,000,000	100.00	10,000,000	612,000
Chinatrust Insurance Brokers Corp., Ltd	Common stock 38,660 thousand shares	1,556,550	100.00	186,279	1,123,565
Chinatrust Securities Corp., Ltd.	Common stock 498,288 thousand shares	5,476,310	99.66	5,619,196	250,183
Chinatrust Venture Capital Corp.	Common stock 200,000 thousand shares	2,021,485	100.00	2,000,000	23,517
Chinatrust Asset Management Company	Common stock 1,500,000 thousand shares	14,970,899	100.00	15,000,000	(25,912)
Grand Commercial Bank, Ltd.	Common stock 0 thousand shares	-	-	-	(151,803)
		<u>\$ 107,848,549</u>		<u>\$ 95,717,832</u>	<u>\$ 8,397,078</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. in March, 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.

In November 2004, the Company invested in Taipei Financial Center Corp., which engages mainly in developing, sale and rent out building.

(e) SHORT-TERM BORROWINGS

<u>Nature</u>	<u>Ending balance</u>	<u>Period</u>	<u>Interest rate</u>	<u>Collateral</u>
December 31, 2003				
Mortgage loan	<u>\$ 100,000</u>	2003.12.31-2004.1.2	1.30%	Government bonds

(f) COMMERCIAL PAPER PAYABLE

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	<u>Interest rate</u>	<u>Amount</u>	<u>Interest rate</u>	<u>Amount</u>
Commercial paper payable	0.66-1.05%	\$ 1,000,000	1.025-1.15%	\$ 650,000
Less: Unamortized discount		(131)		(90)
Total		<u>\$ 999,869</u>		<u>\$ 649,910</u>

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

(g) BONDS PAYABLE

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Oversea convertible bonds	\$ 14,084,512	\$ 14,451,033
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	11,000,000
First issue of unsecured subordinated bonds in 2004	2,000,000	-
Total	<u>\$ 35,084,512</u>	<u>\$ 33,451,033</u>

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

(All currencies in thousands)

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Original issue size (USD400,000)	\$ 13,452,400	\$ 13,452,400
Accumulated converted amount (USD1,750 and USD0 for the year ended December 31, 2004 and 2003)	(58,854)	-
Redemption premium payable (USD43,036 and USD25,306 for the year ended December 31, 2004 and 2003)	1,373,566	859,833
Unrealized exchange (loss) gain	(682,600)	138,800
Ending balance	<u>\$ 14,084,512</u>	<u>\$ 14,451,033</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.

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

(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)

(viii) Conversion price and adjustment:

The initial conversion price is \$37.16 New Taiwan Dollars 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 New Taiwan 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 may redeem all rather than part of the bonds.

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

- (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 may 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 may redeem all rather than part of the bonds.

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.

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

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
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.

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

(h) STOCK OPTION PLAN

On September 4, 2001, the ROC SFB approved the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd., issued the employee stock options of 100,000 units. Each unit of stock options was endowed with the right to acquire 1,000 common shares of the Chinatrust Commercial Bank Co., Ltd., and the exercise price equal to the closing price on the issuance date of 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 cannot 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 acquire the Bank's shares at \$21.1 New Taiwan 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 acquire 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 New Taiwan Dollars per share.

The changes in stock option plan were as follows:

	<u>Year ended December 31, 2004</u>
Beginning current outstanding units	\$ 65,000
Current grants	-
Current exercise	(47,852)
Current expired	(17,148)
Options outstanding, end of the period	<u><u>\$ -</u></u>

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

(i) INCOME TAXES

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

	<u>December 31, 2004</u>	<u>Decmeber 31, 2003</u>
Temporary differences:		
Taxable temporary difference due to unrealised exchange gain	\$ (108,636)	\$ (113,124)
Deductible temporary difference due to issue costs deferred of convertible bonds	4,119	-
Deductible temporary difference due to recognition of organization costs	12,004	-
Deductible temporary difference due to recognition of redemption premium payable from convertible bonds	1,465,625	871,944
Taxable temporary difference due to cumulative translation adjustments	(325,738)	-
Deferred tax assets-non-current	\$ 368,949	\$ 217,986
Deferred tax liabilities-non-current	(81,435)	-
Deferred tax assets-non-current	<u>\$ 287,514</u>	<u>\$ 217,986</u>
Deferred tax assets-current	\$ 1,489	\$ -
Deferred tax liabilities-current	(27,159)	(28,281)
Deferred tax assets-current	<u>\$ (25,670)</u>	<u>\$ (28,281)</u>
	<u>Year ended December 31</u>	
	<u>2004</u>	<u>2003</u>
Current income tax payable	\$ -	\$ -
Add (less): Tax effects of temporary differences		
Net unrealized foreign exchange gain (loss)	(1,122)	30,350
Redemption premium payable from convertible bonds	(148,420)	(147,892)
Deferred amount of convertible bonds issued cost	202	-
Deferred amount of organization costs	1,286	-
Adjustment to prior year's deferred tax assets	(5,519)	-
Under-accrual of prior years income tax	5,545	-
Income tax separately levied	16,939	7,277
Income tax benefit resulting from loss carry forward	(131,642)	(37,190)
Income tax benefit	<u>\$ (262,731)</u>	<u>\$ (147,455)</u>

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

As of December 31, 2004, the company's receivable from affiliates due to consolidated corporate income tax return amounted to 131,642, which was recognized as other receivable.

As of December 31, 2004, balance of stockholders' imputation credit account amounted to \$759,635. Estimated deductible ratio of 2004 earnings distributed is 4.86%. Actual deductible ratio of 2003 earnings distributed is 23.76% for cash dividends.

(j) STOCKHOLDERS' EQUITY

(i) Capital Stock

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

In August 2000, the Company's subsidiary, Chinatrust Commercial Bank Co., Ltd. issued preferred shares at \$40 New Taiwan 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 New Taiwan Dollars and 407,501 thousand shares of common stock with par value of \$10 New Taiwan Dollars to acquire full ownership of Grand Commercial Bank. Following the stock conversion, Grand Commercial Bank became a wholly owned subsidiary of the Company. In April 2004, all the Series B preferred stocks have been redeemed and retired.

For the year ended December 31, 2004, convertible bonds converted into common stock totaled 1,896 thousand shares with the excess amount recorded as capital surplus (including convertible bond issue costs) amounting to \$43,257.

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 amounting to \$3,213,715. The capital increase has finished the registration changes to the Ministry of Economic Affairs and the record date was August 31, 2004.

As of October 11, 2004, the Company cancelled 39,568 thousand shares of the treasury shares, please relate to Note 4(k).

As of December 31, 2004, the Company's authorized capital was \$100,000,000, paid-in capital on common stock was \$57,798,995, and on preferred stock was \$2,500,000.

(ii) Capital Surplus

Information regarding capital surplus was as follows:

	December 31, 2004	December 31, 2003
Additional paid-in capital—common stock	\$ 21,268,594	\$ 24,584,548
Additional paid-in capital—preferred stock	7,500,000	7,500,000
Assets revaluation appreciation—subsidiary	5,795	5,235
Total	\$ 28,774,389	\$ 32,089,783

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 the Company Law. Furthermore, according to Article 8 of Securities and Exchange Law Implementation Rules, 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 the 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 the 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.

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

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.

As of December 31, 2004, the undistributed earnings of \$753,523 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

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 New Taiwan 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.

Distributions of employee bonuses and actual earnings as discussed above are subject to resolutions by the board of directors. If new shares are issued for employee bonuses, 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:

	Amount
Employee bonuses-cash	\$ 3,161
Remuneration to directors and supervisors	252,878
	\$ 256,039

If the above employee bonuses and remuneration to directors and supervisors were regarded as expenses, which belong to the earnings of the year, then the basic earnings per share (after tax) for 2003 would be \$1.37 New Taiwan Dollars, and the basic earnings per share (after tax) after retroactive adjustment would be \$1.29 New Taiwan Dollars.

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

Distribution of employee bonuses and remuneration to directors and supervisors for 2004 was still need to be waited for the board of directors' proposal and the resolution approved by the shareholders' meeting. The relative information can be inquired on market observation post system and other sites after holding the related meetings.

(k) TREASURY 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 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	-	(87,420)	-
Total	200,909	-	(136,230)	64,679

- (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 \$33,766,595 with September 30, 2004 as the measurement date.
- (iii) For the year ended December 31, 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.
- (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 company has finished the registration changes to the Ministry of Economic Affairs.
- (vi) On December 31, 2004, the Company's common stocks have a market price of \$37.90 New Taiwan Dollars per share.

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

(I) EARNINGS PER SHARE

For the year ended December 31, 2004 and 2003, basic and diluted earnings per share were the following:

	Year Ended	
	December 31, 2004	
	Before Tax	After Tax
Basic EPS		
Net income	\$ 15,123,005	\$ 15,385,736
Preferred stock dividends	(612,000)	(612,000)
Net income available to common shareholders	14,511,005	14,773,736
Weighted-average shares of common stocks outstanding (in thousands)	5,687,577	5,687,577
Basic EPS	\$ 2.55	\$ 2.60
Diluted EPS		
Net income	\$ 15,123,005	\$ 15,385,736
Preferred stock dividends	(612,000)	(612,000)
Influence on potentially dilutive shares:		
Convertible bonds	596,033	447,025
Net income used to calculate diluted EPS	\$ 15,107,038	\$ 15,220,761
Weighted-average shares of common stocks outstanding (in thousands)	5,687,577	5,687,577
Influence on potentially dilutive shares:		
Stock options	11,239	11,239
Convertible bonds	454,432	454,432
Weighted-average shares of common stocks outstanding used to calculate diluted EPS (in thousands)	6,153,248	6,153,248
Diluted EPS	\$ 2.46	\$ 2.47

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

	Year Ended December 31, 2003	
	Before Tax	After Tax
Basic EPS		
Net income	\$ 7,568,645	\$ 7,716,100
Preferred stock dividends	(624,179)	(624,179)
Net income available to common shareholders	6,944,466	7,091,921
Weighted-average shares of common stocks outstanding (in thousands)	4,984,065	4,984,065
Weighted-average shares of common stocks outstanding —retroactively adjusted(in thousands)	5,281,123	5,281,123
Basic EPS	\$ 1.39	\$ 1.42
Basic EPS—retroactively adjusted	\$ 1.31	\$ 1.34
Diluted EPS		
Net income	\$ 7,568,645	\$ 7,716,100
Preferred stock dividends	(624,179)	(624,179)
Influence on potentially dilutive shares:		
Convertible bonds	591,569	443,677
Net income used to calculate diluted EPS	\$ 7,536,035	\$ 7,535,598
Weighted-average shares of common stocks outstanding (in thousands)	4,984,065	4,984,065
Influence on potentially dilutive shares:		
Stock options	26,889	26,889
Convertible bonds	416,883	416,883
Weighted-average shares of common stocks outstanding used to calculate diluted EPS (in thousands)	5,427,837	5,427,837
Weighted-average shares of common stocks outstanding —retroactively adjusted (in thousands)	5,281,123	5,281,123
Influence on potentially dilutive shares:		
Stock options—retroactively adjusted	31,317	31,317
Convertible bonds—retroactively adjusted	455,381	455,381
Weighted-average shares of common stocks outstanding used to calculate diluted EPS—retroactively adjusted (in thousands)	5,767,821	5,767,821
Diluted EPS	\$ 1.39	\$ 1.39
Diluted EPS—retroactively adjusted	\$ 1.31	\$ 1.31

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

(m) 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 year ended December 31, 2004 and 2003, the Company held the following financial derivatives:

(1) Contract Amount or Notional Principle and Credit Risk

December 31, 2004		
Financial Instrument	Contract Amount (notional principle)	Credit Risk
Non-trading		
Cross currency swaps	\$ 6,522,239	\$ 3,145
Interest rate swaps	9,000,000	\$ 24,166
December 31, 2003		
Financial Instrument	Contract Amount (notional principle)	Credit Risk
Non-trading		
Foreign currency swaps	\$ 4,587,030	\$ -
Cross currency swaps	6,472,809	-
Interest rate swaps	7,000,000	80,256

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 foreign 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 swaps 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

Financial Assets	December 31, 2004	
	Book value	Fair value
Non-trading		
Cross currency swaps	\$ (354,744)	(367,001)
Interest rate swaps	27,230	(236,316)
Financial Assets	December 31, 2003	
	Book value	Fair value
Non-trading		
Foreign currency swaps	\$ (50,395)	\$ (48,217)
Cross currency swaps	49,679	(89,950)
Interest rate swaps	30,195	(19,322)

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

<u>Non-Derivative Financial Instruments</u>	<u>December 31, 2004</u>	
	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets:		
Book value equal to fair value	\$ 9,294,630	\$ 9,294,630
Long-term equity investments	127,853,272	127,945,060
Total	\$ 137,147,902	\$ 137,239,690
Financial Liabilities:		
Book value equal to fair value	\$ 1,149,319	\$ 1,149,319
Long-term debt	35,084,512	35,084,512
Total	\$ 36,233,831	\$ 36,233,831
 <u>December 31, 2003</u>		
<u>Non-Derivative Financial Instruments</u>	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets:		
Book value equal to fair value	\$ 20,180,394	\$ 20,180,394
Long-term equity investments	107,848,549	107,848,549
Total	\$ 128,028,943	\$ 128,028,943
Financial Liabilities:		
Book value equal to fair value	\$ 949,817	\$ 949,817
Long-term debt	33,451,033	33,451,033
Total	\$ 34,400,850	\$ 34,400,850

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 value.

**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 Finance 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	Year Ended December 31, 2004				
	Maximum Balance	Date of Maximum Balance	Ending Balance	Interest rate	Interest Revenue
Chinatrust Commercial Bank Co., Ltd.	<u>\$ 15,648,515</u>	January 2, 2004	<u>\$ 5,007,358</u>	0.10~1.74%	<u>\$ 51,117</u>

Name of Related parties	Year Ended December 31, 2003				
	Maximum Balance	Date of Maximum Balance	Ending Balance	Interest rate	Interest Revenue
Chinatrust Commercial Bank Co., Ltd.	<u>\$ 13,114,956</u>	December 31, 2003	<u>\$ 13,114,956</u>	0.10~1.45%	<u>\$ 39,473</u>

The interest rate of deposits in related parties are the same as those with other parties.

(ii) As of December 31, 2004, the Company entered into cross currency swaps transactions amounted to USD 54,350; as of December 31, 2003, foreign currency swaps and cross currency swaps transactions amounted to USD 100,000 and USD 40,500, respectively, reflected as forward exchange contract payable.

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

- (iii) In order to enhance cross-selling efforts, increase overall revenue and profit margin and promote integration among all subsidiaries, the Company 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 Finance 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).

- (iv) In December 2003, the Company transfers Grand Commercial Bank Co., Ltd. to Chinatrust Commercial Bank Co., Ltd. upon the basis of the original purchased cost by cash. 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>
Grand Commercial Bank Co., Ltd	1,604,333	100.00%	\$20,182,512	\$ (151,803) (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).

- (v) For the year ended December 31, 2004, rent and refundable deposits paid to Chinatrust Commercial Bank Co., Ltd. amounted to \$3,236 and \$882, respectively.
- (vi) For the year ended December 31, 2004 and 2003, the Company paid to Chinatrust Securities Corp., Ltd. property consulting fees amounted to \$1,000 and \$35,500, respectively.
- (vii) For the year ended December 31, 2004 the Company paid to Chinatrust Commercial Bank Co., Ltd. for stock agency and bonds issued, securities maintained fees and information fees amounted to \$43,930, \$4,431 and \$123, respectively.

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

6. PLEDGED ASSETS

<u>Asset</u>	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Central government bonds 92-4 (short-term investment)	\$ -	\$ 1,650,000
Central government bonds 92-7 (short-term investment)	-	700,000
Negotiable certificates of deposits (other financial assets-current)	2,100,000	-

As of December 31, 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 year ended December 31, 2004 and 2003 the Company issued promissory notes totaling \$3,200,000 and \$4,400,000, respectively, as collateral for short-term borrowings and commercial paper issued.

8. SIGNIFICANT CATASTROPHIC LOSSES: NONE.

9. SIGNIFICANT SUBSEQUENT EVENTS: NONE.

10. OTHER

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

<u>Nature</u>	<u>Year Ended December 31, 2004 Operating Expense</u>	<u>Year Ended December 31, 2003 Operating Expense</u>
Personnel Expense		
Salary Expense	\$ 4,680	\$ 4,680
Amortization Expense	66,873	67,026