

**CHINATRUST FINANCIAL HOLDING COMPANY, LTD.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
AND
INDEPENDENT AUDITORS' REPORT**

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CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Chinatrust Financial Holding Company, Ltd. and subsidiaries as of June 30, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months ended June 30, 2004 and 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chinatrust Financial Holding Company, Ltd. and subsidiaries as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the six months ended June 30, 2004, and 2003, in conformity with generally accepted accounting principles of the Republic of China.

As described in Note 3, effective January 1, 2004, the Company's subsidiaries, Chinatrust Commercial Bank, Ltd. and Chinatrust Bills Finance Corp. adopted SFAS No. 33 "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities" to account for bills and bonds sold under repurchase agreements in which control is not surrendered as financing transactions instead of as sale transactions.

Taipei, Taiwan, ROC
August 20, 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. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2004 AND 2003
(Expressed in Thousands of New Taiwan Dollars)

	June 30, 2004		June 30, 2003	
	Amount	%	Amount	%
ASSETS				
Cash and cash equivalents (Notes 2 and 4(a))	\$ 26,812,209	2	\$ 16,218,512	2
Due from Central Bank and call loans to banks (Notes 4(b))	63,046,869	4	58,658,357	6
Bills and securities purchased (Notes 2, 4(c) and 6)	283,364,110	20	131,752,600	14
Less: Allowance for market value decline	(1,321,983)	-	(885,007)	-
	<u>282,042,127</u>	<u>20</u>	<u>130,867,593</u>	<u>14</u>
Receivables (Notes 2 and 4(d))	142,052,761	10	89,780,689	9
Less: Allowance for credit losses	(2,452,621)	-	(2,313,050)	-
	<u>139,600,140</u>	<u>10</u>	<u>87,467,639</u>	<u>9</u>
Loans (Notes 2, 4(e), and 5)	742,318,625	53	608,105,106	63
Less: Allowance for loan losses	(8,635,880)	(1)	(9,695,463)	(1)
	<u>733,682,745</u>	<u>52</u>	<u>598,409,643</u>	<u>62</u>
Long-term investments (Notes 2, 4(f) and 6)				
Accounted for under the equity method	2,052,933	-	148,141	-
Accounted for under the cost method	14,700,442	1	4,778,426	-
Less: Allowance for market value decline	(1,061,757)	-	(1,252,112)	-
Long-term bond investments	69,693,443	5	26,086,203	3
Real estate investments	1,400	-	8,102	-
	<u>85,386,461</u>	<u>6</u>	<u>29,768,760</u>	<u>3</u>
Other financial assets (Notes 2, 4(g) and 6)	<u>24,545,175</u>	<u>2</u>	<u>14,161,012</u>	<u>1</u>
Premises and equipment (Notes 2, 4(h) and 6)				
Land and buildings, net	29,386,191	3	24,472,051	2
Equipment and other properties, net	5,122,213	-	3,804,401	-
	<u>34,508,404</u>	<u>3</u>	<u>28,276,452</u>	<u>2</u>
Intangible assets (Note 2)	4,155,913	-	-	-
Other assets (Note 2, 4(i), 4(p) and 6)	11,852,639	1	9,074,851	1
TOTAL ASSETS	<u>\$ 1,405,632,682</u>	<u>100</u>	<u>\$ 972,902,819</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities				
Bills and bonds sold under repurchase agreements (Notes 2)	\$ 115,993,037	8	\$ 1,762,854	-
Due to Central Bank and other banks	92,846,581	7	50,834,533	5
Payables (Note 4(j))	43,180,838	3	27,365,412	3
Deposits and remittances (Notes 4(k) and 5)	967,365,573	69	753,386,079	78
Corporate bonds and financial debentures (Notes 2 and 4(l))	61,424,848	4	33,417,174	3
Financing from Central Bank and others (Note 4(m))	14,470,114	1	12,125,593	1
Other liabilities	16,540,891	1	12,376,141	1
Total liabilities	<u>1,311,821,882</u>	<u>93</u>	<u>891,267,786</u>	<u>91</u>
Minority interest	53,399	-	54,114	-
Stockholders' equity				
Capital stock				
Common stock (Note 4(r))	54,972,422	4	46,054,268	5
Preferred stock (Note 4(r))	2,500,000	-	2,500,000	-
Common stock to be converted (Note 4(r))	3,213,715	-	4,832,725	-
Capital surplus (Note 4(r))	<u>28,901,350</u>	<u>2</u>	<u>26,136,764</u>	<u>3</u>
Retained earnings (Note 4(r))				
Legal reserve	1,429,334	-	657,724	-
Special reserve	141,362	-	110,852	-
Undistributed retained earnings	7,961,555	1	7,665,484	1
Other adjustments to stockholders' equity:				
Unrealized losses on long-term equity investments	(1,061,757)	-	(1,252,114)	-
Cumulative translation adjustments	(1,105,752)	-	(488,961)	-
Treasury stock-common stock (Notes 2 and 4(s))	(3,194,828)	-	(4,635,823)	-
Total Stockholders' Equity	<u>93,757,401</u>	<u>7</u>	<u>81,580,919</u>	<u>9</u>
Commitments and Contingencies (Notes 2 and 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 1,405,632,682</u>	<u>100</u>	<u>\$ 972,902,819</u>	<u>100</u>

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

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(Expressed in Thousands of New Taiwan Dollars, Except for EPS)

	Six Months Ended June 30, 2004		Six Months Ended June 30, 2003	
	Amount	%	Amount	%
Operating Revenues:				
Interest income	\$ 23,461,015	64	\$ 21,943,119	70
Commissions and fees income	9,468,623	26	5,876,325	19
Net gains on bills and securities purchased	-	-	2,761,765	9
Investment income accounted for under the equity method, net (Notes 4(f))	147,739	-	-	-
Net gains on foreign exchange	717,591	2	-	-
Net gains on derivative instruments	2,160,344	6	757,279	2
Other operating revenues	581,579	2	147,293	-
Total Operating Revenues	36,536,891	100	31,485,781	100
Operating Costs:				
Interest expense	(6,654,857)	(18)	(6,273,745)	(20)
Commissions and fees paid	(293,454)	(1)	(432,761)	(1)
Net losses on bills and securities purchased	(81,661)	-	-	-
Investment losses accounted for under the equity method, net (Notes 4(f))	-	-	(173)	-
Provisions for allowances and reserves	(4,663,796)	(13)	(3,677,022)	(12)
Net losses on foreign exchange	-	-	(127,258)	-
Other operating costs	(5,247)	-	(8,088)	-
Total Operating Costs	(11,699,015)	(32)	(10,519,047)	(33)
Gross Margin	24,837,876	68	20,966,734	67
Operating Expenses	(14,011,400)	(38)	(10,745,133)	(34)
Operating Taxes	(603,439)	(2)	(509,825)	(2)
Operating Income	10,223,037	28	9,711,776	31
Non-Operating Revenues	554,972	-	11,294	-
Non-Operating Expenses	(194,470)	-	(78,194)	-
Income Before Income Tax	10,583,539	28	9,644,876	31
Income Tax Expense (Notes 2 and 4(p))	(2,608,043)	(7)	(2,233,550)	(7)
Less: Minority interest income	(2,137)	-	(3,078)	-
Consolidated Net Income	\$ 7,973,359	21	\$ 7,408,248	24
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Basic EPS (Notes 2 and 4(t))	\$ 1.92	\$ 1.43	\$ 2.13	\$ 1.62
Basic EPS - retroactively adjusted	\$ -	\$ -	\$ 1.92	\$ 1.46
Diluted EPS (Notes 2 and 4(t))	\$ 1.83	\$ 1.37	\$ 2.02	\$ 1.53
Diluted EPS - retroactively adjusted	\$ -	\$ -	\$ 1.81	\$ 1.38

Pro forma data assuming Company shares held by subsidiaries not considered as treasury stock:

Consolidated Net Income	\$ 7,973,359		\$ 7,408,248	
	Bofore	After	Before	After
	income tax	income tax	income tax	income tax
Basic EPS	\$ 1.87	\$ 1.40	\$ 2.03	\$ 1.55
Diluted EPS	\$ 1.79	\$ 1.33	\$ 1.93	\$ 1.47

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

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(Expressed in Thousands of New Taiwan Dollars)

	Capital stock				Retained earnings			Other adjustments to stockholders' equity		Treasury stock-common stock	Treasury stock-preferred stock	Total
	Common stock	Preferred stock	Common stock to be converted	Capital surplus	Legal reserve	Special reserve	Undistributed retained earnings	Unrealized losses on long-term equity investments	Cumulative translation adjustments			
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)	-	-	-	-	-	-	-	-
Recognition of capital surplus of subsidiaries	-	-	-	(371,873)	-	-	-	-	-	-	-	(371,873)
Recognition of translation adjustment of subsidiaries	-	-	-	-	-	-	-	-	116,003	-	-	116,003
Recognition of unrealized loss on long-term equity investments	-	-	-	-	-	-	-	18,074	-	-	-	18,074
Recognition of undistributed retained earnings of subsidiaries	-	-	-	-	-	-	(104,933)	-	-	-	-	(104,933)
Recognition of treasury stock of subsidiaries	-	-	-	-	-	-	-	-	-	376,140	-	376,140
Decrease in undistributed retained earnings due to non-subscription of newly issued investee shares according to ownership	-	-	-	-	-	-	(1,251)	-	-	-	-	(1,251)
Net income for the six months ended June 30, 2003	-	-	-	-	-	-	7,408,248	-	-	-	-	7,408,248
Ending Balance - June 30, 2003	\$ 46,054,268	\$ 2,500,000	\$ 4,832,725	\$ 26,136,764	\$ 657,724	\$ 110,852	\$ 7,665,484	\$ (1,252,114)	\$ (488,961)	\$ (4,635,823)	\$ -	\$ 81,580,919
Beginning Balance - January 1, 2004	\$ 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	10,422	-	-	25,023	-	-	-	-	-	-	-	35,445
Recognition of capital surplus of subsidiaries	-	-	-	259	-	-	-	-	-	-	-	259
Recognition of translation adjustment of subsidiaries	-	-	-	-	-	-	-	-	(286,387)	-	-	(286,387)
Recognition of unrealized loss on long-term equity investments	-	-	-	-	-	-	-	(91,149)	-	-	-	(91,149)
Recognition of undistributed retained earnings of subsidiaries	-	-	-	-	-	-	(127,009)	-	-	-	-	(127,009)
Recognition of treasury stock of subsidiaries	-	-	-	-	-	-	-	-	-	1,036,240	-	1,036,240
Disposal of treasury stock	-	-	-	-	-	-	(58,895)	-	-	214,490	-	155,595
Redemption of treasury stock	-	-	-	-	-	-	-	-	-	-	(2,118,113)	(2,118,113)
Retired of treasury stock-preferred stock	-	(10,155,429)	-	-	-	-	-	-	-	-	10,155,429	-
Net income for the six months ended June 30, 2004	-	-	-	-	-	-	7,973,359	-	-	-	-	7,973,359
Ending Balance - June 30, 2004	\$ 54,972,422	\$ 2,500,000	\$ 3,213,715	\$ 28,901,350	\$ 1,429,334	\$ 141,362	\$ 7,961,555	\$ (1,061,757)	\$ (1,105,752)	\$ (3,194,828)	\$ -	\$ 93,757,401

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

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(Expressed in Thousands of New Taiwan Dollars)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Cash flows from operating activities:		
Consolidated net income	\$ 7,973,359	\$ 7,408,248
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Minority interest income	2,137	3,078
Depreciation and amortization	1,765,114	1,043,256
Investment (income) loss accounted for under the equity method	(147,739)	173
Cash dividends received from subsidiaries accounted for under the equity method	171,598	-
Amortization of bonds premium	41,976	1,476
Gains on dispositions of long-term investments	(51,547)	-
Losses on dispositions of premises, equipment and foreclosed properties	354,254	91,402
Losses on scrapping of premises and equipment	29,411	7,814
Provision for loan losses	5,862,819	4,445,072
Provision for (reversal of) unrealized losses in bills and securities purchased	260,582	(22,510)
Provision for (reversal of) guarantee reserve	47,545	(36,053)
Provision for (reversal of) securities trading losses reserve	(3,527)	139,948
Provision for (reversal of) unrealized losses on foreclosed properties	(257,769)	16,841
Foreign exchange losses (gains)	(586,805)	129,040
Others	(101,270)	7,411
Net change in:		
Redemption premium on convertible bonds and exchange gain or loss	209,486	234,132
Receivables	800,014	113,046
Bills and securities purchased	(147,995,579)	(33,034,337)
Payables	(1,347,169)	1,124,976
Trading derivative instruments, net	551,726	561,931
Net cash used in operating activities	<u>(132,421,384)</u>	<u>(17,765,056)</u>
Cash flows from investing activities:		
Net increase in loans	(57,407,127)	(11,069,238)
Purchase of long-term equity investments	(6,329,103)	(283,837)
Proceeds from disposition of long-term equity investments	1,274,134	-
Net increase in other financial assets	(4,964,904)	(2,397,482)
Increase in receivables	(19,667,060)	(3,077,571)
Proceeds from disposition of premises, equipment and foreclosed properties	830,970	3,924,160
Purchase of premises and equipment	(983,613)	(942,594)
Decrease (increase) in due from Central Bank (excluding cash equivalents)	3,319,490	(2,990,157)
Decrease in due from banks (excluding cash equivalents)	382,610	534,111
Increase in other assets	(226,790)	(390,809)
Non-trading derivative instruments, net	(40,239)	(181,453)
Net cash used in investing activities	<u>(83,811,632)</u>	<u>(16,874,870)</u>
Cash flows from financing activities:		
Increase (decrease) in bills and bonds sold under repurchase agreements	113,241,582	(75,665)
Issuance of corporate bonds	5,500,000	8,000,000
Increase (decrease) in due to Central Bank and other banks	15,951,749	(423,621)
Increase (decrease) in payables	8,648,550	(270,153)
Increase in deposits and remittances	39,849,191	21,007,173
Decrease in financing from Central Bank and others	(995,441)	(7,323,622)
Increase in other liabilities	3,434,088	3,370,384
Increase (decrease) in minority interest	(31)	376
Remuneration to directors and supervisors	-	(312,413)
Employee bonuses	(23,756)	(22,224)
Preferred stock redeemed	(2,118,113)	-
Disposal of treasury stock	1,064,825	277,225
Net cash provided by financing activities	<u>184,552,644</u>	<u>24,227,460</u>
Effect of exchange rate changes on cash and cash equivalents	<u>127,783</u>	<u>(110,799)</u>
Net decrease in cash and cash equivalents	<u>(31,552,589)</u>	<u>(10,523,265)</u>
Cash and cash equivalents, at beginning of the period	<u>78,346,315</u>	<u>57,677,081</u>
Cash and cash equivalents, at end of the period	<u>\$ 46,793,726</u>	<u>\$ 47,153,816</u>
Cash and cash equivalents (Note 2):		
Cash	\$ 26,812,209	\$ 16,218,513
Call loans to banks	3,250,012	12,082,291
Due from Central Bank	13,941,952	17,815,990
Bills and securities purchased (cash equivalents)	2,789,553	1,037,022
	<u>\$ 46,793,726</u>	<u>\$ 47,153,816</u>
Supplemental disclosures of cash flows information:		
Cash paid during the period for:		
Interest	\$ 6,465,946	\$ 5,821,805
Guaranteed interest on trust funds	\$ -	\$ 19,389
Income taxes	\$ 1,289,862	\$ 2,382,706
Investing and financing activities not affecting cash flows:		
Convertible corporate bonds payable converted to common stocks	\$ 35,672	\$ -
Employee Bonuses	\$ 6,698	\$ 156,726
Remuneration to directors and supervisors	\$ 257,924	\$ -
Cash dividends-Common stock	\$ 5,892,152	\$ 4,393,387
Cash dividends-Preferred stock	\$ 622,540	\$ 612,000

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

CHINATRUST FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

1. Basis of Presentation

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

The Company conducts business in the following areas:

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

As of June 30, 2004, the total number of Company employees was 25.

As of June 30, 2004, the total number of the employees of the Company and its subsidiaries was 8,833.

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

As of June 30, 2004, the issued capital of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. amounted to \$50,659,695 for common stock and \$2,500,000 for preferred stock. As of June 30, 2004, the Company acquired 100.00% equity ownership of this subsidiary whose primary business is commercial banking.

As of June 30, 2004, the issued capital of the subsidiary, Chinatrust Securities Corp., Ltd. amounted to \$5,000,000 representing 500,000 thousand common shares with par value of \$10 (in dollars) per share. As of June 30, 2004, the Company held 498,288 thousand shares or 99.66% equity ownership in this subsidiary, which is engaged primarily in the securities and futures business.

As of June 30, 2004, the issued capital of the subsidiary, Chinatrust Insurance Brokers Corp., Ltd. amounted to \$386,602 representing 38,660 thousand common shares with par value of \$10 (in dollars) per share. As of June 30, 2004, the Company held 38,660 thousand shares or 100.00% equity ownership in this subsidiary, which is engaged primarily in the property insurance and life insurance brokerage.

As of June 30, 2004, the issued capital of the subsidiary, Chinatrust Venture Capital Corp., Ltd. amounted to \$2,000,000 representing 200,000 thousand common shares with par value of \$10 (in dollars) per share. As of June 30, 2004, the Company held 200,000 thousand shares or 100.00% ownership in this subsidiary, which is engaged primarily in the venture capital business.

As of June 30, 2004, the issued capital of the subsidiary, Chinatrust Asset Management Corp., Ltd. amounted to \$20,000,000 representing 2,000,000 thousand common shares with par value of \$10 (in dollars) per share. As of June 30, 2004, the Company held 2,000,000 thousand shares or 100.00% equity ownership in this subsidiary, which is primarily engaged in the asset management business.

As of June 30, 2004, the issued capital of the subsidiary, Chinatrust Bills Finance Corp. amounted to \$4,080,000, representing 408,000 thousand common shares with par value of \$10 (in dollars) per share. As of June 30, 2004, the Company held 408,000 thousand shares or 100.00% equity ownership in this subsidiary. It is primarily engaged in proprietary trading, brokerage of short-term bills, underwriting, certification, guarantee and endorsement of commercial paper.

As of June 30, 2004, the issued capital of Chinatrust (Philippines) Commercial Bank Corporation, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to 1,875,000 thousand Philippine pesos representing 187,500 thousand common shares with par value of 10 Philippines pesos per share. As of June 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. held 186,386 thousand shares or 99.41% equity ownership in this Philippine bank, which is engaged primarily in commercial banking and financing business.

As of June 30, 2004, the issued capital of PT Bank Chinatrust Indonesia, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to Rupiah150,000,000 thousand, representing 1,500 common shares with par value of Rupiah100,000 thousand per share. As of June 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. held 1,485 shares or 99.00% equity ownership in this Indonesian bank, which is primarily engaged in commercial banking and financing business.

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

As of June 30, 2004, the issued capital of CTC Bank of Canada, a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to CAD15,000 thousand representing 1,500 thousand common shares with par value of CAD10 (in dollars) per share. As of June 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. held 1,500 thousand shares or 100.00% equity ownership in this Canadian bank, which is primarily engaged in commercial banking and financing business.

As of June 30, 2004, the issued capital of China Trust Holdings Corp., a subsidiary of Chinatrust Commercial Bank, Ltd. amounted to USD1,336 (in dollars) representing 1,336 common shares with par value of USD1 (in dollars) per share. As of June 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. held 1,336 shares or 100.00% equity ownership. It is primarily engaged in securities investment.

The Company's subsidiary, Chinatrust Commercial Bank, Ltd. invested in Chinatrust Bank (U.S.A.) through its holding company, China Trust Holdings Corp. As of June 30, 2004, the issued capital of this US bank amounted to USD500 thousand for preferred stock and USD100 thousand for common stock. As of June 30, 2004, the equity ownership by the Company's subsidiary, Chinatrust Commercial Bank, Ltd. was 100.00% in this US bank, which is primarily engaged in commercial banking and financing business.

The Company's subsidiary, Chinatrust Asset Management Corp., Ltd. invested in CT Opportunity Investment Company. As of June 30, 2004, the issued capital of this subsidiary amounted to USD16,951 (in dollars) representing 16,951 common shares with par value of USD1 (in dollars) per share. As of June 30, 2004, the Company's subsidiary, Chinatrust Asset Management Corp., Ltd. held 16,951 shares or 100% equity ownership in this company, which is primarily engaged in securities investment.

The Company's subsidiary, Chinatrust securities Corp., Ltd. invested in CTCB (Mauritius) Holding Company Ltd., and reinvested in Chinatrust securities (Hong Kong) Limited. As of June 30, 2004, the issued capital of this subsidiary amounted to USD111,127 (in dollars) representing 11,113 common shares with par value of USD1 (in dollars) per share. As of June 30, 2004, the Company's subsidiary, Chinatrust securities Corp., Ltd. held 11,113 shares or 100% equity ownership in this company, which is primarily engaged in securities business.

As of June 30, 2004, CTCB (Mauritius) Holding Company Ltd. was included in the consolidated entity. To facilitate comparison, the consolidated financial statements for the six months ended June 30, 2003 were restated.

Investee companies in which the Company and subsidiaries have more than 50% ownership have been consolidated except for those shown below:

Name of Investee Company	Primary business scope	Ownership	Reason for not consolidating
Chinatrust Securities Investment Consultancy Corp., Ltd.	Securities investment and consultancy services	99.40%	The total assets and total operating income of this investee company do not exceed 10% of the Company's respective accounts. Also, the

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

Name of Investee Company	Primary business scope	Ownership	Reason for not consolidating
			combined total assets and total operating income of this subsidiary and those of other investee companies do not exceed 30% of the Company's respective accounts.
Chinatrust Forex Corp.	Foreign exchange brokerage	All shares were held by the Chinatrust Commercial Bank, Ltd. and Chinatrust (Philippines) Commercial Bank Corporation	"
GCB Finance (HK) Limited.	Corporate loans	100.00%	"
Grand Life Insurance Agent Corp., Ltd.	Life insurance brokerage	99.62%	"
Grand General Insurance Agent Corp., Ltd.	General Insurance brokerage	99.62%	"

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) Cash and Cash Equivalents

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

(b) Accounts Receivable

For the Company's banking subsidiaries, consumer loans to credit card holders are reflected by the amounts reported by merchants, excluding unearned interest. Interest thereon is recognized on accrual basis using the interest method.

Credit card loan or accrued interest that is over 150 days past due is reclassified to non-accrual account. Interest collected thereafter is included in earnings only to the extent of

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

cash actually received.

The Company's banking subsidiaries engage in factoring and management of accounts receivable. The interest and transaction fee from factoring and management of such accounts are treated as current income. An allowance for credit losses is provided by reviewing the balance of accounts at period-end. Unpaid accounts receivables purchased from companies that sell receivables are accounted for under "payables."

(c) Loans

For the Company's subsidiary, Chinatrust Commercial Bank, Ltd., loans are carried at principal amounts outstanding, net of unearned income and amounts charged-off. Interest is recognized on accrual basis using the interest method. If either of the following conditions occurs, interest accrual is suspended and such loans are reclassified as non-accrual account:

- (i) Collection of principal or interest accrued is considered highly unlikely; or
- (ii) Principal or interest accrued is 180 days past due, or the underlying collateral received is insufficient to cover unpaid principal and accrued interest.

Interest collected thereafter is included in earnings only to the extent of cash actually received.

(d) Allowance for Credit Losses

For the Company's banking subsidiaries, Allowance for credit losses is a significant estimate regularly evaluated by management for adequacy and is established through a charge to provision for credit losses. This evaluation considers the quality of overall portfolio, which comprises of loans, accounts receivable, receivable-non-accrual account, outstanding guarantees, and review of specific delinquent claims. The risk of specific delinquent claims refers to the likelihood of default and is subject to review using internal risk ratings. The risk of overall claims is reviewed based on past experiences. Accounts receivable-non-accrual account deemed as uncollectible are written off upon approval of the board of directors.

(e) Bills and Securities Purchased

Under Article 74-1 of the Banking Law, bills and securities, either listed stocks or being traded OTC, are valued at the lower of total cost or market, a practice commonly adopted in the banking industry. In accordance with the regulations of the Securities & Futures Commissions ("SFC"), market values are determined by the average closing prices of the last month of the period. Government and corporate bonds are valued at the lower of total cost or market if market quotes are available; otherwise bonds are carried at face value and adjusted by the accumulated unamortized discount or premium. Financial debentures, banker's acceptances, commercial paper, treasury bills and negotiable certificates of time deposits purchased are carried at cost. Overseas debt securities are valued at the lower of total cost or market, and redeemable value is adopted if it is lower than market price.

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

Loss due to market value decline or gain on recovery in market value arising from valuation of bills and 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.

Bills and securities sold under repurchase agreements or restricted are disclosed.

For subsidiaries engaged in securities business, trading securities are carried at cost. Upon sale, cost is determined by the moving-average method. Stock dividends received due to capitalization of retained earnings or capital surplus of investees are not included in investment income, and only memo entries are made on the number of shares increased.

Trading securities are valued at the lower of cost or market except for Emerging Market securities which are carried at cost at the end of an accounting period. As stipulated by the Securities and Futures Commission (SFC), market prices refer to the closing prices at the end of an accounting period; i.e., closing prices at stock exchange for listed stocks, closing prices of the QreTai Securities Market at the end of an accounting period for listed stocks, and reference prices released by the QreTai Securities Market for government bonds.

Trading securities held for hedging are carried at cost and valued at the lower of cost or market at year-end. Upon sale, cost is obtained by the moving-average method. An allowance for market decline is provided when market value is lower than cost. When the market value recovers, recovery of allowance is limited to the original balance.

Upon sale, the cost of trading securities is calculated by the moving-average method.

(f) Long-Term 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 losses 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, losses on investment is recognized currently.

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

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

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.

Long-term fund investments for subsidiaries in the asset management business are recognized at acquisition costs. Considering the uncertainties arising from the collectibility of non-performing loans, based on prudence principal, investment gains and losses are recognized using cost recovery method.

Bond investments are classified as long-term bond investments if the Company intends to hold on to these investments until they mature. Such investments are reported on the financial statements at cost. The difference between the bond's face value and cost is amortized over the period when the bond is outstanding using the effective interest method. Upon disposal, the weighted-average method is adopted to calculate gain or loss.

Real estate investments are carried at cost. If the impairment in value is other than temporary such that the recovery of the carrying amount is unlikely, investment loss is recognized currently.

(g) Premises, Equipment, and Depreciation

Premises and equipment are stated at cost or cost plus incremental value from revaluation. The carrying value of land is adjusted using the Government Announced Price. Major additions, improvements, and replacements are capitalized, while maintenance and repairs are charged to current earnings. Interest incurred in the acquisition of premises and until they are ready for their intended use are capitalized as part of the acquisition costs. Pursuant to the regulations set forth by the Paraguay government, the Paraguay Branch revalues its assets monthly per the government announced revaluation ratio, effective from the second year of the branch's operation.

Depreciation is computed using the straight-line method over the government prescribed useful lives. Premises and equipment still in use after their original estimated useful lives may be depreciated continuously over their estimated remaining useful lives. Useful lives of major premises and equipment are as follows:

Buildings and premises	5 to 56 years
Transportation equipment	3 to 6 years
Miscellaneous equipment	3 to 10 years

(h) Amortization

Capitalized software expenses are amortized over a period of 5 to 10 years.

(i) Intangible Assets

Goodwill resulting from merger is amortized over 5 years using the straight-line method. If goodwill is impaired or its future economic benefit is deemed unlikely, the remaining unamortized balance is written down to its devalued amount and such write down is recognized as non-operating expense.

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

(j) Foreclosed Properties

Foreclosed properties received are stated at estimated net realizable value, and any difference from the nominal value of original claim is reflected as credit loss. On balance sheet date, if the foreclosed properties are still unsold, their net realizable values are reassessed. If there is sufficient evidence indicating that market value is lower than book value, the difference is recognized as current loss. Gain or loss on disposal of foreclosed properties is treated as a recovery of doubtful accounts or as an expense item by charging it to current earnings, particularly under provision for allowances and reserves.

(k) 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.

(l) Retirement Plan

Each of the Company's subsidiaries -- Chinatrust Commercial Bank, Ltd., Chinatrust Securities Corp., Ltd. and Chinatrust Bills Finance Corp. maintains a retirement plan covering all regular employees and recognizes pension expense based on the actuarial report. Annual contribution to this interest-bearing pension fund is made at rates ranging within 15% of gross salaries paid. This pension fund is not reflected in the consolidated financial statements.

(m) 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.

(n) Guarantee Reserve

For subsidiaries engaged in banking and bills business, guarantee reserve is provided by evaluating the status of collectibility of the accounts after reviewing the balances of guarantees issued and acceptances receivable at period-end.

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

(o) Securities Trading Losses Reserve

In compliance with Rules Governing Securities Firms, subsidiaries engaged in banking , securities and bills business provide securities trading losses reserve at the rate of 10% of net gains on trading of operating securities when gains exceeds losses. This reserve is reversed in the month when the losses is realized and an allowance is provided for unrealized gains or losses classified under gains on marketable securities. An allowance is provided until the balance of the reserve reaches \$200,000.

(p) Financial Derivatives

(i) Forward

Foreign-currency-denominated assets and liabilities of foreign exchange forward contracts are recorded in New Taiwan Dollars and translated at exchange rates in effect when the transactions occur. Gains or losses due to exchange rates differences at maturity are included in current earnings. On balance sheet date, unsettled positions are adjusted at forward exchange rate, with differences reflected as current gains or losses.

Accounts receivables and payables from forward contracts are offset on balance sheet date, with the balance reflected either as an asset or a liability.

(ii) Non-Delivery Forward (NDF)

Because there is no physical transfer of principal in non-delivery forward transactions, only memo entries of notional principals are made on contract date. On settlement, gains and losses from differences between the spot and contract rates are included in current earnings. Unsettled positions on balance sheet date are adjusted at forward rates for the remaining contract period, with differences recognized as gains or losses.

(iii) Foreign Currency Swap

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. Unrealized gains and losses from unsettled positions are computed based on the differences between contract and prevailing rates. On settlement, gains and losses due to differences between spot and contract rates are charged to current earnings.

(iv) Cross Currency Swap

Memo entries of notional principals are made on the contract date for cross currency swaps. Forward accounts receivables are offset against payables on balance sheet date, with the difference reflected either as an asset or a liability. For trading swaps, gains or losses on the differences between the present and market value of principal and interests in New Taiwan dollars, are recognized as unrealized gains or losses. 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 as hedged items affect earnings.

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

(v) Interest Rate Swap

Because there is no physical transfer of principal, only memo entries of notional principals are made for interest rate swaps. For trading swaps, the differences between the present and market values of interest receivables or payables arising thereon are reported as gains or losses on derivative instruments. For non-trading swaps, interest is accrued based on contract terms with interest revenue and expense recognized in the same period as hedged items affect earnings.

(vi) Option

Only memo entries of notional principals are made on contract date for options. Premium collected or paid is reflected as other asset or other liability. Differences in the market and book value of premium on balance sheet date are stated as unrealized gain or loss. Gain or loss resulting from the exercise of options is recognized currently as transaction gain or loss.

(vii) Forward Rate Agreement (FRA)

Only memo entries of notional principals are made on the contract date for forward interest rate agreements. For trading FRA, differences in the present value of interest revenue or expense between market interest rate and contract interest rate on balance sheet date are reported as gains or losses on derivative instruments. For non-trading FRA, interest is accrued based on contract terms with interest revenue and expense recognized in the same period as hedged items affect earnings.

(viii) Asset Swap

Asset Swap is an agreement with a convertible bond as its underlying asset. It involves not only the swap of fixed interest rate and bond redemption premium with market floating rate or fixed interest rate, but also convertible bond call option during the contract period. For trading purpose transactions, revaluation profit/loss is recognized using mark-to-market method ; for non-trading purpose transactions, interest receivable and payable are accrued.

(ix) Credit Default Swap

Credit Default Swap is an agreement whereby the credit protection buyer transfers credit risk of the underlying debt to the credit protection seller through a periodic premium payment to the protection seller. Memo entries of nominal amounts are made on transaction day. During the contract period, not only premium paid/received but also revaluation profit/loss (mark-to-market) are recorded.

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

(x) Interest Rate Future

Interest Rate Future is a future contract with short-term interest or government bonds as underlying. Memo entries of nominal amounts are made on transaction day. Revaluation profit/loss is recognized using market-to-market method. Initial margin requirements are recorded as account "Refundable Deposits", which thereafter is adjusted according to the amount of margin deposit or withdrawal.

(xi) Warrants

Warrants are recorded as "Liabilities for Warrants Issued" at the issuance prices; when repurchase, they are reflected in the account captioned "Repurchase of Warrants Issued" which is treated as a contra-account of the former.

When reselling the warrants repurchased, costs of sale are calculated using moving average method, and gains or losses resulted from the sale are recognized accordingly in the same period. "Liabilities for Warrants Issued" and "Repurchase of Warrants Issued" are valued at market price on the balance sheet date, and the differences between the book value and current market price are treated as gains or losses on warrants issued.

However, if the unrealized losses arising from the price changes of the warrants do not exceed the unrealized gains arising from the increases in market value of the hedged position, such losses are fully deferred, and the amounts exceed the aforementioned gains are recognized as current losses.

Prior to the expiry date of the warrants, unrealized gains or losses should be recognized based on fair market value method. Gains resulting from the warrant expiration would be recognized when such warrants expire without exercise.

When the holders of the warrants exercise the contracts, the Company shall recognize gains or losses with respect to the warrants based on the total of exercise prices in the contracts and market values of such warrants after deducting the market value of the underlying. Moreover, the underlying shall be treated as been sold in the market, and revenues shall be recognized at the contract price. Costs of sale are then calculated using moving average method.

(q) 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.

Foreign currency-denominated assets and liabilities of overseas subsidiaries are translated at spot rate on balance sheet date; the components of their stockholders' equity is translated at historical rate except for the beginning balance of retained earnings, for which the spot rate at the beginning of the year is used. Dividends are translated at the exchange rate on the date of declaration. Income statement accounts are translated at the weighted-average rate of the year, with difference reflected as translation adjustments to stockholders' equity.

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

(r) Commitments and Contingencies

If losses from commitments and contingencies are deemed probable and the amount can be reasonably estimated, such losses are recorded currently; otherwise only the nature of commitments and contingencies are disclosed in the notes to financial statements.

(s) Income Taxes

The Company adopts the Statement of Financial Accounting Standards (“SFAS”) No. 22 “Accounting for Income Taxes” for purposes of making inter- and intra- period income tax allocation, in addition to calculating the current income tax expense (benefit). 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.

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

(t) 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.

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

(u) Earnings per Share

Earnings per share is calculated by dividing the net income after tax, net of preferred stock dividends, by the weighted-average shares outstanding during the period. In the case of capital increase through capitalization of retained earnings, capital surplus, or employee bonus, the number of shares outstanding is retroactively adjusted by the capitalization ratio, regardless of the period when such incremental shares remain outstanding.

(v) Consolidated Debits (Credits)

If it is not possible to analyze the underlying causes of the differences between the amount of original investment and net equity, these differences are reflected as consolidated debits (credits) on consolidation and amortized equally over 20 years.

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

3. REASONS FOR AND EFFECT OF ACCOUNTING CHANGES

Effective January 1, 2004, the Company's subsidiaries, Chinatrust Commercial Bank, Ltd. and Chinatrust Bills Finance Corp. adopted SFAS No. 33 "Accounting for Transfers of Financial Assets and Extinguishments of Liabilities", under which bills and bonds under repurchase agreements in which control is not surrendered, are treated as financing transactions instead of as sale transactions. Prior to January 1, 2004, no retroactive adjustments are required on recognition and measurement of transfers of financial assets and extinguishments of liabilities.

4. SUMMARY OF MAJOR ACCOUNTS

(a) CASH AND CASH EQUIVALENTS

	June 30	
	2004	2003
Cash on hand	\$ 8,534,438	\$ 1,079,670
Petty cash and revolving fund	9,294	9,649
Checks awaiting clearance	4,743,184	1,764,328
Cash in transit	1,832,306	1,057,223
Cash equivalents	4,713,741	8,285,402
Cash in bank	1,999,992	409,731
Gold and silver	751	-
Due from other banks	4,978,503	3,612,509
Total	\$ 26,812,209	\$ 16,218,512

(b) DUE FROM CENTRAL BANK AND OTHER BANKS

	June 30	
	2004	2003
Required reserve - Account A	\$ 5,955,769	\$ 13,839,691
Required reserve - Account B	21,141,583	14,112,134
Required reserve - Foreign currency	910,558	733,121
Due from Central Bank	6,474,068	3,243,178
Call loans to other banks	28,564,891	26,730,233
Total	\$ 63,046,869	\$ 58,658,357

Based on the required ratio for reserve on the average monthly balances of various deposits, the Bank appropriates funds and deposits them with the Central Bank of China. Deposits in "Required reserve - Account A" are interest-free and can be withdrawn any time; interest is accrued on "Required reserve - Account B", which cannot be withdrawn except for the monthly adjustment to the required reserve.

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

(c) BILLS AND SECURITIES PURCHASED

	June 30	
	2004	2003
Commercial paper	\$ 4,265,570	\$ 6,060,782
Negotiable certificates of time deposits purchased	123,812,483	60,020,939
Treasury bills	2,123,097	778,923
Government bonds	48,377,789	8,613,322
Corporate bonds	9,128,924	6,475,208
Financial debentures	-	3,444,759
Convertible bonds	12,870,252	6,163,583
Other bonds	28,040,975	17,351,323
Debt securities	228,619,090	108,908,839
Listed securities	6,309,910	4,301,213
Beneficiary certificates	11,055,233	1,679,909
Foreign currency funds	1,688,750	13,717,558
Trading securities	35,691,127	3,145,081
Subtotal	283,364,110	131,752,600
Less: Allowance for market value decline	(1,321,983)	(885,007)
Total	\$ 282,042,127	\$ 130,867,593

As of June 30, 2004, the Company sold for \$400,230 government bonds under repurchase agreements with face value totaling \$360,000. These sold bonds (reflected under bills and bonds sold under repurchase agreements) have agreed repurchase amount was \$400,461 with maturity dates prior to July 15, 2004.

As of June 30, 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. sold corporate bonds and government bonds with par value of \$55,908,960 under re-purchase agreement. The amount sold was \$60,734,273 (reflected under bills and bond sold under repurchase agreements) with agreed-upon repurchase amount of \$60,787,870 prior to May 30, 2005.

As of June 30, 2004 and 2003, the Company's subsidiary, Chinatrust Securities Corp., Ltd sold proprietary government bonds, corporate bonds and convertible bonds amounting to \$3,285,000 and \$1,614,000 respectively under repurchase agreement. The amount sold was \$3,652,742 and \$1,762,854 (reflected under bills and bond sold under repurchase agreements), respectively, with agreed-upon repurchase amounts of \$3,654,739 and \$1,763,830 respectively, prior to July 29, 2004 and July 28, 2003.

As of June 30, 2004, the Company's subsidiary, Chinatrust Bills Finance Corp. sold (including long-term bond investments) with par value of \$46,795,200 under re-purchase agreement. The amount sold was \$49,676,207 (reflected under bills and bond sold under repurchase agreements) with agreed-upon repurchase amount of \$49,702,883 prior to February 21, 2005.

Please refer to Note 6 for the restrict information of bills and securities purchased above.

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

(d) RECEIVABLES

	June 30	
	2004	2003
Notes receivable	\$ 54,452	\$ 2,267,360
Accounts receivable	120,846,045	76,249,329
Interest receivable	5,681,297	4,018,617
Acceptances receivable	3,173,774	2,757,849
Accrued income	666,825	800,167
Tax refund receivable	1,124,370	487,833
Other receivables	9,465,963	2,208,533
Accounts receivable-non-accrual account	1,040,035	991,001
Subtotal	<u>142,052,761</u>	<u>89,780,689</u>
Less: Allowance for credit losses	<u>(2,452,621)</u>	<u>(2,313,050)</u>
Total	<u>\$ 139,600,140</u>	<u>\$ 87,467,639</u>

As of June 30, 2004 and 2003, accounts receivable included accounts receivable factoring of \$38,448,719 and \$6,690,254, respectively.

The movements in allowance for credit losses were as follows:

Six Months Ended June 30, 2004	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 1,667,444	\$ 647,676	\$ 2,315,120
Current provisions	253,693	1,507,245	1,760,938
Current charge-offs	(27,343)	(1,593,366)	(1,620,709)
Exchange rate effects	(905)	(1,823)	(2,728)
Ending balance	<u>\$ 1,892,889</u>	<u>\$ 559,732</u>	<u>\$ 2,452,621</u>

Six Months Ended June 30, 2003	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 1,631,771	\$ 670,483	\$ 2,302,254
Current provisions	73,127	1,501,346	1,574,473
Current charge-offs	(52,404)	(1,490,029)	(1,542,433)
Exchange rate effects	(104,400)	83,156	(21,244)
Ending balance	<u>\$ 1,548,094</u>	<u>\$ 764,956</u>	<u>\$ 2,313,050</u>

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

(e) **LOANS**

	June 30	
	2004	2003
Bills purchased	\$ 8,579	\$ 3,411
Corporate loans	282,340,295	221,748,078
Mortgage loans	222,763,441	184,302,784
Automobile loans	10,279,968	8,404,553
Consumer loans	68,948,264	51,886,748
Other loans	1,634,602	1,782,555
NT dollar loans	585,975,149	468,128,129
Foreign currency loans	147,485,206	128,058,486
Non-accrual loans	8,858,270	11,918,491
Subtotal	742,318,625	608,105,106
Less: Allowance for loan losses	(8,635,880)	(9,695,463)
Total	\$ 733,682,745	\$ 598,409,643

Please refer to Note 4(u) for the industry information.

As of June 30, 2004 and 2003, non-performing loans of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. amounted to \$9,728,307 and \$12,311,240, respectively.

As of June 30, 2004 and 2003, suspended accrual of interest for non-accrual accounts of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. amounted to \$810,267 and \$804,708, respectively.

As of June 30, 2004 and 2003, no loans of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. were written-off without prior recourse.

The movements in allowance for loan losses are as follows:

Six Months Ended June 30, 2004	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 5,769,950	\$ 3,452,832	\$ 9,222,782
Current provisions	(279,581)	4,397,805	4,118,224
Current charge-offs	(157,547)	(4,454,260)	(4,611,807)
Exchange rate effects	(82,967)	(10,352)	(93,319)
Ending balance	\$ 5,249,855	\$ 3,386,025	\$ 8,635,880

Six Months Ended June 30, 2003	Inherent risk of overall claims	Default risk of specific claims	Total
Beginning balance	\$ 6,408,905	\$ 3,465,252	\$ 9,874,157
Current provisions	275,985	2,800,384	3,076,369
Current charge-offs	(128,885)	(2,993,927)	(3,122,812)
Exchange rate effects	(323,954)	191,703	(132,251)
Ending balance	\$ 6,232,051	\$ 3,463,412	\$ 9,695,463

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

(f) Long-Term Investments

	June 30			
	2004		2003	
	%	Book value	%	Book value
Long-Term Equity Investments				
<u>Accounted for under the cost method</u>				
Listed securities				
(Market value at \$1,680,400 and \$1,147,429 as of				
June 30, 2004 and 2003, respectively)		\$ 2,742,157		2,366,403
Less: Allowance for market value decline		(1,061,757)		(1,252,112)
		1,680,400		1,114,291
Taipei Forex Inc.	3.43	6,800	3.03	6,000
Asian Finance and Investment Corp.	8.66	461,037	8.66	461,037
Taiwan Aerospace Corp.	5.00	262,113	5.00	262,113
Pacific Venture Corp.	5.00	30,000	5.00	30,000
Taiwan Futures Exchange Corp.	3.00	27,600	0.87	17,350
Union Service Corp.	5.00	1,250	5.00	1,250
Jupiter Venture Capital Co., Ltd.	5.00	30,000	5.00	30,000
Venus Venture Capital Co., Ltd.	4.72	25,000	4.72	25,000
Mercury Venture Capital Co., Ltd.	5.00	30,000	5.00	30,000
Fu Yu Venture Capital Investment Corp.	3.70	50,000	3.70	50,000
Financial Information Service Co., Ltd.	2.28	91,000	1.14	45,500
Taipei Financial Center Corp.	4.41	785,438	4.41	785,438
KGEx. Com. Corp., Ltd.	5.00	175,000	5.00	175,000
KG Ventures Corp.	5.00	260,000	5.00	260,000
Overseas Investment & Development Corp.	14.90	133,074	14.90	133,074
Taipei Smart Card Corp.	2.25	12,256	2.25	12,256
BankPro E-Service Technology Co., Ltd.	3.33	2,952	-	-
WinPlus Venture Capital Corp.	5.00	25,000	-	-
Investar Capital Corp.	5.00	60,000	-	-
Global Securities Finance Corporation	2.63	173,496	-	-
Taiwan Asset Management Corp.	2.35	400,000	-	-
Taiwan Financial Asset Service Corp.	2.94	50,000	-	-
Debt instrument depository and clearing Co.,Ltd	6.99	140,000	-	-
Philippine Clearing House Corp.	1.79	3,015	1.79	3,245
Banc Net Incorporated	4.35	4,185	4.35	4,505
Kinik Company	0.44	9,900	-	10,000
Advanced Power Electronics Corp.	-	-	-	18,400
Epitech Technology Corp.	2.22	28,654	-	-
Advantage Century Telecommunication Corp.	3.50	42,000	-	-
AMPAK Technology, Inc.	3.29	18,750	-	-
Bcom Electronics Inc.	2.14	45,000	-	-
Boston Life Science Venture Corp.	5.00	100,000	-	-
AXIOMTEK Co., Ltd.	3.57	49,500	-	-
Highlink Technology Corp.	1.13	20,000	-	-
Sunject Components Corp.	8.02	28,800	-	-
Sundapost Co., Ltd.	4.38	33,000	-	-
Double edge entertainment	7.76	17,000	-	-
Santarus Inc.	0.98	42,411	-	43,531
Novalux Acquisitin Corp	4.23	33,750	-	-
US GENOMICS INC	1.36	33,775	-	-
New World Technology Fund	10.88	195,895	-	-
See U There Technology Fund	8.80	33,775	-	-
U-System, Inc.	2.20	27,020	-	-
Subtotal		5,678,846		3,517,990
<u>Accounted for under the equity method</u>				
Chinatrust Forex Corp.				
(original investment at PHP 51,045 thousand)	100.00	36,625	100.00	38,050
Chinatrust Securities Investment Consultancy Co.,Ltd				
(original investment at \$9,940)	99.40	12,771	99.40	12,151
KGI Securities Investment Trust Corp., Ltd.				
(original investment at \$120,000)	40.00	108,509	40.00	97,940
Grand Bills Finance Corp.				
(original investment at \$1,010,880)	21.15	1,534,234	-	-
GCB Finance (HK) Limited				
(original investment at \$223,050)	100.00	339,662	-	-
Grand Life Insurance Agent Co., Ltd.				
(original investment at \$2,590)	99.62	19,575	-	-
Grand General Insurance Agent Co., Ltd.				
(original investment at \$2,590)	99.62	1,557	-	-
Subtotal		2,052,933		148,141
<u>Prepaid Stock</u>				
BAP Consulting, Inc.		302		324
Debt instrument depository and clearing Co.,Ltd		-		8,000
Long-term fund investments				
Colony Asia Investors I, L.P.		7,959,537		-
Long-term bond investments		69,693,443		26,086,203
Real Estate-Land to be Levied by the Government		1,400		8,102
Total		\$ 85,386,461		29,768,760

Note: Please refer to Note 6 for the restrict information of long-term bond investments.

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

For the six months ended June 30, 2004 and 2003, investment income (losses) recognized under the equity method were as follows:

	Six Months Ended June 30	
	2004	2003
Chinatrust Forex Corp.	\$ 756	\$ 496
Chinatrust Securities Investment Consultancy Co.,Ltd.	906	1,260
KGI Securities Investment Trust Corp., Ltd.	6,781	(1,929)
Grand Bills Finance Corp.	134,297	-
GCB Finance (HK) Limited	6,473	-
Grand Life Insurance Agent Co., Ltd.	(1,062)	-
Grand General Insurance Agent Co., Ltd.	(412)	-
Total	\$ 147,739	\$ (173)

(g) OTHER FINANCIAL ASSETS

	June 30	
	2004	2003
Short-term advances	\$ 352,502	\$ 2,022,229
Refundable deposits, net	15,270,982	8,537,096
Certificates of time deposits pledged	1,440,000	120,000
Derivative financial instruments	7,329,715	3,481,687
Others	151,976	-
Total	\$ 24,545,175	\$ 14,161,012

The certificates of time deposits above were used as guarantee with bond dealers, underwriters and debts.

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

(h) PREMISES AND EQUIPMENT

	Cost	Revaluation Appreciation	Total	Accumulated Depreciation	Net
June 30, 2004					
Land	\$18,794,645	\$ 68,015	\$18,862,660	\$ -	\$18,862,660
Buildings	14,235,741	38,785	14,274,526	3,750,995	10,523,531
Transportation equipment	108,773	743	109,516	55,237	54,279
Miscellaneous equipment	9,924,492	9,150	9,933,642	5,708,502	4,225,140
Construction in progress	837,390	-	837,390	-	837,390
Prepayment for equipment	5,404	-	5,404	-	5,404
Total	<u>\$43,906,445</u>	<u>\$ 116,693</u>	<u>\$44,023,138</u>	<u>\$ 9,514,734</u>	<u>\$34,508,404</u>
	Cost	Revaluation Appreciation	Total	Accumulated Depreciation	Net
June 30, 2003					
Land	\$14,342,121	\$ 67,699	\$14,409,820	\$ -	\$14,409,820
Buildings	12,840,455	38,196	12,878,651	2,816,420	10,062,231
Transportation equipment	91,301	698	91,999	57,539	34,460
Miscellaneous equipment	7,708,624	8,666	7,717,290	4,146,717	3,570,573
Construction in progress	80,586	-	80,586	-	80,586
Prepayment for equipment	118,782	-	118,782	-	118,782
Total	<u>\$35,181,869</u>	<u>\$ 115,259</u>	<u>\$35,297,128</u>	<u>\$ 7,020,676</u>	<u>\$28,276,452</u>

As of June 30, 2004 and 2003, the total amount of insurance coverage for the premises and equipment referred to above amounted to \$19,780,775 and \$13,774,715, respectively.

The depreciable assets of the Company's subsidiary, Chinatrust Commercial Bank, Ltd. were revalued on December 31, 1974 and December 31, 1980, resulting in total appreciation of \$13,510 and \$53,123, respectively. In addition, land was revalued based on government announced value on September 30, 1987, resulting in land appreciation of \$77,519. Pursuant to regulations in Paraguay, the Paraguay Branch revalues its assets monthly based on the announced revaluation ratio by the Paraguay government, effective the second year of operation. As of June 30, 2004 and 2003, the reserve for asset revaluation appreciation amounted to PYG 2,657,192 thousand (approximately \$22,774) and PYG 2,876,696 thousand (approximately \$21,573), respectively.

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

(i) OTHER ASSETS

	June 30	
	2004	2003
Prepayments	\$ 2,236,566	\$ 1,597,780
Settlement funds	-	83,123
Deferred charges	1,877,845	1,927,436
Foreclosed properties received	4,621,827	2,346,754
Allowance for market decline on foreclosed properties received	(937,843)	(461,265)
Deferred income tax assets, net	1,362,907	198,203
Temporary debits	28,242	29,554
Consolidated debits	206,578	220,623
Others	2,456,517	3,132,643
Total	\$ 11,852,639	\$ 9,074,851

Please refer to Note 4-(p) for further information on “deferred income tax assets, net.”

(j) PAYABLES

	June 30	
	2004	2003
Accounts payable	\$ 14,296,359	\$ 3,153,336
Accrued expense	4,278,265	3,206,771
Income tax payable	2,617,437	1,444,726
Interest payable	4,058,379	4,071,832
Draft acceptance	3,217,108	2,822,870
Collection payable	1,380,185	584,902
Other tax payables	336,302	242,542
Dividend and bonus payable	6,569,777	5,125,528
Checks awaiting clearance	4,537,679	1,599,053
Other payables	1,889,347	5,113,852
Total	\$ 43,180,838	\$ 27,365,412

As of June 30, 2004 and 2003, accounts payable included factoring accounts receivable of \$13,196,011 and \$2,365,830, respectively.

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

(k) DEPOSITS AND REMITTANCES

	June 30	
	2004	2003
NT\$ Deposits		
Checking accounts	\$ 6,190,010	\$ 4,382,471
Demand deposits		
Demand deposits	49,927,822	37,949,921
Demand saving deposits	227,537,677	167,331,012
Others	938,171	766,210
	<u>278,403,670</u>	<u>206,047,143</u>
Time deposits		
Time deposits	163,242,173	92,835,661
Time saving deposits	228,950,397	201,419,251
Negotiable certificates of deposits	30,045,700	34,585,400
Deposits at interest from postal deposits	41,255,089	34,093,736
Others	17,556,321	7,329,187
	<u>481,049,680</u>	<u>370,263,235</u>
Total NT\$ Deposits	765,643,360	580,692,849
Foreign currency deposits	201,399,693	171,345,596
Time Trust funds	-	1,013,353
Remittances under Custody	65,880	45,747
Remittances Outstanding	256,640	288,534
Total	<u><u>\$ 967,365,573</u></u>	<u><u>\$ 753,386,079</u></u>

Time trust funds were discretionary trust funds carried over when the Company's subsidiary, Chinatrust Commercial Bank, Ltd. was still a trust company until 1992. The Company's subsidiary, Chinatrust Commercial Bank, Ltd. guarantees full repayment of principal and minimum yield upon maturity. Pursuant to the enactment of the Trust Enterprise Law on July 19, 2000, funds of this nature should be phased out in 3 years. The Company's subsidiary, Chinatrust Commercial Bank, Ltd. had phased out these funds.

(l) CORPORATE BONDS AND FINANCIAL DEBENTURES

	June 30	
	2004	2003
Corporate bonds	\$ 40,124,848	\$ 23,417,174
Financial debentures	21,300,000	10,000,000
Total	<u><u>\$ 61,424,848</u></u>	<u><u>\$ 33,417,174</u></u>

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

Bonds payable

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

	(in thousands)	
	June 30	
	2004	2003
Original issue size(US\$400,000)	\$ 13,452,400	\$ 13,452,400
Accumulated converted amount(US\$1,000 and US\$0 for the six months ended June 30, 2004 and 2003)	(33,631)	-
Redemption premium payable(US\$34,008 and US\$12,323 for the six months ended June 30, 2004 and 2003)	1,143,723	414,435
Unrealized exchange loss	62,356	550,339
Ending balance	\$ 14,624,848	\$ 14,417,174

(i) Issue Date:

July 8, 2002

(ii) Place of issue:

Luxembourg Stock Exchange

(iii) Size:

USD 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 underlying asset:

From August 7, 2002 to July 1, 2007, bondholders can elect to have bonds converted into common stock or Global Depository Shares.

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

(viii) Conversion price and adjustment:

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

(ix) Resale rights of the bondholders.

The bondholders have the right to require the Company to repurchase the bonds at face value 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 repurchase the bond:

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

- (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.
- (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 repurchase 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 bondholders will have the right to require the Company to repurchase all or part of the bonds.

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

In 2003, the Company issued seven-years and five-years unsecured subordinated bonds. The terms of issue were as follows:

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

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 is 6 Month LIBOR + 0.0001% to 0.0007%. If the 6 Month LIBOR is between 0.60% and 2.50%, then the coupon rate is 5.50%. If the 6 Month LIBOR exceeds 2.50%, then the coupon rate is 6.55% - 6 Month LIBOR and subject to a minimum of 0%. Categories H to O: 120 basic point above the fixed rate of the USD 6-month LIBOR as it appears on Moneyline Telerate page 6165 at 11 am London time. The annual interest rates for categories H to O are adjusted every 3 months. If the date of adjustment is a non-business day in the location of payment, then the interest rates are adjusted on the following business day.
Maturity date	October 13, 2010 to October 22, 2010
Repayment method	The principal of all bonds is repayable at maturity.

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

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

Type of bond issued	First issue of unsecured subordinated bonds
Issue date	March 3, 2004
Size	\$2,000,000
Coupon rate	There are 8 categories of bonds. Categories A to B: If the USD 6 Month LIBOR is below 1.05%, then the coupon rate is USD 6 Month LIBOR to USD 6 Month LIBOR + 0.01%. If the USD 6 Month LIBOR equal to or exceeds 1.05%, then the coupon rate is 5.00% - USD 6 Month LIBOR to 5.0001% - USD 6 Month LIBOR and subject to a minimum of 0%. Categories C to H: If the USD 6 Month LIBOR is below 1.10%, then the coupon rate is USD 6 Month LIBOR to USD 6 Month LIBOR + 0.05%. If the USD 6 Month LIBOR is between 1.10% and 2.00%, then the coupon rate is 3.80% to 3.8005%. If the USD 6 Month LIBOR exceeds 2.00%, then the coupon rate is 4.7995% - USD 6 Month LIBOR to 4.80% - USD 6 Month LIBOR and subject to a minimum of 0%.
Maturity date	March 3, 2009
Repayment method	The principal of all bonds is repayable at maturity. Interests was paid semi-annually.

The Company's subsidiary, Chinatrust Bills Finance Corp. issued domestic secured bonds in 2002. The terms of issue were as follows:

	First issue of secured bonds	Second issue of secured bonds
Issue date	July 19, 2002	December 23, 2002
Size	\$500,000	\$500,000
Coupon rate	2.91%	1.82%
Maturity date	July 19, 2005	December 23, 2005
Collateral	Time deposits and corporate bonds	Time deposits
Repayment method	The interests and principal of all bonds is repayable at maturity.	The interests and principal of all bonds is repayable at maturity.

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

The Company's subsidiary, Chinatrust Bills Finance Corp. first issued domestic secured bonds in 2004. The terms of issue were as follows:

	First issue of secured bonds
Issue date	March 15 to March 22, 2004
Size	\$1,500,000
Coupon rate	There are 6 categories of bonds. Categories A to F: If the 6 Month LIBOR is below 1.10%, then the coupon rate is 6 Month LIBOR. If the 6 Month LIBOR is between 1.10% and 2.10%, then the coupon rate is 3.00%. If the 6 Month LIBOR exceeds 2.10%, then the coupon rate is 5.0000% - 6 Month LIBOR to 5.0005% - 6 Month LIBOR and subject to a minimum of 0%.
Maturity date	March 15, 2009 to March 22, 2009
Collateral	Time deposits
Repayment method	The interests and principal of all bonds is repayable at maturity.

The Company's subsidiary, Chinatrust Bills Finance Corp. second issued domestic secured bonds in 2004. The terms of issue were as follows:

	Second issue of secured bonds
Issue date	May 27, 2004
Size	\$1,500,000
Coupon rate	There are 3 categories of bonds and the coupon rate were as follows: Categories A:(6mL+0.7000%)*n/N Categories B:(6mL +0.7001%)*n/N Categories C:(6mL +0.7002%)*n/N The coupon rate zones of all bonds were as follows: First year:0.50%<or =6MI<or =2.00% Second year:0.50%<or =6MI<or =2.50% Third year:0.50%<or =6MI<or =3.00% 4th year:0.50%<or =6MI<or =3.50% 5th year:0.50%<or =6MI<or =4.00% 6th year:0.50%<or =6MI<or =4.50% 7th year:0.50%<or =6MI<or =5.00%
Maturity date	May 27, 2011
Collateral	Time deposits
Repayment method	The interests and principal of all bonds is repayable at maturity.

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

The Company's subsidiarys, Chinatrust Bills Finance Corp. third issued domestic secured bonds in 2004. The terms of issue were as follows:

	Third issue of secured bonds
Issue date	June 10, 2004
Size	\$500,000
Coupon rate	The coupon rate was as follows: 4.00%*n/N The coupon rate zones of the bonds were as follows: First year: 1.10% <or =6mL <or =2.00% Second year: 1.10% <or =6mL <or =2.50% Third year: 1.10% <or =6mL <or =3.00% 4th year: 1.10% <or =6mL <or =3.50% 5th year: 1.10% <or =6mL <or =4.00%
Maturity date	June 10, 2009
Collateral	Time deposits
Repayment method	The interests and principal of all bonds is repayable at maturity.

Financial debentures

As of June 30, 2004 and 2003, the terms of issued financial debentures by the Company's subsidiary, Chinatrust Commercial Bank, Ltd. were as follows:

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

June 30 , 2004

Bonds	Terms of Transactions			Bond Issued	
	Issue date	Maturity date	Interest Rate	Type	Amount
2001-1	09/24/2001	09/24/2011	Interest is 3.85% compounding semi-annually for the first 5 years and 4.6% from the 6th year to maturity.	Unsecured subordinated financial debentures	\$ 10,000,000
2003-1	09/12/2003	09/12/2010	The single coupon rate is Bank of Taiwan's board floating interest rate for 2-year time deposit plus 80 basis points.	"	5,000,000
2003-2	10/13/2003	10/13/2010	The single coupon rate is Bank of Taiwan's board floating interest rate for 2-year time deposit plus 80 basis points.	"	2,000,000
2003-3	10/13/2003	10/13/2010	The floating interest rate is the prime rate (Note 1) plus 100 basis points.		2,000,000
2003-4	10/28/2003	10/28/2008	The 1 st year : 5% ; The 2 nd ~5 th years : if 6M LIBOR < 0.9%, the coupon rate will be 6M LIBOR. If 6M LIBOR 0.9%,the coupon rate will be 5%-6M LIBOR.	"	300,000
2003-5	06/12/2003	06/12/2008	2.5% (Note 2)	"	2,000,000
					<u><u>\$ 21,300,000</u></u>

June 30 , 2003

Bonds	Terms of Transactions			Bond Issued	
	Issue date	Maturity date	Interest Rate	Type	Amount
2001-1	09/24/2001	09/24/2011	Interest is 3.85% compounding semi-annually for the first 5 years and 4.6% from the 6th year to maturity.	Unsecured subordinated financial debentures	<u><u>\$ 10,000,000</u></u>

(Note1) The prime rate is based on the page code 6165 of Associated Press, the fixed interest rate of 90-day CP/BA at 11 : 00am.

(Note2) Due to the Company's subsidiary, Chinatrust Commercial Bank, Ltd.'s acquisition of Grand Commercial Bank, the Bank assumed the subordinated financial debentures previously issued by Grand Commercial Bank.

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

(m) FINANCING FROM THE CENTRAL BANK AND OTHER BANKS

	June 30	
	2004	2003
Financing from Central Bank	\$ 9,457,000	\$ 6,922,400
Financing from other banks	805,310	-
Short-term borrowings	320,000	55,344
Commercial paper payable	899,637	2,497,234
Others	2,988,167	2,650,615
Total	\$ 14,470,114	\$ 12,125,593

(n) RETIREMENT PLAN

The Company's subsidiary, Chinatrust Commercial Bank, Ltd. maintains a retirement plan covering all regular employees. Lump-sum pension payment is calculated based on the employee's years of service and salary of the last month prior to retirement, with a maximum benefit of 61 months' salary. Chinatrust Commercial Bank, Ltd. contributes 2% of employees gross salary to the pension fund on a monthly basis. Chinatrust Commercial Bank, Ltd. also set up a Workers' Retirement Reserve Fund Supervisory Committee on May 31, 2000 and deposits 15% of paid gross monthly salary to a designated account with the Central Trust of China.

As of June 30, 2004 and 2003, balance of the pension fund of the Company's subsidiary, Chinatrust Commercial Bank amounted to \$3,355,334 and \$2,971,602, respectively.

The Company's subsidiary, Chinatrust Securities Corp., Ltd. also maintains a retirement plan covering all regular employees. Pension payment is calculated based on the employee's years of service and average salary of the last six months prior to retirement.

As of June 30, 2004 and 2003, the balance of the pension fund of the Company's subsidiary, Chinatrust Securities Corp., Ltd. amounted to \$19,311 and \$14,324, respectively.

The Company's subsidiary, Chinatrust Bills Finance Corp. maintains a retirement plan covering all regular employees. Under this plan, pension payment is made as follows:

- (i) For employees hired after March 1, 1998, pension benefit is paid in accordance with the Labor Standards Law.
- (ii) For employees hired prior to February 28, 1998, one month's salary is granted for half year of service prior to February 28, 1998 up to the 15th year, and additional one month salary thereafter. Pension payment for service years after March 1, 1998 is granted in accordance with the above mentioned regulation. The maximum benefit is 61 months salary.

As of June 30, 2004 and 2003, the balance of pension fund of the Company's subsidiary, Chinatrust Bills Finance Corp. amounted to \$24,934 and \$26,493, respectively.

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

(o) STOCK OPTION PLAN

On September 4, 2001, the ROC SFC approved the Company's subsidiary, Chinatrust Commercial Bank, Ltd. issuance of employee stock options of 100,000 units. Each unit of the stock options was endowed with the right to purchase 1,000 common shares of Chinatrust Commercial Bank, Ltd. at exercise price equal to the closing price on the date of issuance of Chinatrust Commercial Bank, Ltd's common stock. On January 3, 2002, Chinatrust Commercial Bank, 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 purchase the Bank's shares at \$21.1 dollars per share. As the shares of Chinatrust Commercial Bank, Ltd were converted into the shares of the Company, Ltd., 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 \$17.3 dollars per share.

The change in the stock option plan as follow:

	Six Months Ended June 30, 2004
Options outstanding, beginning of the period	65,000
Options granted	-
Options exercised	(44,258)
Options outstanding, end of the period	20,742

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

(p) INCOME TAXES

The income tax expense and related accounts for the six months ended June 30, 2004 and 2003 were as follows:

	Six Months Ended June 30	
	2004	2003
Current income tax payable	\$ 2,693,214	\$ 1,600,042
Add (less): Tax effect of temporary differences		
Difference in allowance for credit losses		
for financial and tax purposes	230	99,025
Difference in pension provision		
for financial and tax purposes	(7,527)	13,214
Net unrealized gain (loss) on exchange and financial derivatives	(204,601)	145,108
Net gain (loss) on foreign investment recognized under the equity method	(8,537)	192,292
Allowance for foreclosed properties market decline	64,611	-
Amortization of goodwill	71,004	-
Others	(77,398)	(69,022)
Income tax separately levied	113,771	155,761
Investment tax credits	(12,936)	-
Under-accrual of prior year's income tax	99,176	-
Reversal of prior years' recognition of bond prehand interest	14,392	65,359
10% surtax on undistributed earnings	2,366	31,771
Income tax benefit resulting from joint filing of taxes	(139,722)	-
Income tax expense	\$ 2,608,043	\$ 2,233,550

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

	June 30	
	2004	2003
Temporary differences which result in deferred income tax assets or liabilities		
Deductible temporary difference due to allowance for market decline on assumed collateral	\$ 875,263	\$ -
Deductible temporary difference due to allowance for doubtful accounts in excess of tax-allowable limit	45,848	370,687
Deductible temporary difference due to provision for cumulative translation adjustments	1,671,283	974,714
Taxable temporary difference due to gain on investment recognized under the equity method	(2,992,483)	(3,765,949)
Deductible (taxable) temporary difference due to unrealized loss (gain) on foreign exchange and financial derivatives transactions	(85,873)	466,898
Deductible temporary difference due to amortization of goodwill	2,588,727	-
Deductible temporary differences for other reasons	3,348,866	2,898,389
Total	\$ 5,451,631	\$ 944,739

	June 30	
	2004	2003
Deferred income tax assets	\$ 2,149,422	\$ 833,252
Deferred income tax liabilities	(786,515)	(635,049)
Net deferred income tax assets	\$ 1,362,907	\$ 198,203

As of June 30, 2004, the status of the local tax office's assessments of the Company's income tax return and those of its subsidiaries, Chinatrust Venture Capital Corp., Ltd. and Chinatrust Asset Management Corp., Ltd. have not been assessed.

The status of the local tax office's assessments of the others of its subsidiaries were as follows:

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

Subsidiaries	Year of Assessment	Pending Assessments
Chinatrust Commercial Bank, Ltd.	Prior to 2001	These assessments disclosed that the Tax Authority disallows the tax credit being claimed by the Bank on taxes withheld from its bond interest income totaling \$697,840 for the years from 1994 to 2001. The Bank disagreed with such assessment and had filed for administrative relief. The Bank was eventually allowed to receive a refund equal to 65% of these withholding taxes in accordance with the agreement between The Bankers Association of the Republic of China and National Tax Administration. The Bank's receivable from such income tax refund had been accounted for accordingly. Furthermore, the remaining 35 % of the withholding tax on the Banks's bond interest income, which was disallowed by the Tax Authority as tax credit by the Bank through year 2002, had been estimated and recognized as tax expense.
Chinatrust Securities Corp., Ltd.	Prior to 2001	Additional tax of \$11,944 due to excessive tax refund collected from bond-interest withheld in 1997, 2000, and 2001 and entertainment expenses over-limit of \$4,648 were assessed. The subsidiary has filed for administrative relief. Accounting treatment has been completed to comply to the agreement between Chinese Securities Association and National Tax Administration, with 60% of income tax refunded. Moreover, issues in connection with entertainment expenses exceeded the limits set forth in the tax code has been resolved and proper accounting treatment has been applied as of June 30, 2004.
Chinatrust Insurance Brokers Corp., Ltd.	Prior to 2002	None.
Chinatrust Bills Finance Corp., Ltd	Prior to 2000	Additional tax of \$214,134 due to excessive tax refund collected from bond-interest withheld from 1996 to 1999 and \$37,962 tax effect due to loss on short-term bills was assessed. Currently judgements have passed for the Company in Taipei Supreme Administrative Court and Taipei High Administrative Court in connection with taxes withheld for accrued interest on bonds for 1996 and 1997, respectively. Furthermore, claims in respect of income tax effects resulted from losses on short-term bills for 1996 and 1997 have been defeated in Taipei Supreme Administrative Court and Taipei High Administrative Court, respectively. Other claims or tax returns are still in the legal proceedings in the Administrative Courts or being assessed by the Tax Authority. Based on conservative principal, the Company has recognized the related income tax effects accordingly.

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

(q) IMPUTATION CREDIT ACCOUNT

As of June 30, 2004, balance of stockholders' imputation credit account amounted to \$2,019,141. Estimated deductible ratio of 2003 earnings distributed is 23.76%. Actual deductible ratio of 2002 earnings distributed is 1.84% for cash dividends and 28.94% for stock dividends.

(r) STOCKHOLDERS' EQUITY

(i) Capital Stock

The Company converted shares with Chinatrust Commercial Bank, 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 issued with a par value of \$10(in dollars) per share.

In August 2000, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. issued preferred shares at \$40 (in 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, 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 (in dollars) and 407,501 thousand shares of common stock with par value \$10 (in dollars) to acquire full ownership of Grand Commercial Bank. Following the stock conversion, Grand Commercial Bank became a wholly owned subsidiary of the Company. On June 6, 2004, all the Series B preferred stocks have been redeemed and retired.

For six months end June 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.

On June 11, 2004, the Company's stockholders' meeting resolved to capitalize retained earnings amounting to \$3,213,715. Capital after the capital increase totaled \$60,686,137. The capital increase was approved by SFC and the record date are subject to resolutions by the board of directors.

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

As of June 30, 2004, the Company's authorized capital was \$100,000,000, paid-in capital on common stock was \$54,972,422, and on preferred stock was \$2,500,000. Capital to be transferred-common stock was \$3,213,715.

(ii)Capital Surplus

Information regarding capital surplus is as follows:

	June 30	
	2004	2003
Additional paid-in capital - common stock	\$ 21,395,856	\$ 18,632,472
Additional paid-in capital - preferred stock	7,500,000	7,500,000
Assets revaluation appreciation - subsidiary	5,494	4,292
Total	\$ 28,901,350	\$ 26,136,764

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

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

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

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

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

As of June 30, 2004, the unappropriated earnings of \$753,523 of Chinatrust Commercial Bank, Ltd. before the stock conversion were accounted for in the Company's books as capital surplus.

(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. The board of directors may adjust the earnings distribution upon approval of a resolution approved by the shareholders during their meeting.

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

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

The proposal for earnings distribution for 2003 has to be presented in the shareholders' meeting at June 11, 2004.

(s) **TREASURY STOCK**

(i) share data in thousands

Repurchase Reason	Beginning of the Period	Current Increase	Current Decrease	End of the Period
Held by the Company:				
Transfer to employee	18,985	-	(7,310)	11,675
Held by the subsidiary:				
Transfer to employees	94,504	-	(10,548)	83,956
Issuance of stock options	87,420	-	(44,258)	43,162
Total	200,909	-	(62,116)	138,793

(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 treasury stock repurchased was \$27,652,670 with March 31, 2004 as the measurement date.

(iii) For the six months ended June 30, 2004, the maximum number of treasury stocks held was 200,909,000, and the amount was \$4,439,539, in complied with the Securities and Exchange Law.

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

- (iv) In accordance the Securities and Exchange Law, treasury stocks 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, Ltd. owns shares of the Company amounting to \$2,846,226. Pursuant to Letter Ruling No. 0920004165, shares that are not adjusted within 3 years are considered as non-issued shares and should be cancelled.
- (vi) On June 30, 2004, the Company's common stocks have a market price of \$37.5 dollars.

(t) EARNINGS PER SHARE

	Six Months Ended	
	June 30, 2004	
	Before Tax	After Tax
Basic EPS		
Consolidated net income	\$ 10,581,402	\$ 7,973,359
Preferred stock dividends	(306,000)	(306,000)
Consolidated net income available to common shareholders	<u>10,275,402</u>	<u>7,667,359</u>
Weighted-average shares of common stocks outstanding (in thousands)	5,345,131	5,345,131
Basic EPS	<u>\$ 1.92</u>	<u>\$ 1.43</u>
Diluted EPS		
Consolidated net income	\$ 10,581,402	\$ 7,973,359
Preferred stock dividends	(306,000)	(306,000)
Influence on potentially dilutive shares:		
Convertible bonds	292,885	219,664
Consolidated net income used to calculate diluted EPS	<u>\$ 10,568,287</u>	<u>\$ 7,887,023</u>
Weighted-average shares of common stocks outstanding (in thousands)	5,345,131	5,345,131
Influence on potentially dilutive shares:		
Stock options	16,208	16,208
Convertible bonds	416,188	416,188
Weighted-average shares of common stocks outstanding (in thousands)	<u>5,777,527</u>	<u>5,777,527</u>
Diluted EPS	<u>\$ 1.83</u>	<u>\$ 1.37</u>

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

	Six Months Ended	
	June 30, 2003	
	Before Tax	After Tax
Basic EPS		
Consolidated net income	\$ 9,641,798	\$ 7,408,248
Preferred stock dividends	(306,000)	(306,000)
Consolidated net income available to common shareholders	9,335,798	7,102,248
Weighted-average shares of common stocks outstanding (in thousands)	4,391,568	4,391,568
Weighted-average shares of common stocks outstanding -retroactively adjusted(in thousands)	4,874,640	4,874,640
Basic EPS	\$ 2.13	\$ 1.62
Basic EPS- retroactively adjusted	\$ 1.92	\$ 1.46
Diluted EPS		
Consolidated net income	\$ 9,641,798	\$ 7,408,248
Preferred stock dividends	(306,000)	(306,000)
Influence on potentially dilutive shares:		
Convertible bonds	292,658	219,494
Consolidated net income used to calculate diluted EPS	\$ 9,628,456	\$ 7,321,742
Weighted-average shares of common stocks outstanding (in thousands)	4,391,568	4,391,568
Weighted-average shares of common stocks outstanding -retroactively adjusted(in thousands)	4,874,640	4,874,640
Influence on potentially dilutive shares:		
Stock options	18,703	18,703
Convertible bonds	362,024	362,024
Stock options- retroactively adjusted	25,349	25,349
Convertible bonds- retroactively adjusted	416,883	416,883
Weighted-average shares of common stocks outstanding used to calculate diluted EPS(in thousands)	4,772,295	4,772,295
Weighted-average shares of common stocks outstanding used to calculate diluted EPS-retroactively adjusted(in thousands)	5,316,872	5,316,872
Diluted EPS	\$ 2.02	\$ 1.53
Diluted EPS- retroactively adjusted	\$ 1.81	\$ 1.38

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

On June 11, 2004, the stockholders resolved to capitalize retained earnings and capital surplus. Pro forma data of retroactively-adjusted EPS is as follows:

	Six Months Ended	
	June 30, 2004	
Proforma retroactively-adjusted basic EPS	Before Tax	After Tax
Consolidated net income	\$ 10,581,402	\$ 7,973,359
Preferred stock dividends	(306,000)	(306,000)
Consolidated net income available to common shareholders	10,275,402	7,667,359
Weighted-average shares of common stocks outstanding (in thousands)	5,665,839	5,665,839
Basic EPS	\$ 1.81	\$ 1.35
Proforma retroactively-adjusted diluted EPS		
Consolidated net income	\$ 10,581,402	\$ 7,973,359
Preferred stock dividends	(306,000)	(306,000)
Influence on potentially dilutive shares:		
Convertible bonds	292,885	219,664
Consolidated net income used to calculate diluted EPS	\$ 10,568,287	\$ 7,887,023
Weighted-average shares of common stocks outstanding (in thousands)	5,665,839	5,665,839
Influence on potentially dilutive shares:		
Stock options	17,719	17,719
Convertible bonds	454,606	454,606
Weighted-average shares of common stocks outstanding used to calculate diluted EPS(in thousands)	6,138,164	6,138,164
Diluted EPS-retroactively-adjusted	\$ 1.72	\$ 1.28

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

	Six Months Ended	
	June 30, 2003	
	Before Tax	After Tax
Proforma retroactively-adjusted basic EPS		
Consolidated net income	\$ 9,641,798	\$ 7,408,248
Preferred stock dividends	(306,000)	(306,000)
Consolidated net income available to common shareholders	9,335,798	7,102,248
Weighted-average shares of common stocks outstanding (in thousands)	5,167,118	5,167,118
Basic EPS- retroactively adjusted	\$ 1.81	\$ 1.37
Proforma retroactively-adjusted diluted EPS		
Consolidated net income	\$ 9,641,798	\$ 7,408,248
Preferred stock dividends	(306,000)	(306,000)
Influence on potentially dilutive shares:		
Convertible bonds	292,658	219,494
Consolidated net income used to calculate diluted EPS	\$ 9,628,456	\$ 7,321,742
Weighted-average shares of common stocks outstanding (in thousands)-retroactively adjusted	5,167,118	5,167,118
Influence on potentially dilutive shares:		
Stock options- retroactively adjusted	29,956	29,956
Convertible bonds- retroactively adjusted	455,365	455,365
Weighted-average shares of common stocks outstanding used to calculate diluted EPS-retroactively adjusted(in thousands)	5,652,439	5,652,439
Diluted EPS	\$ 1.70	\$ 1.30

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

(u) 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 six months ended June 30, 2004 and 2003, financial derivatives the Company holds are as follows:

(1) Contract Amount or Nominal Principal and Credit Risk

Financial Instrument	June 30, 2004	
	Contract Amount (notional principle)	Credit Risk
Non-trading		
Currency swaps	\$ 3,202,820	\$ -
Cross currency swaps	6,434,138	14,790
Interest rate swaps	9,000,000	-
Financial Instrument	June 30, 2003	
	Contract Amount (notional principle)	Credit Risk
Non-trading		
Currency swaps	\$ 1,661,376	\$ 109
Cross currency swaps	5,159,800	209,031
Interest rate swaps	5,000,000	9,155

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- denominated claims and obligations.

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

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

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 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.

(5) Fair Value of Derivative Financial Instruments

Financial Assets	June 30, 2004	
	Book value	Fair value
Non-trading		
Currency swaps	\$ (26,541)	\$ (26,614)
Cross currency swaps	10,391	(17,348)
Interest rate swaps	39,485	(263,912)

Financial Assets	June 30, 2003	
	Book value	Fair value
Non-trading		
Currency swaps	\$ 6,071	\$ 109
Cross currency swaps	148,724	209,031
Interest rate swaps	17,836	9,155

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

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

(ii) Fair Value of Non-Derivative Financial Instruments of the Company and subsidiaries are as follows:

<u>Non-Derivative Financial Instruments</u>	June 30, 2004	
	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets:		
Book value equal to fair value	\$ 246,674,678	\$ 246,674,678
Long-term investments	85,385,061	84,698,515
Bills and securities purchased	282,042,127	282,042,127
Loans	733,682,745	733,682,745
Total	<u>\$ 1,347,784,611</u>	<u>\$ 1,347,098,065</u>
Financial Liabilities:		
Book value equal to fair value	<u>\$ 1,300,990,078</u>	<u>\$ 1,300,990,078</u>
<u>Non-Derivative Financial Instruments</u>	June 30, 2003	
	<u>Book Value</u>	<u>Fair Value</u>
Financial Assets:		
Book value equal to fair value	\$ 176,505,520	\$ 176,505,520
Long-term investments	29,760,658	29,250,809
Bills and securities purchased	130,867,593	130,867,593
Loans	598,409,643	598,409,643
Total	<u>\$ 935,543,414</u>	<u>\$ 935,033,565</u>
Financial Liabilities:		
Book value equal to fair value	<u>\$ 886,929,507</u>	<u>\$ 886,929,507</u>

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

- (1) Fair value of short-term financial instruments is estimated by their book value on balance sheet date. Because the maturity period for this type of financial instrument is short, its book value serves as a reasonable basis for estimating the fair value. Such instruments include cash and cash equivalents, notes and accounts receivable, notes and accounts payable, and call loans from and due to banks.
- (2) For marketable securities, market prices are the fair value if available. If market prices are unavailable, financial or other information is used to estimate the fair value.
- (3) Fair value of long-term liabilities is estimated by present value of expected cash flows. Discount rate is based on rates of equivalent loans available elsewhere; that is, loans with similar maturity date and terms.

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

(iii) Financial derivatives of the Company's subsidiary, Chinatrust Commercial Bank, Ltd.

(1) Contract Amount or Notional Principal and Credit Risk

Financial Instruments	June 30, 2004	
	Contract Amount (Notional Principal)	Credit Risk
Trading purpose		
Foreign exchange forward contracts	\$ 57,672,099	\$ 505,412
Forward interest rate agreements	500,000	-
Non-delivery forward contracts	110,235,731	159,322
Currency swaps	563,421,880	619,393
Cross currency swaps	93,769,857	647,699
Interest rate swaps	597,162,913	5,811,333
Options	529,708,436	4,893,105
Asset-backed swaps	23,737,071	807,450
Credit default swaps	5,660,600	682,828
Interest Rate Future	2,870,875	82,006
Non-Trading purpose		
Cross currency swaps	1,366,580	-
Interest rate swaps	20,695,675	-
Asset-backed swaps	19,162,206	741,280

Financial Instruments	June 30, 2003	
	Contract Amount (Notional Principal)	Credit Risk
Trading purpose		
Foreign exchange forward contracts	\$ 185,618,790	\$ 3,488,161
Forward interest rate agreements	3,000,000	1,490
Non-delivery forward contracts	9,391,989	2,964
Currency swaps	14,368,552	2,806
Cross currency swaps	84,557,161	767,139
Interest rate swaps	197,844,661	3,701,455
Options	233,717,996	2,291,502
Non-Trading purpose		
Currency swaps	19,857,628	97,447
Cross currency swaps	3,351,180	3,486
Interest rate swaps	8,898,956	44,531
Asset - backed swaps	3,726,342	-

Amount of credit risk refers to contracts with positive fair value on the balance sheet date, representing the Company's subsidiary, Chinatrust Commercial Bank, Ltd.'s possible loss in the event of non-performance by counterparties to contracts of financial instruments. However, if a party to a transaction is a client of the Company's subsidiary, Chinatrust Commercial Bank, Ltd., the procedures for credit evaluation and authorization are performed and the transactions are

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

confined within lines of credit granted. If deemed necessary, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. requests for sufficient collaterals from counterparties. If a party to the transaction is a financial institution, credit lines are provided according to its worldwide ranking and credit rating, and transactions are limited therein. Therefore, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. deems the likelihood of default as fairly remote.

(2) Market Risk

<u>Interest rate sensitivity</u>	<u>Currency</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
	NTD	\$ 1,071	(420)
	USD	(453)	241
	JPY	231	29
	Other	8	(7)
<u>Exchange rate sensitivity</u>		2,104	(1,243)

Chinatrust Commercial Bank, Ltd. estimates market risk by interest rate and exchange rate sensitivity.

Interest rate sensitivity indicates the impact of a 0.01% parallel shift in the term structure of interest rate on the present value of cash flows of derivative transactions on the balance sheet date. (Present value of One Basis Point, PVBP).

Exchange rate sensitivity is the impact of a one-basis-point (1) appreciation in U.S. dollars relative to New Taiwan dollars on foreign currency positions.

In addition to managing financial derivative positions (including forward forex, NDF, and exchange rate options), Chinatrust Commercial Bank, Ltd. administers and manages exchange rate risk by integrating the risks of hedging spot positions of foreign currencies.

Approval of the market risk limit is based on earnings target, trader experience, market volatility, and Chinatrust Commercial Bank, Ltd.'s aggregate risk tolerance. Chinatrust Commercial Bank, Ltd. calculates and manages the market risk limit on a daily basis such that the risk is within the Chinatrust Commercial Bank, Ltd.'s control.

Non-trading financial derivatives held by Chinatrust Commercial Bank, Ltd. are for hedging. Because the gains or losses from interest rate or exchange rate fluctuations largely offset those of hedged items, market risk is fairly low.

(3) Liquidity Risk and Cash Flow Risk

Since notional principals of financial derivatives are used mainly to calculate payables or receivables of parties to transactions, rather than the amounts

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

actually paid or cash demand, settlement amounts are generally lower than notional principals. Financial derivatives held by Chinatrust Commercial Bank, Ltd. are denominated in actively traded major currencies with reverse transactions readily available to offset positions, and therefore liquidity risk is deemed low. Chinatrust Commercial Bank, Ltd. manages future cash demand by evaluating market prices periodically, and therefore cash flow risk is also low.

(4) Net Gains or Losses from Current Trading

Net gains or losses from current trading activities are reported net gains or losses on financial derivatives, and are summarized below:

	Six Months Ended June 30,	
	2004	2003
Interest rate contracts	\$ 1,689,870	\$ 473,933
Foreign exchange contracts	768,348	363,387
Equity contracts	71,779	(110,329)
Net gains	\$ 2,529,997	\$ 726,991

Since exchange rate derivatives are hedged by spot exchange contracts, therefore net gains for all contracts includes gains on spot positions.

(5) Non-Trading Financial Derivatives

Non-trading financial derivatives are applied primarily to hedge against exchange and interest rate risks from Chinatrust Commercial Bank, Ltd.'s foreign-denominated assets and liabilities.

Non-trading financial derivatives held or issued by Chinatrust Commercial Bank, Ltd. are accounted for by the accrual basis with receivables or payables caused thereby recorded as interest income or expense.

Chinatrust Commercial Bank, Ltd. does not have any committed or uncommitted forecasted transactions.

Valuation methods to establish fair value of trading or non-trading financial derivatives held or issued by Chinatrust Commercial Bank, Ltd. are the same, except that market prices of non-trading derivatives are for reference purposes only and are not recorded.

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

(6) Fair Value of Financial Instruments

Financial Assets	June 30, 2004	
	Book Value	Fair Value
Financial assets : trading purpose		
Interest rate swaps (IRS)	\$ 737,659	\$ 737,659
Currency swaps	1,821	1,821
Cross currency swaps	(771,798)	(771,798)
Forward interest rate agreements (FRAs)	(668)	(668)
Non-delivery forward contracts (NDF)	(221,718)	(221,718)
Foreign exchange forward contracts	(179,831)	(179,831)
Options	(448,537)	(448,537)
Asset-backed swaps	(443,874)	(443,874)
Credit default swaps	682,828	682,828
Interest Rate Future	82,006	82,006
Financial assets : non-trading purpose		
Interest rate swaps (IRS)	68,483	(675,225)
Cross currency swaps	(1,510)	(3,145)
Asset-backed swaps	57,890	486,100

Financial Assets	June 30, 2003	
	Book Value	Fair Value
Financial assets : trading purpose		
Interest rate swaps (IRS)	\$ (351,433)	\$ (351,433)
Currency swaps	2,748	2,748
Cross currency swaps	(1,376,919)	(1,376,919)
Forward interest rate agreements (FRAs)	526	526
Non-delivery forward contracts (NDF)	(4,233)	(4,233)
Foreign exchange forward contracts	197,850	197,850
Options	264,660	264,660
Financial assets : non-trading purpose		
Interest rate swaps (IRS)	143,932	(32,333)
Cross currency swaps	(5,065)	(89,392)
Currency swaps	86,183	74,370
Asset-backed swaps	4,788	-

Fair value of financial derivatives is established by the amount of cash to be paid or to be received, assuming that the contract will be terminated on balance sheet date. In general, it includes unrealized gains or losses on outstanding contracts of the current period. There are reference reports from financial institutions for most of the Bank's financial derivatives.

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

- (iv) Off-Balance-Sheet Credit Risk financial derivatives of the Company's subsidiary, Chinatrust Commercial Bank, Ltd.

Since Chinatrust Commercial Bank, Ltd. provides loans and issues credit cards, it has substantial credit commitments with most of credit commitments confined within one year. Further more, the Bank provides guarantee endorsements and commercial letters of credit as guarantee for clients' obligations to third parties (included in loan commitments).

Contract amounts of financial instruments with off-balance-sheet credit risk were as follows:

	June 30, 2004	June 30, 2003
Unused lines of credit	\$ 197,884,846	\$ 647,466,000
Credit card commitments	394,600,188	317,993,717
	\$ 592,485,034	\$ 965,459,717

As of June 30, 2004 and 2003, un-cancelable credit limits of unused credit facilities amounted to \$31,332,860 and \$30,667,916, respectively.

Since such financial instruments are not settled prior to maturity, contract amount does not represent cash outflow in the future; that is, demand for cash in the future is lower than the contract amount. If lines of credit are reached and collateral or other guarantees are completely written off, credit risk is equivalent to contract amount, which is the maximum possible losses to Chinatrust Commercial Bank, Ltd. However, prior to providing loans, guarantee endorsements, and commercial letters of credit, Chinatrust Commercial Bank, Ltd. performs strict credit review and grants appropriate lines of credit based upon review results.

Collateral is not required in credit card commitments. Nonetheless, the Bank periodically evaluates credit ratings of cardholders and adjusts cardholders' credit limits if necessary.

- (v) Concentration Risk information of the Company's subsidiary, Chinatrust Commercial Bank, Ltd.

The concentrations of credit risk exist when the counter-party to financial instrument transactions are individuals or groups engaged in similar activities or having activities in the same region, which would impair their ability to meet contractual obligations under negative economic or other conditions.

There is no concentration of credit risk in terms of a single client, a party to transaction, or clients being in one single industry, except for clients being located in nearby regions with similar economic characteristics. Contracts with concentration of credit risk of Chinatrust Commercial Bank, Ltd. were as follows:

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

<u>By Industry</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Individuals	\$ 317,818,660	\$ 253,907,285
Manufacturing industry	111,856,165	83,594,627
Public Sector	49,300,309	51,489,218
Financial industry	40,702,768	34,685,883

(vi) Financial derivatives of the Company's subsidiary, Chinatrust Securities Corp., Ltd.

(1) Contract Amount and Credit Risk

<u>Financial Instrument</u>	<u>June 30, 2004</u>	
	<u>Contract Amount</u>	<u>Credit Risk</u>
Trading		
Stock warrants	\$ 595,100	-
Taiex futures	4,620	-
Taiex index options sold	11,551	-
Taiex index options purchased	17,484	-

<u>Financial Instrument</u>	<u>June 30, 2003</u>	
	<u>Contract Amount</u>	<u>Credit Risk</u>
Trading		
Stock warrants	\$ 383,900	\$ -
Taiex futures	240,542	-
Taiex index options sold	475	-

Chinatrust Securities Corp., Ltd. collects premium from investors prior to issuing stock warrants, and therefore, does not assume any credit risk.

Taiex futures and Taiex index options are purchased and sold through Taiwan Futures Exchange and therefore there is no significant credit risk.

(2) Market Risk

Market risk of stock warrants issued arise from changes in prices of the underlying securities, and therefore market risk can be hedged by adjusting stock warrants and their corresponding hedged items.

Market risk of Taiex futures and Taiex index options arises from the purchase and sell of futures and options. Every future and option has a fair value, and stop-losses points are established in order to manage risk. Losses is within prediction, and therefore there is no significant market risk.

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

Chinatrust Securities Corp., Ltd. establishes hedging positions by collecting premium and providing additional funds prior to the issue of stock warrants which are based on the underlying securities. Furthermore, since the underlying

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

securities meet market price and diversification requirements, the risk of not being able to sell the securities at reasonable prices is low, and therefore liquidity risk is low. The only risk arises when there is need to adjust hedged positions due to changes in the price of securities. However, under the assumption of market liquidity, cash flow risk is low.

Chinatrust Securities Corp., Ltd. deposits margins when entering into Taiex index futures contracts and Taiex index options contracts. Due to fluctuations in market price, additional margin may be required to be deposited during margin calls. Chinatrust Securities Corp., Ltd. has sufficient operating funds to provide additional deposits for margin. As a result, there is no liquidity risk, cash flow risk, or significant cash demand.

Stock warrants expire one year from the issue date. Except for cash flows from hedging transactions, there is no additional cash demand.

- (4) Type, Purpose and Strategy of financial derivatives held by the Company's subsidiary, Chinatrust Securities Corp., Ltd.:

Non-trading marketable securities hedging positions are used to hedge the risk resulting from investors' exercising of stock warrants issued and changes in stock warrant positions. Chinatrust Securities Corp., Ltd's strategy is to hedge most of the market risk. Financial derivatives exhibiting highly positive correlation with the fair values of hedged items are used as hedging instruments and evaluated periodically.

Chinatrust Securities Corp., Ltd. issues stock warrants and transacts in Taiex futures and Taiex index options for trading purposes.

- (5) Presentation of financial derivatives

Margins of stock index futures are included in current assets as futures margin – proprietary fund, and the settlement difference is reported as current gains or losses. For the six months ended June 30, 2004 and 2003, gains(losses) on futures amounted to \$49,860 and \$(3,660). As of June 30, 2004 and 2003, futures margin – proprietary fund amounted to \$254,504 and \$49,091. For the six months ended June 30, 2004 and 2003, gains(losses) on Taiex index options amounted to \$24,141 and (3,156).

Chinatrust Securities Corp., Ltd. began to issue stock warrants in 2002. For the six months ended June 30, 2004 and 2003, relevant transaction from issuing stock warrants, its presentation and valuation, and gains or losses on sale, are reflected as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

a) Gains (losses) on valuation

	Six Months Ended		Account
	June 30,		
	2004	2003	
Stock warrants issued	\$ 198,681	\$ 130,650	Gains on stock warrants issued
Stock warrants issued and repurchased	(51,205)	(29,733)	Losses on stock warrants issued
Marketable securities - hedging	(24,651)	10,412	Recovery (decline) in the market value of marketable securities

b) Losses on sale

	Six Months Ended		Account
	June 30,		
	2004	2003	
Marketable securities - hedging	\$(103,742)	\$(35,983)	Losses on sale of securities-hedging
Stock warrants issued and repurchased	(100,798)	(85,475)	Losses on stock warrants issued

c) Gains due to the exercise of options prior to maturity

	Six Months Ended		Account
	June 30,		
	2004	2003	
Stock warrants issued	\$ 10,957	\$ -	Gains on stock warrants issued

d) Gains (losses) on maturity

	Six Months Ended		Account
	June 30,		
	2004	2003	
Stock warrants issued	\$ 312,117	\$ -	Gains on stock warrants issued
Stock warrants issued and repurchased	(172,350)	-	Losses on stock warrants issued

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

(6) Fair Value of Derivative Financial Instruments

	June 30, 2004	
Financial Assets	Book Value	Fair Value
Trading		
Taix index options	\$ 16,558	\$ 16,558
Non-trading		
Marketable securities - hedging	593,233	595,495
	<u>\$ 609,791</u>	<u>\$ 612,053</u>
Financial Liabilities		
Trading		
Stock warrants issued	\$ 251,750	\$ 251,750
Stock warrants issued and repurchased	(64,133)	(64,133)
Taix index options	6,633	6,633
	<u>\$ 194,250</u>	<u>\$ 194,250</u>
	June 30, 2003	
Financial Assets	Book Value	Fair Value
Non-trading		
Marketable securities - hedging	<u>\$ 161,667</u>	<u>\$ 163,279</u>
Financial Liabilities		
Trading		
Stock warrants issued	\$ 176,750	\$ 176,750
Stock warrants issued and repurchased	(147,701)	(147,701)
Taix index options	221	221
Total	<u>\$ 29,270</u>	<u>\$ 29,270</u>

Market prices are the fair values of stock warrants issued and repurchased. For other derivative financial instruments, the fair value is the estimated amount received or paid assuming if the contract were terminated on the balance sheet date. These generally consist of current unrealized gains or losses from unsettled contracts.

(vii) Chinatrust Bills Finance Corp.

Fair Value of Derivative Financial Instruments

Chinatrust Bills Finance Corp. engages in non-hedging interest rate swaps in order to increase the manipulation of financial instruments and to increase returns. Hedging interest rate swaps are used primarily to hedge fluctuations in the interest rates for New Taiwan Dollar-denominated liabilities. Related information is as follows:

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

(1) Contract amount or Notional Principal and Credit Risk

<u>Financial Instrument</u>	June 30, 2004		
	<u>Notional Principal</u>	<u>Credit Risk</u>	<u>Fair Value</u>
Trading			
Interest rate swaps	\$ 2,600,000	\$ -	\$ (177)
Government bond futures	1,265,000		3,824
Non-trading			
Interest rate swaps	3,500,000	-	(69,857)

Credit risk pertains to contracts with positive fair value on balance sheet date, that represent potential losses for the Chinatrust Bills Finance Corp. in the event of non-performance by counterparties to contracts on financial instruments. However, if the party to a transaction is a client of Chinatrust Bills Finance Corp., procedures for credit evaluation and authorization are performed and transactions are confined within lines of credit granted. If deemed necessary, Chinatrust Bills Finance Corp. also requests for sufficient collaterals from counterparties. If a party to a transaction is a financial institution, credit lines are provided according to its worldwide ranking and credit rating, and transactions are limited therein. Therefore, Chinatrust Bills Finance Corp. deems the likelihood of default as fairly remote.

(2) Market Risk

Non-trading financial derivatives held by Chinatrust Bills Finance Corp. are for hedging. Because the gains or losses from interest rate fluctuations largely offset those of hedged items, market risk is fairly low.

Trading financial derivatives held by Chinatrust Bills Finance Corp. each has fair market value. The amount of risk assumed is minimized in order to manage risk. Losses are within prediction, and therefore there is no significant market risk.

(3) Liquidity Risk and Cash Flow Risk

Since notional principals of financial derivatives are used mainly to calculate payables or receivables of parties to transactions, rather than the amounts actually paid or cash demand, settlement amounts are generally lower than notional principals. Financial derivatives held by Chinatrust Bills Finance Corp. are actively traded with reverse transactions readily available to offset positions, and therefore liquidity risk is deemed low. Chinatrust Bills Finance Corp. manages future cash demand by evaluating future cash flows periodically, and therefore cash flow risk is also low.

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

(4) Net Gains or Losses from Current Trading

Net gains or losses from current trading activities are reported net gains or losses on financial derivatives, and are summarized below:

	<u>Six Months Ended June 30,2004</u>	
Interest rate swaps	\$	(7,141)
Government bond futures		8,302
Interest rate future		106
	<u>\$</u>	<u>1,267</u>

(5) Non-Trading Financial Derivatives

Non-trading financial derivatives are applied primarily to hedge against interest rate risks from NT Dollar denominated liabilities.

Non-trading financial derivatives are accounted for by the accrual basis with receivables or payables caused thereby recorded as interest income or expense. Chinatrust Bills Finance Corp. does not have any committed or uncommitted forecasted transactions.

Valuation methods to establish fair value of trading or non-trading financial derivatives held or issued by Chinatrust Bills Finance Corp. are the same, except that market prices of non-trading derivatives are for reference purposes only and are not recorded.

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

5. RELATED PARTY TRANSACTIONS

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

<u>Name of related parties</u>	<u>Relationship with the Company</u>
Chinatrust Forex Corporation	An investee company carried under equity method.
Chinatrust Securities Investment Consultancy Corp.,Ltd.	"
KGI Securities Investment Trust Corp.Ltd	"
Grand Bills Financial Corporation	"
GCB Finance (HK) Limited	"
Grand Life Insurance Agent Co., Ltd.	"
Grand General Insurance Agent Co., Ltd.	"
KGI Securities Co., Ltd.	An affiliate.
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
National Credit Card Center of R.O.C.	Same Chairman
Chinatrust Cultural Foundation	"
Overseas Investment & Development Co., Ltd.	"
Rong-Shing Cultural Foundation	"
Taiwan Institute of Economic Research	"
Taifex Taiwan Futures Exchange	The Chairman is its director
Koo Foundation, Sun Yat-Sen Cancer Center	"
Chinatrust Investment Co., Ltd.	"
Sunghung Investment Co., Ltd.	"
Taiwan Polypropylene Co., Ltd.	"
United Design&Publications Inc.	"
China Life Insurance Co.,Ltd	The Chairman is its Honorary Chairman
United Advertising Co.	An immediate family member of the President of the Bank is its director
Other related parties	Including supervisors, managers and their families, spouses .

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

(b) Significant Transactions with Related Parties

(i) Rental Revenue

For the six months ended June 30, 2004 and 2003, rental revenue of the Company's subsidiary, Chinatrust Commercial Bank received from related parties for the rental of buildings and parking spaces amounted to \$7,693 and \$15,585, or 11.70% and 19.14%, respectively, of total rental revenue.

(ii) Commissions and Service Fees

For the six months ended June 30, 2004 and 2003, commissions and service fees of the Company's subsidiary, Chinatrust Commercial Bank paid to the National Credit Card Center of the Republic of China amounted to \$78,619 and \$66,479, which represented 29.14% and 14.70%, respectively, of total commissions and fees.

(iii) Site Usage Fee

For the six months ended June 30, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank paid KGI Securities Co., Ltd site usage fee and other related expenses for operations amounting to \$78,175 and \$50,847, respectively.

(iv) Guarantees

Related parties:	For the Six Months Ended June 30, 2004				
	Date of Maximum Balance	Maximum Balance	Ending Balance	Range of Rate	Commissions and Service Fees Income
China Life Insurance Co.,Ltd	2004.04.20	\$ 19,000	\$ -	0%	\$ -

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

(v) **Loans**

The Company's subsidiary, Chinatrust Commercial Bank, Ltd.:

Six Months Ended June 30, 2004					
	Date of Maximum Balance	Maximum Balance	Ending Balance	Range of Rate	Interest Income
Koo Foundation Sun Yat Sen Cancer Center Chinatrust Investment Co., Ltd.	May 7, 2004	\$ 1,615,400	\$ 1,124,900	2.85~3.73%	\$ 17,944
KGI Securities Co., Ltd.	February 25, 2004	447,000	90,000	2.75~3.50%	5,573
United Advertising Co.	April 19, 2004	200,000	158,500	1.61~1.67%	669
United Design&Publications Inc.	January 1, 2004	318,890	132,000	1.93~4.75%	2,729
Sunghung Investment Co., Ltd.	January 1, 2004	173,631	173,631	4.90%	4,249
Others	June 30, 2004	200,000	200,000	3.63%	3,265
Total		\$ 3,464,679	\$ 2,297,460		\$ 39,981

Six Months Ended June 30, 2003					
	Date of Maximum Balance	Maximum Balance	Ending Balance	Range of Rate	Interest Income
Koo Foundation Sun Yat Sen Cancer Center	January 24, 2003	\$ 1,662,000	\$ 1,465,524	3.73~5.25%	\$ 32,969
United Advertising Co. Chinatrust Investment Co, Ltd.	January 1, 2003	641,890	321,890	6.20~6.875%	16,860
Others	May 26, 2003	80,072	-	8.19~8.83%	18
Total		\$ 2,633,151	\$ 1,994,664		\$ 52,916

Interest rates of loans to related parties are the same as those with other parties.

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

(vi) Deposits

The Company's subsidiary, Chinatrust Commercial Bank, Ltd.:

	Six Months Ended June 30, 2004			
	Maximum Balance	Ending Balance	Interest Rate	Interest Expense
China Life Insurance Co., Ltd	\$ 2,567,664	\$ 743,947	0~1.30%	\$ 3,269
Taifex Taiwan Futures Exchange	1,112,523	1,055,923	0.10~1.50%	12,100
Grand Bills Financial Co., Ltd	2,041,002	2,012,047	0~1.00%	3,278
National Credit Card Center of R.O.C.	986,596	716,281	0~0.20%	3,714
KGI Securities Co., Ltd	4,979,098	4,473,761	0~1.50%	6,603
KGI Securities Investment Trust Corp. Ltd	141,628	131,918	0~1.35%	2,926
Taiwan Polypropylenc Co., Ltd.	478,813	369,873	0~1.85%	939
Others	4,095,705	1,605,408		13,297
Total	\$ 16,403,029	\$ 11,109,158		\$ 46,126

	Six Months Ended June 30, 2003			
	Maximum Balance	Ending Balance	Interest Rate	Interest Expense
Overseas Investment & Development Co., Ltd.	\$ 263,159	\$ 165,284	0~5.00%	\$ 1,334
National Credit Card Center of R.O.C.	983,505	567,166	0~4.40%	4,424
KGI Securities Co., Ltd	1,302,704	969,782	0~5.10%	7,636
United Advertising Co.	432,162	64,383	0~0.80%	31
Others	1,650,878	954,767		8,679
Total	\$ 4,632,408	\$ 2,721,382		\$ 22,104

Interest rates of deposits by related parties are the same as those with other parties.

(vii) Financial Derivatives

For the six months ended June 30, 2004, the Company's Subsidiary, Chinatrust Commercial Bank, Ltd. entered into interest rate swaps(IRS) agreements and products investment with Grand Bills Finance Corp. for a notional principal of \$1,800,000 and 2,000,000 respectively

(viii) Trade of bills and bonds

	Six Months Ended June 30, 2004	
	Bills and bonds purchase	Bills and bonds sold
KGI Securities Co., Ltd	\$ 1,256,555	\$ 1,882,979
Grand Bills Financial Co., Ltd	25,868,077	27,724,878
China Development Industry Banl	3,020,535	2,962,076
	Six Months Ended June 30, 2003	
	Bills and bonds purchase	Bills and bonds sold
KGI Securities Co., Ltd	\$ 6,332,193	\$ 8,105,003

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

(ix) Other

For the six months ended June 30, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. traded securities through KGI Securities Co., Ltd. and commissions paid amounted to \$276 and \$23, respectively.

For the six months ended June 30, 2004 and 2003, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. sold 54,806 thousand and 15,337 thousand treasury shares to its employees for \$909,230 and \$277,226 with a cost of \$1,036,241 and \$382,159. The difference between the price and cost amounted to \$127,011 and \$104,933 were reflected as a deduction to undistributed earnings.

For the six months ended June 30, 2004 and 2003, the Company's subsidiary, Chinatrust Insurance Brokers Corp., Ltd. received commission income from China Life Insurance Co., Ltd. amounting to \$632,920 and \$429,041, respectively.

(c) Transaction information regarding related parties acting as borrower, guarantor, and collateral provider for the Company's subsidiary, Chinatrust Commercial Bank, Ltd.

June 30, 2004			
Category	Number of clients	Ending Balance	Possible losses
Consumer loans	825	\$ 229,032	None
Mortgage loans	1,262	2,363,036	None
Credit transactions in which related parties act as borrower	3,115	4,348,631	None
Credit transactions in which related parties act as guarantor	-	-	None
Credit transactions in which related parties act as collateral	3,054	6,398,460	None

June 30, 2003			
Category	Number of clients	Ending Balance	Possible losses
Consumer loans	568	\$ 217,649	None
Mortgage loans	1,009	1,937,215	None
Credit transactions in which related parties act as borrower	3,014	3,940,140	None
Credit transactions in which related parties act as guarantor	-	-	None
Credit transactions in which related parties act as collateral	2,506	5,486,247	None

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

6. PLEDGED ASSETS

Pledged assets of the Company and subsidiaries are as follows:

<u>Asset</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Collateral</u>
Chinatrust Financial Holding Company, Ltd.			
Government bonds	\$ 1,264,256	\$ 1,015,035	Collateral for loans and limits on financial transactions
NCD	1,200,000	-	"
Long-term investments- Chinatrust Commercial Bank,	-	5,426,089	"
Chinatrust Commercial			
Time deposits	120,000	120,000	Margins for underwriters
NCD	17,000,000	16,100,000	Daytime drafts and Court
Government and other bonds	1,013,300	896,600	"
Government and corporate bonds	50,000	590,000	Trust fund reserves
Chinatrust Securities Corp., Ltd.			
Time deposits(reflected under	120,000	605,000	Pledged as collateral for loans
Land	149,676	181,515	"
Buildings at book value	113,924	139,688	"
Guarantee deposited for business	280,000	235,000	"
Settlement funds	92,825	83,123	"
Refundable deposits	208,277	181,585	"
Leased assets at net book value	48,381	-	"
Chinatrust Bills Finance			
Government bonds	-	163,599	Bank loans and litigation
Time deposits	8,327,084	6,342,000	Real-time gross settlement and collateral for loans
Corporate bonds	158,002	199,623	Short-term borrowings and collateral for corporate bonds
PT Bank Chinatrust Indonesia			
Government bonds	511,420	-	Transaction deposits
Total	<u>\$ 30,657,145</u>	<u>\$ 32,278,857</u>	

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

7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

	June 30, 2004	June 30, 2003
<u>Chinatrust Financial Holding Company, Ltd.</u>		
Collateral for short-term borrowings and commercial paper	\$ 3,700,000	\$ -
<u>Subsidiary - Chinatrust Commercial Bank, Ltd.</u>		
Contingent liabilities from guarantees and letter of credit	94,543,730	71,422,872
Commercial paper to the Central Bank for banks' clearance	6,872,100	6,772,100
Client notes in custody	144,116,295	97,110,090
Receivables for other banks from syndicated loans	39,315,526	29,651,634
Marketable securities in custody	691,403,348	542,128,388
Travellers' cheques in custody available for sale	615,984	525,613
Special-purpose trust accounts	274,386,223	120,654,319
<u>Subsidiary - Chinatrust Securities Corp., Ltd.</u>		
Promissory notes	10,000	10,000
Estimated rent for the next three years	37,170	48,608
Unpaid portion of signed contracts	500,000	-
<u>Subsidiary - Chinatrust Bills Finance Corp.</u>		
Guarantee for commercial paper	16,010,600	16,578,300
Bonds and bills sold under repurchase agreements	-	56,123,178
Bonds and bills purchased under resale agreements	-	455,505
Estimated rent for the next three years	3,833	5,365
	\$ 1,271,514,809	\$ 941,485,972

8. SIGNIFICANT CATASTROPHIC LOSSES: NONE.

9. SIGNIFICANT SUBSEQUENT EVENTS

On July 5 2004, the Company's subsidiary, Chinatrust Commercial Bank, Ltd. bid to acquire the outstanding assets, liabilities and operations of Feng-Shan Credit Cooperative (FSCC), and the acquisition of FSCC would enable the Company's subsidiary, Chinatrust Commercial Bank, Ltd. to receive a subsidy of \$1.1 billion from the Resolution Trust Corporation ("RTC"). The Company's subsidiary, Chinatrust Commercial Bank, Ltd. will acquire 10 additional operating branches to increase its total branch network to 111, and enhance its competitiveness.

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

10. OTHER

Personnel, Depreciation, and Amortization Expense

Nature	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	Operating Expense	Operating Expense
Personnel Expense	\$ 5,937,600	\$ 5,542,180
Depreciation Expense	940,543	743,078
Amortization Expense	824,571	300,178
	\$ 7,702,714	\$ 6,585,436