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## *Message to Shareholders*



Chairman **SHEN-CHIH CHENG**

As the new era of financial holding companies was being ushered in, Chiao Tung Bank and International Securities Co., Ltd. on February 4, 2002 were formally brought together under the CTB Financial Holding Company. Later, on August 22, 2002, the Chung Hsing Bills Finance Corporation and Barits Securities Corp. also became part of the group, to be joined by the International Commercial Bank of China and Chung Kuo Insurance Co., Ltd. on December 31, 2002. At that point the holding company's name was changed to Mega Financial Holding Company. Thus, a large-scale financial holding company that transcends the individual domains of banking, bills finance, securities and insurance has been established. Performance during the Group's first year of operations has been excellent, and a process of internal reorganization has begun among the six subsidiaries, the integration of the three securities subsidiaries being a key part of this.

Looking back over the year 2002, the world economy, influenced by the dishonest accounting practices of a number of large U.S. enterprises, fears of further terrorist attacks and the likelihood of war breaking out between the U.S. and Iraq, registered a growth rate of only 1.7%. The global economic outlook for 2003 continues to remain conservative. As for the Taiwan economy, the weak global conditions have resulted in its external trade being far from ideal throughout the year. In addition, due to falling asset prices in both its stock and real estate markets, a rising unemployment rate, and shrinking wealth and incomes, domestic demand has also declined. In terms of financial activities, interest rates have continued their downward trend, and funding conditions remain eased. The stock market has been affected by the slowing down of the global economic recovery, the war in Iraq and the failure of local electronics stocks to perform as well as expected. As investors adopt a wait-and-see attitude, investment strategies have become increasingly conservative.

Despite this overall weakness in macroeconomic conditions, subsidiaries of the Mega Financial Holding Company have over the past year been able to achieve satisfactory operating results in their respective domains. The Company's business operations for the year 2002 and business plans for the year 2003 may be summarized as follows:



## I **Review of Business Operations in 2002**

### A. Results of Operating Plans

Pursuant to the Financial Holding Company Act, the business scope of financial holding companies is limited to investments and management of the companies in which they are investing. At the end of the year 2002, the Company has six wholly-owned subsidiary companies, namely, Chiao Tung Bank Co., Ltd., Barits International Securities Co., Ltd., Chung Hsing Bills Finance Corporation, Barits Securities Corp., the International Commercial Bank of China and Chung Kuo Insurance Co., Ltd. The operating results for each of these subsidiaries are as follows:

#### Chiao Tung Bank

- **Loans:** Total credit outstanding in 2002 (including loans, guarantees and acceptances) amounted to NT\$441,040 million, an increase of 1.93% over the NT\$432,685 million recorded in 2001.
- **Long-term equity investments:** Investment outstanding in 2002 amounted to NT\$20,692 million, an increase of 2.68% when compared with the NT\$20,153 million recorded in 2001.
- **Deposits:** Total volume of deposits in 2002 amounted to NT\$270,563 million, a decrease of 0.33% as compared with the NT\$271,450 million for 2001. Demand deposits amounted to NT\$37,516 million, 10.51% up on the corresponding figure for 2001.
- **Foreign exchange business:** Total foreign exchange transactions undertaken in 2002 amounted to US\$42,729 million, an 18.27% increase over the US\$36,127 million recorded in 2001. Of this amount, import and export operations both increased by 9.8% and 6.9%, respectively, over the previous year.
- **Consumer banking business:** The Retail Banking Department was established in July 2002, and at the end of the year outstanding consumer loans amounted to NT\$13,191 million, reflecting an increase of 133.87% over such loans outstanding at the end of June 2002. Consumer service fees for the year as a whole amounted to NT\$21 million.
- **Trust business:** For 2002, the average value of securities taken under custodianship was NT\$285,561 million, an increase of 11.28% over the corresponding NT\$256,608 million for 2001. For the year 2002, the volume of non-discretionary trust business for investment in local mutual funds and overseas securities undertaken amounted to NT\$4,501 million, an increase of 70% over 2001.
- **Non-performing Loans:** The Bank sold in September 2002 NT\$17.8 billion in non-performing loans by public auction, with the result that the non-performing loans ratio was 3.07% at the end of 2002.

#### Barits International Securities Co., Ltd. (formerly International Securities Co., Ltd)

Total revenue from brokerage activities in 2002 amounted to NT\$693 million, an increase of NT\$181



million or 35.35% compared with the NT\$512 million for 2001, and representing a market share of about 1.5%. Total revenue from underwriting in the year amounted to NT\$32 million, an increase of NT\$15 million or 88.24% over the NT\$17 million for 2001. The total loss from trading of securities for the year amounted to NT\$152 million, which was NT\$149 million higher than the NT\$3 million loss recorded in 2001. The net loss before tax for the year 2002 amounted to NT\$178 million, an increase of NT\$61 million over the pretax net loss of NT\$117 million for 2001.

#### Chung Hsing Bills Finance Corporation

- Guaranteed issues of commercial paper outstanding at the end of 2002 for all bills finance companies amounted to NT\$517.921 billion. The corresponding amount for Chung Hsing Bills Finance Corporation was NT\$161.024 billion representing a market share of 31.09%.
- Initial purchases of commercial paper in the primary market in the year 2002 for all bills finance companies together amounted to NT\$6,930.917 billion. The purchases made by Chung Hsing Bills Finance Corporation totaled NT\$1,760.705 billion, representing a market share of 25.40%.
- Transactions in commercial paper in the secondary market in the year 2002 for bills finance companies as a whole amounted to NT\$34,144.313 billion. The transactions attributable to Chung Hsing Bills Finance Corporation totaled NT\$6,911.943 billion, representing a market share of 20.24%.

#### Barits Securities Corp.

Revenue from brokerage activities in 2002 amounted to NT\$277 million, an increase of NT\$56 million or 25.34% over the NT\$221 million recorded in 2001, and representing a market share of about 0.4%. Total revenue from underwriting operations in 2002 amounted to NT\$250 million, an increase of NT\$113 million or 82.48% over the NT\$137 million for 2001, representing a market share of about 7.13% (calculated on the basis of amounts publicly underwritten). Total revenue from trading of securities in 2002 amounted to NT\$79 million, an increase of NT\$395 million over the NT\$316 million loss recorded in 2001. Net income before tax for the year 2002 amounted to NT\$189 million, a decrease of NT\$732 million over the pretax income of NT\$921 million recorded in 2001.

#### International Commercial Bank of China

- **Deposits:** Total volume of deposits in 2002 amounted to NT\$554,898 million, representing growth of 9.98% compared with the NT\$504,549 million recorded for 2001.
- **Loans:** Total credit outstanding in 2002 (including loans, guarantees and acceptances) amounted to NT\$537,513 million, a decline of 1.59% as compared with the NT\$546,190 million for 2001.
- **Foreign exchange business:** Total foreign exchange business undertaken in 2002 amounted to US\$130,752



million, an increase of 23.20% over the US\$106,128 million for 2001. Import and export operations for the year 2002 increased by 3.01% and 5.92%, respectively, over the previous year.

- ▼ **Non-performing loans:** Non-performing loans outstanding at the end of 2002 amounted to NT\$11,905 million, representing a non-performing loans ratio of 2.36%.
- ▼ **Long-term equity investments:** Total long-term equity investments outstanding at the end of 2002 amounted to NT\$9,388 million, representing a decline of 7.43% over the NT\$10,141 million for 2001.
- ▼ **Trust business:** The average value of securities taken under custodianship in 2002 amounted to NT\$222,185 million, an increase of 23.41% over the NT\$180,039 million recorded for 2001. The volume of business in respect of non-discretionary trust funds for investment in local mutual funds and overseas securities undertaken during 2002 amounted to NT\$7,390 million. The volume of business in terms of acting as agent for the sale of local mutual funds undertaken during the year amounted to NT\$30,654 million.
- ▼ **Consumer banking business:** Consumer banking loans outstanding at the end of 2002 amounted to NT\$63,496 million, a decline of 15.82% over the corresponding amount for 2001, while consumer service fee income came to NT\$459 million.

#### Chung Kuo Insurance Co., Ltd.

The Company's gross premium and reinsurance premium income in 2002 amounted to NT\$6,108 million, this being an increase of NT\$297 million, or growth of 5.11% when compared with the NT\$5,811 million for 2001.

#### ▼ Direct written business

Total gross direct written premiums for the year amounted to NT\$5,219 million, an increase of NT\$331 million or 6.77% compared with the NT\$4,888 million for 2001.

#### ▼ Reinsurance business

Total reinsurance premiums amounted to NT\$890 million, which was NT\$33 million or 3.58% less than the NT\$923 million recorded for the year 2001.

## B. Comparison of Budget with Actual

The Company's budget for the year 2002 was achieved as follows:

Expressed in millions of NT\$

Item	Budgeted	Actual	Achievement Rate
Operating revenues	6,257	6,502	103.92%
Operating profits	6,106	6,374	104.39%
Net income before tax	6,141	6,299	102.57%
Net income	6,141	6,298	102.56%
Earnings per share	NT\$1.53	NT\$1.06	69.28%

## C. Analysis of Profitability

For the year 2002 (i.e. from February 4, 2002 to December 31, 2002), the Company's major results from operations were as follows: operating revenues NT\$6,502 million, operating expenses NT\$127 million, net income before tax NT\$6,299 million, net income after tax NT\$6,298 million, and earnings per share after tax NT\$1.06. The net income rate was 96.87%, the return on assets 7.57%, and the rate of return on shareholders' equity 8.84%.

## II Business Plans for 2003

### A. Major Operating Policies

- Bringing various kinds of financial institution into the Group, to extend full-fledged scope of services.
- Strengthening cross-selling channels and providing "one-stop shopping" for financial services.
- Establishing common IT platforms, and upgrading the efficiency of each type of business and its supervision.
- Integrating the various resources, strengthening organizational efficiency, and promoting financial modernization.
- Enhancing group operating performance, and strengthening assets and liabilities management.

### B. Business Targets

Major business targets for 2003 are estimated as follows:

Item	Amount
Operating revenues	NT\$16,087
Operating profits	NT\$15,682
Net income before tax	NT\$15,009
Net income	NT\$15,009
Earnings per share	NT\$1.53

The year 2002 was a year of consolidation and expansion for the Mega Financial Holding Company, while 2003 promises to be a year for the full-scale integration of its business activities. As to the outlook for the future, the Company will mobilize the Group's comprehensive resources and actively promote its various business activities, in order to achieve the holding company's ultimate objective of achieving scale economies and resource sharing.



The Mega Financial Holding Company has combined the unique advantages of several different types of financial institution. Because of the valuable support provided by the previous shareholders of each of the Company's subsidiaries, the Mega Financial Group has been able to become what it is today in the midst of a very competitive and rapidly-changing environment. As we move forward into the future to provide the general public with a comprehensive range of integrated financial services, it is my sincere hope that each of our distinguished shareholders will continue to offer us their unfailing support and frequently enrich us with their constructive comments.



Shen-Chih Cheng  
Chairman



## *Profile of the Company*



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## **I** *History of the Company*

Mega Financial Holding Company (the Company) was formed by Chiao Tung Bank Co., Ltd. (CTB) and Barits International Securities Co., Ltd. (BIS; formerly International Securities Co., Ltd.) on February 4, 2002 in accordance with the Financial Holding Company Act and other related laws through exchange of shares. On August 22, 2002, Chung Hsing Bills Finance Corporation (CHBF) and Barits Securities Corp. (BS) joined the Company through exchange of shares. On December 31, 2002, the Company acquired a 100% equity stake both in International Commercial Bank of China (ICBC), an investee of the Company originally accounted for under equity method with a 28% stake, and Chung Kuo Insurance Co., Ltd. (CKI) through exchange of shares. On the same date, the Company changed its name from CTB Financial Holding Company to Mega Financial Holding Company. Shares of the Company have been listed and traded on the Taiwan Stock Exchange since February 4, 2002. The Company is mainly engaged in investment activities approved by the governing authorities and management of the investee companies.

## **I** *History of the Company*

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## II Capital and Shares, Corporate Bonds and Participation in the Issue of Overseas Depository Receipts

Paid-in capital	NT\$110,488,402,440
Number of common shares issued	11,048,840,244 shares
Number of preferred shares issued	None
Corporate bonds issued	NT\$15,000,000,000
Participation in the issue of Overseas Depository Receipts	None

Note: The Company has not issued overseas corporate bonds.

## III Ten Major Shareholders

Apr. 7, 2003

Shareholders' Name	No. of Shares	Percentage
Ministry of Finance	1,098,277,121	9.94%
The Development Fund, Executive Yuan	649,921,587	5.88%
Chunghwa Post Co., Ltd.	539,333,335	4.88%
Bank of Taiwan	283,221,706	2.56%
National Financial Stabilization Fund	280,072,760	2.53%
Central Investment Holding Co., Ltd.	264,350,141	2.39%
Kuo Hua Life Insurance Co., Ltd	164,421,606	1.49%
Bureau of Labor Insurance	135,539,607	1.23%
United Microelectronics Corp.	103,028,091	0.93%
Barits Development Corp.	91,900,779	0.83%
Total	3,610,066,733	32.66%

## IV Bonuses to Employees, Directors and Supervisors

### A. Bonuses Stipulated in the Company's Articles of Incorporation

According to the Company's Articles of Incorporation, the after-tax net income shall be used to offset the accumulated deficit first and then be appropriated to the legal reserve at the rate regulated by the governing authority. The remainder shall be appropriated to the special reserve, if necessary, and an appropriated portion is retained according to the Company's financing requirements. Any remaining income will be distributed in the following order based on the resolution from the shareholders.

#### 1. Dividends

Cash dividends should not exceed 50% of the total dividends, and the remainder will be in the form of stock dividends.

## 2. Remuneration to directors and supervisors

Remuneration to directors and supervisors should not exceed 1% of the total distributed amount.

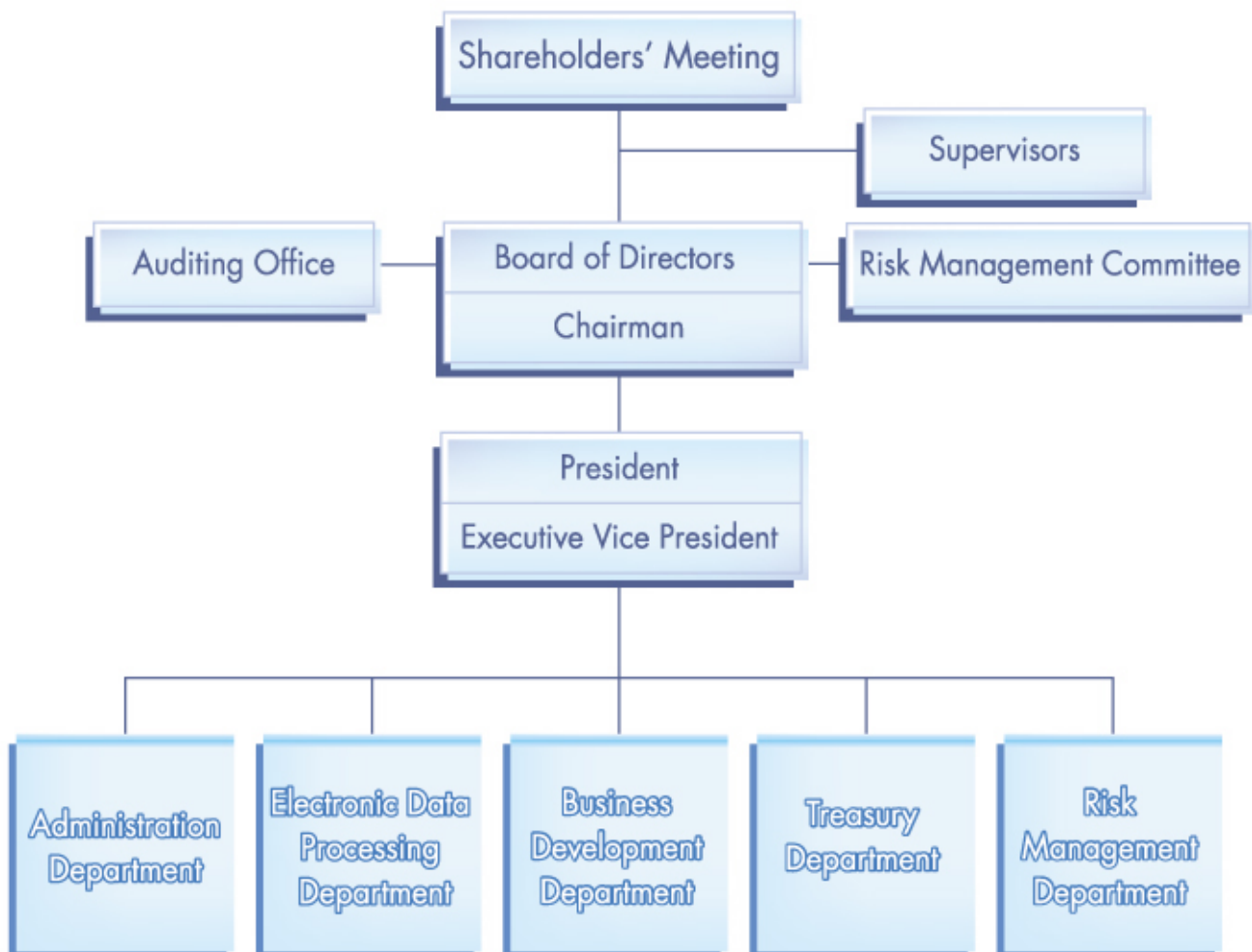
## 3. Bonus to employees

Bonus to employees ranges from 0.02% to 0.16% of the total distributed amount.

## B. Bonuses for 2002

The Company's board of directors on April 21, 2003 passed a resolution proposing cash bonuses to employees totaling NT\$7,807,000 and bonuses to directors and supervisors amounting to NT\$48,400,000. Following these appropriations, the pro forma earnings per share for the year 2002 will amount to NT\$1.05.

## V Organization





## VI Board of Directors & Supervisors

Dec. 31, 2002

<b>Chairman</b>	Shen-Chih Cheng		
<b>Director</b>	Tzong-Yeong Lin	Duei Tsai	Chao-Yih Chen
	Pao-Sheng Wei	Chin-Tsair Tsay	Chih-Chen Cheng
	Kuo-Hsiung Chuang	Teh-Chien Su	Hung-Wen Chien
	Lo-Shan Wang	Fu Yao Juan	Robert H.C.Tsao
	Chia-Tsung Hung	Lan-Jong An	Pei-Chun Patty Tsai
	Wen-Wen Hsui Cheng	Sheng-Yen Liu	
<b>Supervisor</b>	Pi-Liang Liu	Neng-Yuan Yu	Chi-Shih Cheng
	Cheng-Chein Chien		

## VII Executive Officers

Dec. 31, 2002

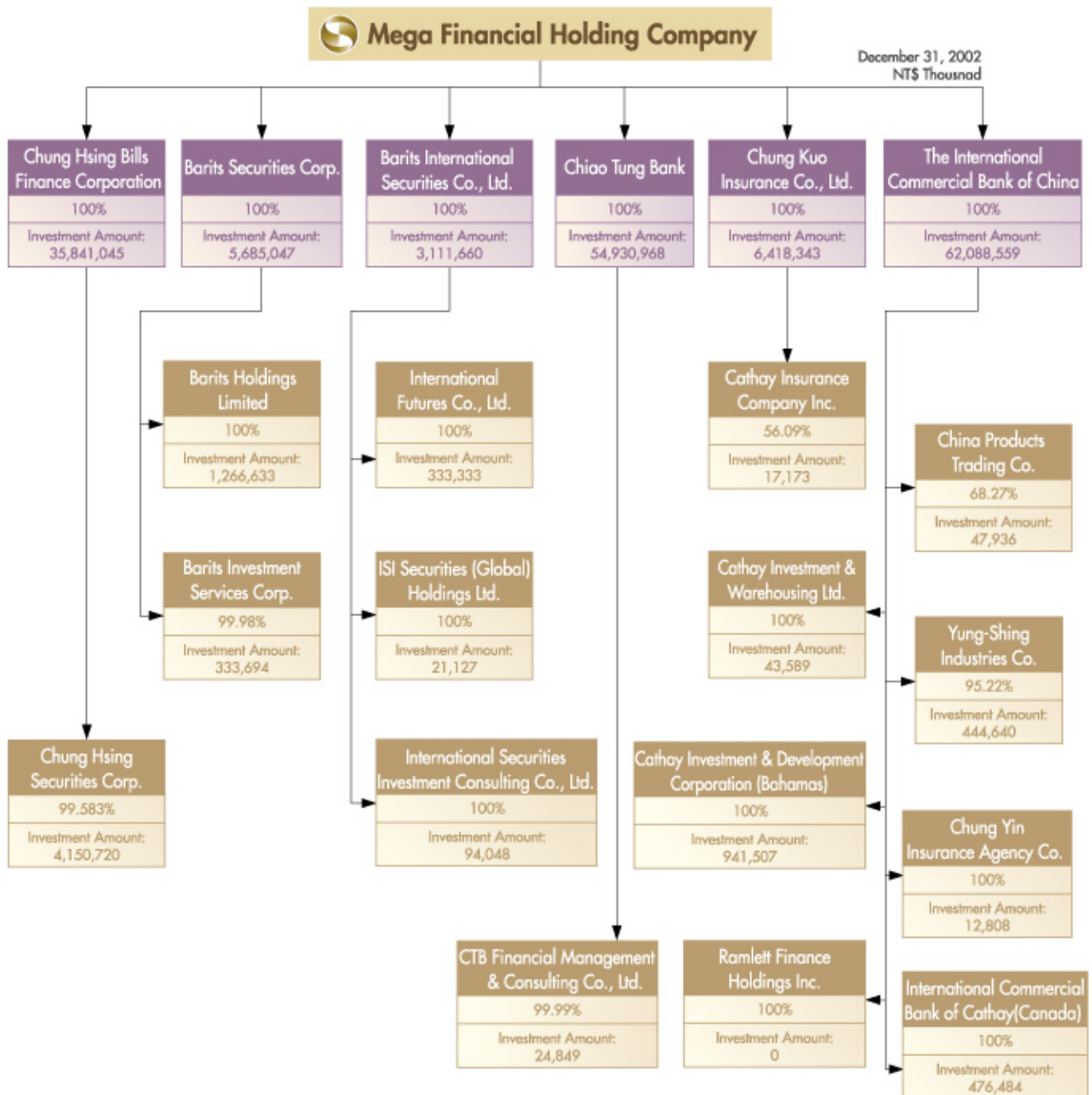
President <sup>1</sup>	Kuo-Hsiung Chuang
Executive Vice President <sup>2</sup>	Feng-Yi Huang
Executive Vice President <sup>3</sup>	Kuang-Si Shiu
Senior Vice President & General Manager, Business Development Department	Ching Tsan Wai
Senior Vice President & General Manager, Treasury Department	Jui-Yun Lin
Senior Vice President & General Manager, Electronic Data Processing Department	Ray Chao
Senior Vice President & General Manager, Administration Department	Yung-Ming Chen

*Note 1: The Company's President, Mr. Kuo-Hsiung Chuang, retired from office on January 1, 2003, being replaced by the Chairman of the International Commercial Bank of China, Mr. Tzong-Yeong Lin, who holds both positions concurrently.*

*Note 2: The Company's Executive Vice President, Mr. Feng-Yi Huang, left office on May 1, 2003, to be replaced by Mr. Simon C. Dzeng.*

*Note 3: The Company's Executive Vice President, Mr. Kuang-Si Shiu, left office on January 1, 2003, to be replaced by Mr. Joseph C.P. Shieh.*

## VIII Subsidiaries





# Operating Report



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## I Scope of Business

### Mega Financial Holding Company

The Company's businesses are investment and management of the investee companies. The Company may invest in the following enterprises: banking enterprises, bills finance enterprises, credit card businesses, trust enterprises, insurance enterprises, securities enterprises, futures enterprises, venture capital investment enterprises and other enterprises recognized by the competent authority that are related to the financial sector.

The Company may apply to the competent authority for permission to invest in other business activities not listed above, but it shall not itself engage in the operations of such business activities.

As of December 31, 2002, the Company has the following six subsidiaries: Chiao Tung Bank, Barits International Securities Co., Ltd., Barits Securities Corp., Chung Hsing Bills Finance Corporation, the International Commercial Bank of China and Chung Kuo Insurance Co., Ltd. The Company's long-term investments are summarized as follows:

Dec. 31, 2002 Unit: NT\$ '000s/share							
Investees	Major Business Items	Investment at Cost (million)	Book Value (million)	Stock Held		Net Worth	Accounting Method
				Number of Shares	% of ownership		
Chiao Tung Bank	Development Banking	54,425,089	54,930,968	2,714,887,838	100%	54,930,968	Equity method
Barits International Securities Co., Ltd.	Securities	3,541,734	3,111,660	411,476,000	100%	3,111,660	Equity method
Chung Hsing Bills Finance Corporation	Bills Finance	34,727,664	35,841,045	2,811,441,084	100%	35,841,045	Equity method
Barits Securities Corp.	Securities	5,785,226	5,685,047	492,411,000	100%	5,685,047	Equity method
International Commercial Bank of China	Commercial Banking	62,357,267	62,088,559	3,726,100,000	100%	62,088,559	Equity method
Chung Kuo Insurance Co., Ltd.	Non-Life Insurance	6,491,414	6,418,343	436,897,726	100%	6,418,343	Equity method
Mondex Taiwan Inc.	Stored Value Cards	50,000	50	4,000,000	12.94%	—	Cost method

Note: Barits International Securities Co., Ltd., Barits Securities Corp. and Chung Hsing Securities Co., Ltd., (the Company's sub-subsidiary) were formally merged to become Barits International Securities Co., Ltd. at the end of January 2003.

### Chiao Tung Bank

#### A. Major Business Activities

- Investment banking business: including equity and venture capital investments, financial consulting business, and securities underwriting business.
- Commercial banking business: including all kinds of deposit, loan and guarantee business, trading financing, remittance business, offshore banking business, short-term bills business, foreign

exchange trading, safety deposit box business, book-entry government bond business, electronic banking, and internet banking business.

- Consumer banking business: including credit card business, consumer loans, home purchase and maintenance loans, private banking, and credit insurance consumer loans, among others.
- Trust business: including money trust, custodian services, trusteeship for bond issuances, and



distribution of trust fund beneficiary certificates.

- Engaging in other related activities subject to the approval of the central competent authority.

## B. Major Operating Results for 2002

### • Lending Operations

For the year 2002, Chiao Tung Bank's total credit outstanding (including loans, guarantees and acceptances) amounted to NT\$441.04 billion, this being 1.93% more than the NT\$432.685 billion recorded in 2001. Of this total, medium- and long-term development credit amounted to NT\$354.981 billion, or 80.49% of total credit outstanding, and met the Bank's requirement as prescribed by the Chiao Tung Bank Act that stipulates that medium- and long-term development credit shall amount to at least 70% of total credit.

### • Long-term equity investments

Total long-term equity investments for 2002 amounted to NT\$20.692 billion, an increase of 2.68% over the NT\$20.153 billion for 2001. The Bank's investment operations are chiefly centered on equity investment and venture capital investment. The former is intended to promote those investment projects with significant market potential by providing cash directly, whereas the latter is for the purpose of investing in venture capital corporations so as to make them effective channels for private capital and expertise in high-tech industries. At the end of 2002, the Bank had made equity investments involving a total sum of NT\$14.435 billion in 93 enterprises. Of this total, the IC semiconductor industry accounted for 16.14%, telecommunications for 12.80%, the optical and electronics industry for 17.91%, energy and power generation for 5.28%, petrochemicals for 3.03%, precision machinery and automation for 2.16%, biotechnology and pharmaceuticals for 3.22%, electronic components for 1.85%, aerospace for 1.48% and others for the remaining

3.74%. In addition, the Bank funded a total of 32 venture capital corporations, 18 of which were located in Taiwan and 14 overseas.

### • Deposits and Financial Debentures

During 2002, the total volume of deposits amounted to NT\$270.563 billion, a slight decrease of 0.33% compared with the NT\$271.450 billion for 2001. In order to lower the cost of funds in 2002, the Bank actively solicited various types of demand deposit, which totaled NT\$37.516 billion, reflecting a growth of 10.51% over 2001. The Bank issued financial debentures in line with its funding requirements. For the year 2002, total financial debentures outstanding amounted to NT\$59.230 billion, representing a 41.98% increase over the NT\$41.717 billion for the previous year. Currently the Bank is taking over most of the stock settlement business of Barits International Securities Co., Ltd. At the end of December 2002, the Bank was the major settlement bank for 15 branches of Barits International Securities Co., Ltd., whose clients' average outstanding deposits were in excess of NT\$550 million. The Bank will continue to actively seek after such business, in order to increase its demand deposits.

### • Foreign exchange business

The volume of the Bank's foreign exchange business undertaken during 2002 amounted to US\$42.729 billion, which was US\$3.26 billion or 8.26% higher than the US\$39.469 billion targeted for the year, and also US\$6.602 billion or 18.27% higher than the corresponding US\$36.127 billion for the previous year. The Bank's import and export operations during the year also increased by 9.87% and 6.91%, respectively, as compared with 2001. The Bank's Offshore Banking Branch and three overseas branches have each been granted permission by the Ministry of Finance's Bureau of Monetary Affairs to engage in cross-strait financial

transactions, and correspondent relationships have been formed with a number of banks on the mainland China. The Bank will continue to strengthen its cooperative relationships with correspondent banks, improve the quality of its services, and actively handle OBU and cross-Strait banking business.

- **Consumer banking business**

In order to strengthen the development and administration of consumer banking operations, the Bank set up a "Retail Banking Department" in July 2002. At the end of December 2002, total consumer loans outstanding amounted to NT\$13.19 billion, representing an increase of NT\$7.55 billion or 133.87% over the corresponding amount at the end of June 2002. Commissions in relation to consumer loans for the whole of 2002 amounted to NT\$21.426 million, of which NT\$18.288 million is related to the second

half of the year, reflecting a 483% increase over the NT\$3.138 million for the first half of the year. In addition, in November and December 2002, after the Bank started to promote insurance products, insurance commission income amounted to NT\$3 million.

- **Trust business**

In response to the promulgation of the Trust Business Law, the Bank has made every effort to develop its trust business through the development of new financial products. In 2002, securities taken under custodianship averaged NT\$285.561 billion, reflecting an increase of 11.28% over the NT\$256.608 billion recorded in 2001. The volume of business undertaken in 2002 in regard to non-discretionary trusts for investment in local mutual funds and overseas securities amounted to NT\$4.501 billion, this being a 70% increase over the corresponding figure for 2001.

Breakdown of Operating Revenues 2000-2002

Unit: Thousands of NT dollars

Item	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Interest income	19,883,849	68.97%	28,164,806	75.11%	30,240,813	81.71%
Commissions	926,935	3.22%	912,630	2.43%	942,765	2.55%
Securities brokerage revenues	60,567	0.21%	103,903	0.28%	213,754	0.58%
Gain on sales of securities	1,246,169	4.32%	1,720,034	4.59%	159,583	0.43%
Gains on foreign exchange	76,630	0.27%	84,386	0.23%	122,404	0.33%
Gains on long-term equity investments	6,467,757	22.43%	6,276,576	16.74%	5,233,834	14.14%
Gains on investments in fund management	70,497	0.24%	78,839	0.21%	7,801	0.02%
Other operating revenues	97,136	0.34%	155,577	0.41%	86,781	0.24%
Total Operating Revenues	28,829,540	100.00%	37,496,751	100.00%	37,007,735	100.00%

### C. Plans to Develop New Financial Products

- Launching accounts receivable factoring.
- Extending start-up loans to small enterprises.
- Assisting enterprises with merging and the provision of funds.
- Developing new kinds of consumer banking business, including car loans, loans for foreign workers and loans for houses purchased through

public auctions by courts.

- Developing structured financial derivative products.
- New kinds of trust business, such as foreign currency trust funds for investment in foreign securities, pecuniary trusts under specific and individual management and utilization, insurance compensation trust, securities trust and real estate trust, and so on;



- Developing new electronic banking business.
- Other kinds of business within the scope of the law that are seen as necessary and which can generate a profit.

## Barits International Securities Co., Ltd.

### A. Major Business Activities

- Securities brokerage in TSE and OTC.
- Securities proprietary dealing.
- Securities underwriting.
- Acting as agent for securities services.
- Securities financing services.
- Foreign securities brokerage.
- Other securities-related business with the approval of the competent authority.
- Concurrently engaging in securities-related futures business.
- Intermediary brokerage (IB) for securities-related futures trading.

### B. Major Operating Results for 2002

#### • Securities Dealing

Due to the lackluster economic conditions that prevailed in Taiwan throughout 2002 and a stock market index that declined over the course of the year, the income generated by the Company from

trading in shares on its own account was far from ideal. However, due to the ongoing decline in interest rates as evidenced by several reductions in interest rates on the part of the Central Bank, the Company's gains from trading in bonds had played a significant role in its overall profitability for the year.

#### • Securities Brokerage

Although the stock market index and market turnover both increased during the first half of 2002, they both declined during the second half of the year due to the economic growth rate not being as expected and there being as yet no real sign of an economic recovery. Total fee income for the year from brokering activities amounted to NT\$693 million, which was an increase of 35.35% or NT\$181 million over the NT\$512 million recorded in 2001.

#### • Securities Underwriting

The securities market remained bearish during 2002, resulting in a decline in willingness on the part of publicly offered companies to enter the capital market, which significantly impacted the Company's income from underwriting. Total income for the year from underwriting amounted to NT\$32 million, an increase of NT\$15 million over the NT\$17 million recorded for 2001.

Breakdown of Operating Revenues 2000-2002							Unit: Thousands of NT dollars	
Item	2002		2001		2000			
	Amount	%	Amount	%	Amount	%		
Brokerage & securities financing commission	692,807	58.37%	511,356	38.91%	841,930	43.11%		
Underwriting commission	12,916	1.09%	17,320	1.32%	43,727	2.24%		
Gains on sales of securities - underwriting	19,552	1.65%	-	-	-	-		
Interest income	273,621	23.05%	253,774	19.31%	483,435	24.76%		
Gains on issues of stock warrants	-	-	21,217	1.61%	292,012	14.95%		
Gains on futures contracts	-	-	62,885	4.79%	5,209	0.27%		
Other operating revenues	54,541	4.59%	46,613	3.55%	43,495	2.23%		
Gains on rising securities prices	1,433	0.12%	176,571	13.44%	-	-		
Non-operating income	132,158	11.13%	224,333	17.07%	242,916	12.44%		
Total Revenues	1,187,028	100.00%	1,314,069	100.00%	1,952,724	100.00%		

### C. Plans to Develop New Financial Products

- Developing equity-related investment products as the competent authority further opens up the market for new products.
- Enhancing the efficiency of marketing channels of the group to provide customers with a greater variety of investment products.
- Actively developing overseas business, in order to serve the overseas investment needs of clients.

## Barits Securities Corp.

### A. Major Business Activities

- Securities brokerage in TSE and OTC.
- Securities dealing.
- Securities underwriting.
- Acting as agent for securities services.
- Other securities-related business with the approval of the competent authority.
- Concurrently engaging in securities-related futures business.
- Intermediary brokerage (IB) for securities-related futures trading.

### B. Major Operating Results for 2002

#### • Securities Dealing

Due to the global economic recession in 2002, and the unspectacular performance of the high-tech industry, market sentiment remained generally bearish except the first quarter in which there were relatively more opportunities to make profits. Consequently, the profitability for the year as a whole from dealing in stocks left much to be desired. In terms of dealing in bonds, because the U.S. Federal Reserve successively lower interest rates, which caused Taiwan's Central Bank to follow suit thereby bringing local interest rates down further, interest rates on bonds significantly declined, and hence profitability from trading in bonds markedly increased.

#### • Securities Brokerage

During 2002 the local securities market remained bearish. While during the first half of the year the stock market index increased and transaction volume markedly expanded, during the second half of the year, however, because the economic recovery had still not taken place, the stock market index consistently declined, as did transactions volume. The Company's income from brokering was consequently affected, and brokerage fee income for the year as a whole amounted to NT\$277 million, which represented an increase of NT\$56 million or 25.34% over the corresponding NT\$221 million recorded in 2001.

#### • Securities Underwriting

Because of the lackluster performance of the Taiwan economy throughout 2002, the number of publicly offered companies that applied for a listing either on the stock market or the OTC market or that sought to raise funds in the securities market did not markedly increase, and hence the Company's income from underwriting also failed to rise significantly. Thus revenue from underwriting for the year as a whole amounted to NT\$250 million, reflecting an increase of NT\$113 million over the NT\$137 million recorded in the previous year.

### C. Plans to Develop New Financial Products

- In line with the competent authority's opening up of the market to new products, the Company will introduce new products including equity linked bonds, and will engage in ETFs and share options etc.
- To enhance the efficiency of marketing networks, the Company will develop a wider variety of investment and financial products.
- The Company will develop "one-stop shopping" financial planning service for institutional investors.



## Breakdown of Operating Revenues 2000-2002

Unit: Thousands of NT dollars

Item	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Brokerage commission	277,415	23.13%	221,261	8.55%	454,659	23.13%
Underwriting commission	127,165	10.60%	85,026	3.29%	140,309	7.14%
Gains on sales of securities- Dealing	79,020	6.59%	-	-	71,589	3.64%
Gains on sales of securities- Underwriting	122,878	10.24%	52,036	2.01%	890,992	45.32%
Interest income	197,821	16.49%	252,469	9.75%	160,371	8.16%
Dividend income	17,689	1.47%	10,643	0.41%	23,336	1.19%
Gains on issues of stock warrant	164,762	13.74%	179,850	6.95%	-	-
Income from futures commission	6,180	0.52%	5,653	0.22%	748	0.04%
Gains on futures contracts	14,320	1.19%	82,726	3.20%	66,707	3.39%
Other operating revenues	11,683	0.97%	1,451,605	56.09%	1,229	0.06%
Non-operating income	180,644	15.06%	246,650	9.53%	155,991	7.93%
Total Revenues	1,199,577	100.00%	2,587,919	100.00%	1,965,931	100.00%

## Chung Hsing Bills Finance Corporation (CHBFC)

### A. Major Business Activities

- Brokerage, dealing and underwriting of short-term debt instruments and financial debentures.
- Notary services for short-term debt instruments and financial debentures.
- Guarantee or endorsement services for short-term debt instruments.
- Brokerage for inter-bank call loans.
- Financial consulting services.
- Proprietary trading in government bonds.

### B. Major Operating Results for 2002

#### • Guarantee service for commercial paper

In terms of guaranteed issues of commercial paper, the total amount of guaranteed commercial paper for all bills finance companies combined outstanding at December 31, 2002 was NT\$517.921 billion. Of this total, CHBFC accounted for NT\$161.024 billion, or a market share of 31.09%.

#### • Business in the primary market

Purchases of commercial paper for all bills finance

companies together amounted to NT\$6,930.917 billion. The total for CHBFC came to NT\$1,760.705 billion, or a market share of 25.40%.

#### • Trading in the secondary market

Total trading in commercial paper in 2002 for all bills finance companies combined amounted to NT\$34,144.313 billion, of which the total for CHBFC was NT\$6,911.943 billion, or a market share of 20.24%.

### C. Plans to Develop New Financial Products

- In order to minimize the risk arising from fluctuations in interest rates, and to expand the scale of operations, CHBFC will trade in financial derivative products on its own account. The trading vehicles will range from interest rate swaps and forward rate agreements to interest rate options and other financial derivative products approved by the competent authority. CHBFC expects to be trading in interest rate futures once the Taiwan Futures Exchange launches the product of interest rate future.
- Since the competent authority on April 2, 2002 promulgated the Rules Governing the Bonds

## Breakdown of Operating Revenues 2000-2002

Unit: Thousands of NT dollars

Item	2002		2001		2000	
	Amount	%	Amount	%	Amount	%
Gain on sale of investments in bills and bonds	5,577,086	68.66%	6,709,866	73.59%	4,399,643	73.40%
Commissions	1,721,995	21.20%	1,583,238	17.36%	1,019,365	17.00%
Interest income	617,237	7.60%	584,439	6.41%	479,069	7.99%
Gains from long-term equity investments	-	-	106,499	1.17%	-	-
Other income	206,696	2.54%	133,920	1.47%	96,338	1.61%
Total Revenues	8,123,014	100.00%	9,117,962	100.00%	5,994,415	100.00%

Investment for Bills Finance Companies, which now allows bills finance companies to invest in convertible bonds, CHBFC has in accordance with the above regulation set up its own operating guidelines for investing in convertible bonds.

- On February 11, 2003, the competent authority further lifted the restrictions on brokerage and trading of corporate bonds by bills finance companies. CHBFC has submitted its application to the competent authority for developing the business, and expects to get the approval soon.
- CHBFC will also engage in convertible bond asset swaps and repurchase agreements business.

## International Commercial Bank of China

### A. Major Business Activities

#### • Commercial banking business

Including all kinds of deposits, loan and guarantee business, trading financing, remittance business, offshore banking business, short-term bills business, foreign exchange trading, safety deposit box business, book-entry government bond business, various kinds of ATM debit card business and electronic banking, and internet banking business.

#### • Consumer banking business

Including all kinds of credit card business, consumer loans, student loans, home purchase and

maintenance loans, private banking, car loans, and credit insurance consumer loans, among others.

#### • Trust, investment and financial consulting business

Including all kinds of trust and investment, agency, securities underwriting and brokerage, distribution of trust fund beneficiary certificates, gold and silver bullion and coinage; as well as financial planning services in relation to large private investments, and financial consulting services for major public infrastructure projects.

#### • Others

Engaging in other related activities subject to the approval of the central competent authority.

### B. Major Operating Results for 2002

#### • Deposits

The volume of deposits in 2002 amounted to NT\$554,898 million, an increase of 9.98% over the NT\$504,549 million for 2001.

#### • Loans

The volume of credit outstanding in 2002 (including loans, guarantees and acceptances) amounted to NT\$537,513 million, which reflected a decline of 1.59% as compared with the NT\$546,190 million recorded in 2001.

#### • Foreign exchange business

Total foreign exchange business undertaken in



2002 amounted to US\$130,752 million, an increase of 23.20% over the US\$106,128 million for 2001. The volumes of import and export business both increased by 3.01% and 5.92%, respectively, over the previous year.

- **Non-performing loans**

The total amount of non-performing loans outstanding as of the end of 2002 was NT\$11,905 million, while the non-performing loans ratio was 2.36%.

- **Long-term equity investments**

Long-term equity investments outstanding at the end of 2002 amounted to NT\$9,388 million, which compared with the NT\$10,141 million at the end of 2001 represented a decline of 7.43%.

- **Trust business**

The volume of securities taken under custodianship in 2002 amounted to NT\$222,185 million, representing an increase of 23.41% over the NT\$180,039 million recorded in 2001. Total business undertaken involving non-discretionary trust funds for investment in local mutual funds and foreign securities amounted to NT\$7,390 million, while business undertaken in the capacity of acting as agent for the sale of local mutual funds amounted to NT\$30,654 million.

- **Consumer banking**

Total consumer loans outstanding at the end of 2002 amounted to NT\$63,496 million, a decline of 15.82% over the corresponding figure for 2001. Consumer fee income for the year amounted to NT\$459 million.

Breakdown of Operating Revenues 2000-2002							Unit: Thousands of NT dollars
Item	2002		2001		2000		
	Amount	%	Amount	%	Amount	%	
Interest income	30,613,680	84.12%	44,662,552	85.64%	47,438,004	88.86%	
Commissions	3,246,009	8.92%	3,019,230	5.79%	3,338,020	6.25%	
Gains on sale of securities	-	-	1,492,868	2.86%	-	-	
Gains on foreign exchange	1,344,427	3.69%	1,656,378	3.18%	1,718,865	3.22%	
Income on equity investments	404,167	1.11%	968,549	1.86%	465,580	0.87%	
Others	786,955	2.16%	350,792	0.67%	425,162	0.80%	
Total Operating Revenues	36,395,238	100.00%	52,150,369	100.00%	53,385,631	100.00%	

### C. Plans to Develop New Financial Products

- **Electronic banking business**

- Corporate Internet banking.
- Internet banking, telephone banking, and foreign exchange trading.
- Internet banking electronic fee collection business.

- **Consumer banking business**

- Wealth management: Providing tailor-made financial planning services for clients.
- Fancy variable universal life insurance product.

- Develop asset management accounts and a customer service center system for the bank.
- Issuing platinum credit cards.
- Issuing stored-value cash cards.
- Issuing American Express stored-value cards.
- Issuing smart credit cards and IC credit cards.
- Participating in tendering for the Planned Freeway Electronic Toll Collection Project.
- Setting up a card-manufacturing center, to increase business efficiency.

- Trust and investment business
  - Insurance compensation trusts.
  - Testamentary trusts.
  - Trust funds under specific and individual management and utilization.
  - Educational trust funds for children.
  - Financial assets securitization business.

## Chung Kuo Insurance Co., Ltd.

### A. Major Business Activities

- Fire insurance.
- Marine cargo insurance.
- Marine hull insurance.
- Fishing vessel insurance.
- Automobile insurance.
- Aviation insurance.
- Nuclear energy insurance.
- Engineering insurance.
- Liability insurance.
- Credit and bond insurance.
- Accident insurance.
- Miscellaneous insurance.

### B. Major Operating Results for 2002

#### • Direct written business

Total gross direct written premiums amounted to NT\$5,219 million, representing an NT\$331 million or 6.77% increase over the NT\$4,888 million recorded in the year 2001. Within this total were the following:

- Fire insurance: premiums totaled NT\$1,201 million, or 23.01% of total gross direct written premiums.
- Marine cargo insurance: premiums totaled NT\$285 million, or 5.46% of total gross direct written premiums.
- Marine hull insurance: premiums totaled

NT\$660 million, or 12.64% of total gross direct written premiums.

- Automobile insurance: premiums totaled NT\$1,451 million, or 27.80% of total gross direct written premiums.
- Aviation insurance: premiums totaled NT\$361 million, or 6.92% of total gross direct written premiums.
- Engineering insurance: premiums totaled NT\$595 million, or 11.40% of total gross direct written premiums.
- Miscellaneous insurance: premiums totaled NT\$666 million, or 12.77% of total gross direct written premiums.

#### • Reinsurance business

Total reinsurance premiums amounted to NT\$890 million which, when compared with the NT\$923 million recorded in 2001, represented a decrease of NT\$33 million or 3.58%, of which:

- Domestic inward reinsurance premiums totaled NT\$762 million, or 85.68% of total reinsurance premiums.
- Foreign inward reinsurance premiums (including those for Guam office) totaled NT\$128 million, or 14.32% of total reinsurance premiums.

### C. Plans to Develop New Financial Products

- Resident fire and earthquake insurance with personal accident endorsement.
- Automobile third-party accident multiple liability insurance.
- Automobile third-party liability insurance with compensation expense endorsement.
- Automobile excess liability insurance.
- Automobile physical damage non-depreciation insurance.
- Individual personal accident insurance with named event increasing benefit amount endorsement.



- Group personal accident insurance.
- Group personal accident insurance with medical expenses endorsement.
- Group personal accident insurance with named event increasing benefit amount endorsement.
- Travel personal accident insurance.
- Travel personal accident insurance with medical expenses endorsement.
- Travel personal accident insurance with named event increasing benefit amount endorsement.
- Consumer's loan credit insurance.
- Credit card comprehensive insurance.
- Individual personal travel comprehensive insurance.

Breakdown of Operating Revenues 2000-2002						Unit: Thousands of NT dollars	
Item	2002		2001		2000		
	Amount	%	Amount	%	Amount	%	
Fire insurance	1,201,036	23.01%	1,017,159	20.81%	979,418	21.56%	
Marine cargo insurance	285,116	5.46%	296,977	6.08%	300,132	6.60%	
Marine hull insurance	659,372	12.64%	422,456	8.64%	308,610	6.79%	
Automobile insurance	1,450,783	27.80%	1,588,454	32.50%	1,497,556	32.96%	
Aviation insurance	361,387	6.92%	291,869	5.97%	413,737	9.11%	
Engineering insurance	594,907	11.40%	388,991	7.96%	382,381	8.42%	
Other insurance	666,207	12.77%	881,828	18.04%	661,608	14.56%	
Total insurance premium income	5,218,808	100.00%	4,887,734	100.00%	4,543,442	100.00%	
Reinsurance premium income	889,606		923,288		983,114		
Total	6,108,414		5,811,022		5,526,556		

## II Market and Business Conditions

### A. Market Analysis

Since the second half of the year 2000, with both the Taiwan economy and the international economy experiencing a recession, the non-performing loans of financial institutions have steadily increased. Overbanking has also resulted in excessively fierce competition within the financial sector. All of these factors have caused under-performance of financial institutions. The government has successively passed a series of financial laws, including the Law Governing Merger of Financial Institutions and the Financial Holding Company Act, in an attempt to resolve these problems and lay a sound base for financial reform in the future.

The government has already approved the establishment of 14 financial holding companies, of which 13 are now listed on the stock exchange and

one on the OTC market. It is expected that the establishment of these financial holding companies will reshape Taiwan's financial environment. The size of financial institutions will increase, and the ownership of the financial institutions may become more concentrated. Financial business will also become more diversified, and efficiency will be enhanced. More competitiveness and internationalization will be visualized. Following Taiwan's accession to the World Trade Organization, there has been increased competitive pressure from large foreign financial institutions, and hence in the future Taiwan's financial institutions will either develop by becoming larger and larger or else will attempt to adhere to the principle of "small is beautiful." For those financial institutions that fall somewhere in between these extremes and do not have any particular competitive advantage will have difficulty in generating profits. They will either be

taken over by other financial institutions or forced to withdraw from the market. It is expected that market consolidation in the banking industry will continue to take place over the next few years.

## B. Operating Objectives

- Strengthening cross selling to provide "one-stop shopping" for comprehensive financial services.
- Installing common IT platforms, to raise the efficiency of management in each line of business.
- Integrating the Group's various resources, strengthening organizational effectiveness, and pursuing the highest profits.
- Continuing to enlarge the scope of the business, to enhance business profitability.

## C. Favorable and Unfavorable Factors over the Long Term

### Favorable Factors

- Each of the subsidiaries of the Mega Financial Group has unique attributes that cause them to stand out within each respective domain. For instance, Chiao Tung Bank plays a key role in Taiwan's investment and industrial banking, being specialized in industrial investment and corporate financing. The International Commercial Bank of China has become distinguished in the foreign exchange business and overseas business, and holds an important position in the syndicated loans market and corporate financing. Chung Hsing Bills Finance Corporation is the leader in the domestic bills finance industry. Barits International Securities Co., Ltd., which also encompasses Barits Securities and Chung Hsing Securities, is one of the major securities companies in Taiwan. It has also been the market leader in Taiwan in terms of its initial public offering and overseas fund raising

business, as well as the 13th largest player in the brokerage market. Chung Kuo Insurance Co., Ltd. the first state-owned financial institution privatized, was ranked 9th in Taiwan in terms of non-life insurance premium income in 2002. Even though it is still considering acquiring a life insurance company or a commercial bank with a relatively strong consumer banking business, the Mega Financial Group is already well-established in terms of the financial services that it offers, and it is also one of the leading financial groups in Taiwan.

- In a way that differs from other financial holding companies, the Mega Financial Holding Company's subsidiaries are specialized in corporate banking. As in the case of consumer banking business in which a cross-selling strategy has been adopted, the Group will establish a wide variety of product lines, so as to provide corporate clients with "one-stop shopping" opportunities. For instance, through cross-selling and collaboration of the subsidiaries in the Group, the Group is able to provide corporate clients with investment, lending, foreign exchange, bills and insurance business opportunities. In addition, because of the strong complementarities that exist between these different lines of business, diversified and stable profitability can be achieved.
- At present, around 26% of the Company's shares are owned by government and enterprises controlled by the government, and thus the Company is in a position to help state-owned financial institutions with their merger activities, as well as provide technical assistance, thereby promoting other business of the Group. Furthermore, because of its background of high percentage of shares owned by the government, the



Company has a good image in the market. In particular, this is even more beneficial in relation to its international credit rating, and can help lower its funding cost.

#### Unfavorable Factors

- Before becoming a subsidiary of the Group, each of them does not have much relationship, and each was a leader in its own field. When compared with other financial holding companies, especially those whose subsidiaries were originally all part of the same group, the task of integrating the activities of Mega's diverse subsidiaries has involved considerable expense and effort. However, by adhering to common operating ideas, and doing everything possible to complete the integration process, once the changeover is successful, the benefits will surely surpass those of other financial holding companies.
- The Group's consumer banking business is still rather weak, and there is a huge gap between the

shares of corporate banking and consumer banking, with profitability being easily affected by economic conditions. However, the International Commercial Bank of China has been granted the mission to integrate the Group's consumer banking business. For instance, in 2002, the International Commercial Bank of China issued 700,000 credit cards, whereas Chiao Tung Bank had only issued 20,000. Chiao Tung Bank's credit card business will be combined with that of the International Commercial Bank of China. The International Commercial Bank of China aims to issue 1.3 million credit cards during 2003.

- Following Taiwan's accession to the WTO, the government is speeding up the process of opening up Taiwan's financial markets. Large foreign financial institutions with their transnational and cross-industry experience, financial innovation and superior technology will enter domestic financial markets, which will result in increased competition for local financial institutions.

## III Human Resources

### Number of Employees

December 31, 2002		
Number of Employees	Average Age	Average Years of Service
26	41.04	0.35

### Educational Background

December 31, 2002											
Ph. D.		Masters		University		College		High School (Vocational)		Others	
No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
0	0	5	19	16	62	4	15	1	4	0	0

## **IV Risk Management**

### **Mega Financial Holding Company**

#### **A. The Group Risk Management Model**

Risk, performance and cost are the three business factors that the Mega Financial Group considers to be the most important. In order to effectively manage the risks involved with business of banks, bills finance, securities and insurance companies, and ensure that each of the Group's risk is controlled within tolerable limits, the Mega Financial Holding Company will reexamine the Group's risk management structure and establish an overall risk governance mechanism while aggressively integrating its marketing strategy.

In seeking to effectively control the various kinds of risk within the Group and maximize shareholders' benefits, the Group has set up a Risk Management Committee. It is the responsibility of this committee to scrutinize risk management strategy, the defining and adjustment of authorization limits, and the deployment of and adjustments in relation to risk assets. The Committee is also responsible for supervising the risks of the holding company and each of its subsidiaries, ratifying risk management reports as well as evaluating the risk-adjusted performance of the Group.



In order to ensure that the Group's risk management system can be securely established and effectively administered, the Company has formed the Information System Integration and Technical Support Task Force, organized by the Electronic Data Processing Department, to be in charge of integrating risk monitoring models and related information systems among subsidiaries, and designing and installing the database and operating platforms for the risk measurement system between the holding company and its subsidiaries. A Risk Management Department was set up on May 1, 2003, with responsibility for monitoring, evaluating, managing and reporting on the Group's overall risk.

#### **B. Focus of Risk Management Policies in the Future**

Many of the adverse effects of the business risks, which would otherwise prevent the Group from achieving its objectives, can be lowered or even completely removed through the setting up of a system of internal controls and management procedures. However, in order to get hold of the Group's online risk situation and conform to the recommendations of the New Basel Capital Accord as promoted by the Basel Committee, the Company will use quantitative methods to measure and control market, credit and operational risks. Furthermore, through the rationalization of the return on risk, the Group seeks to generate the greatest benefits for its investors in terms of operating performance after adjusting for risk.

For these reasons, the Group will make every effort to quantify risk, establish appropriate risk/return ratios, and maximize shareholders' equity as its risk management objective.

#### **C. The Scope of Risk Management**

All of the on and off-balance sheet risk of the holding company and its subsidiaries, including market risk, liquidity risk, credit risk, operational risk, country



risk, information system risk and legal risk will be covered by the Group's risk management system. Of these, market risk, credit risk and operational risk will be evaluated by quantitative models that comply with the "Minimum Capital Requirements" standards of the Basel Committee for 2006.

## Chiao Tung Bank (CTB)

## The International Commercial Bank of China (ICBC)

### A. Risk Management Policies

CTB and ICBC adhere to the rules prescribed by the competent authority in evaluating risks, and verifying the risk limits permissible for each type of business. To ensure that each risk management policy is effectively promoted, each bank regularly holds meetings of its Credit Evaluation Committee, Investment Evaluation Committee, Risk Management Committee and Assets and Liabilities Management Committee to review the outcome of each kind of risk control, and speedily adjust risk control measures accordingly.

### B. Methods for Evaluating and Controlling Risk

The following methods are used to control risks of the banks within the Group:

#### 1. Foreign Exchange Risk and Trading in Financial Derivative Products

In order to strengthen its management of individual country risk, Chiao Tung Bank has drawn up its Guidelines for Managing Credit Limits for Country Risk to evaluate the upper limits of total credit amounts of country risk, monitor the total amounts and analyze the associated risk exposure. The amounts of credit extended in relation to country risk may be divided into credit lines and transaction limits. ICBC has defined upper limits on the ratios of country risk to the Bank's net worth for individual

countries, as well as an upper limit on the ratio of the country risk for all countries combined to the bank's total assets.

CTB and ICBC have drawn up trading limits and position limits in order to control risk in relation to trading in the foreign exchange market, foreign money market, foreign capital market and the market for financial derivatives. Limits have also been placed on the Dealing Room and each trader, including daylight limits, overnight limits, transaction limits for each counterparty, stop-loss and etc. Foreign exchange position limits and trading limits are also imposed on overseas branches.

#### 2. Controls over Non-performing Loans

While each bank is responsible for the collection of its non-performing loans, the Company plans to set up a asset management company to handle non-performing loans in order to enhance the efficiency of the collection process. At December 31, 2002, CTB's non-performing loans amounted to NT\$12,545 million, representing a non-performing loans ratio of 3.07%, while ICBC's non-performing loans totaled NT\$11,905 million, or 2.36% of total loans. These ratios are both well below those for domestic banks in general.

#### 3. Concentration of Credit Risk

CTB and ICBC have set risk-related limits both in percentage terms and actual amounts on loans to any particular industry, individual, related individuals and related parties in order to diversify risk and maintain asset quality. The measures of risk managements are as follows:

##### (1) Industry Controls

CTB and ICBC have set up the percentages of their loan portfolios that can be attributed to any particular industry based on the operating policies for that year, economic conditions, the situation being faced by the industry and the economic outlook. Adjustments to

these percentages are made either every quarter or every half-year based on forecasts for the subsequent half-year. Efforts are made to avoid concentrating loans in industries that are similarly affected by economic cycle. As of December 31, 2002, none of the limits imposed had been exceeded.

## (2) Controls over Lending to the Same Client

Both CTB and ICBC handle loans to one individual or related parties, in accordance with the provisions of the Banking Law. In regard to loans to related enterprises, besides complying with the requirements of the Banking Law, CTB has drawn up its own Operating Guidelines for the Extending of Loans by Chiao Tung Bank to Related Enterprises, in which it sets credit limits for related enterprises, including that for unsecured credit. These limits are stricter than those prescribed by the Banking Law in order to avoid excessive concentration of risk. ICBC evaluates the credit of local business groups on the basis of five different levels, for which it imposes limits on the amount that can be lent to each business group. The loans extended to any business group may not exceed 40% of the Bank's net worth. As of December 31, 2002, none of these limits had been exceeded.

When deciding to whom to extend loans, CTB and ICBC give careful consideration to policies, safety, profitability, liquidity, the public benefit and growth. Approving a loan involves a very strict process, including, for instance, whether sufficient collateral has been provided. In addition to carefully examining the borrower's creditworthiness, business and financial situation, the proposed use of the funds, sources of repayment, the ability to repay and the credit enhancement, much emphasis is also placed on the feasibility of the project, the allocation of funds, the skills, organizational and managerial abilities of the borrower, and the industry's development prospects. If the industry experiences sudden

changes, the banks may require, cash-to-capital increases and flexibility in adjusting interest rates based on the financial condition of the borrower. Having granted a credit line, the banks will regularly review and monitor the circumstances of the client, in order to ensure that conditions of the loans are met.

## 4. Controls over Securities Investment

In addition to complying with the stipulations of Article 74(1) of the Banking Law, CTB and ICBC have drawn up overall limits on the amounts that may be invested in securities. Limits in the form of percentages have also been set in regard to the holding of a particular share, shares of the same business group or shares for a particular industry. As of December 31, 2002, none of these limits had been surpassed.

## 5. Others

This includes methods such as asset and liability gap analysis, interest rate sensitivity analysis and liquidity risk management.

## Chung Hsing Bills Finance Corporation

### A. Risk Management Policies

Chung Hsing Bills Finance Corporation has, in accordance with the Regulations Governing Bills Finance Companies, drawn up policy guidelines in relation to risk management to serve as a standard and model for the management of risk.

### B. Methods for Evaluating and Controlling Risk

#### 1. Credit Risk Management

The Corporation's Credit Policy Guidelines serve as the basis for its approval of loans and risk management. It has also established lending procedures, regulations governing the management of credit risk, standards for evaluating collateral. All



of these are practical ways of managing credit risk. In addition, the Corporation's operating guidelines for reviewing credit, regulations regarding the examination and management of loans with relatively high credit risk, as well as regulations to do with the collection of non-performing loans make up the regulatory framework once the loans have been made. At the end of December 2002, Chung Hsing Bills Finance Corporation's non-performing loans amounted to NT\$2,552 million, or a ratio of 1.56%, which was significantly lower than the average for the industry as a whole.

## 2. Market Risk Management

Chung Hsing Bills Finance Corporation's risk management in relation to its bills business is based on daily controls on trading spreads and daily evaluation of portfolio. In order to ensure that the potential losses of each item do not exceed maximum loss limitations, the Corporation performs interest rate sensitivity analysis every day. In accordance with interest rate forecast, the Corporation adjusts its position of bills and notes, and their maturities, in order to avoid excessive liquidity gap on the same day. The Corporation has also drawn up regulations to manage liquidity gaps.

## Barits International Securities Co., Ltd.

### A. Risk Management Policies

Barits International Securities Co., Ltd. (formerly International Securities Co., Ltd.), originally set up a risk management task force that later was renamed the Risk Management Office, responsible for risk management. This unit is manned by specialists, including those in data processing, to identify risks and to design risk control models. Barits Securities Corp. not only develops software for measuring risk, but in addition to determining traditional factors sensitivity, position limits, and profits and losses,

etc., also calculates the value-at-risk for the company. Both companies' risk managements are operating on the basis of legal requirements, safety, profitability and liquidity. Emphasis is placed on research and development, business strategies and coordination among business departments. In this way, each type of business including securities brokering, investment banking, trading in securities, futures brokerage and financial derivative products, can experience balanced growth.

After the consolidation of the three securities companies (Barits International Securities Co., Ltd., Barits Securities Corp. and Chung Hsing Securities Co., Ltd.), Barits International Securities Co., Ltd. has had a clear duty segregation among its front desk, back office and middle office (risk management functions). The Company's Risk Management Office has specific responsibility for measuring risk and for conducting daily risk management operations. In addition to the Risk Management Office's assisting, specialists within each department and information systems personnel bear responsibility for overall planning in relation to risk control and for developing risk models. The Treasury Department is responsible for the back office operations, while the Auditing Department is responsible for internal controls and for auditing operating procedures. There is therefore a clear division of responsibilities among the different functions in relation to risk management. At its regular quarterly meetings, the Asset Allocation Committee examines the various risks, and makes recommendations for adjustments. If there is an emergency, the Committee will call a meeting at short notice.

### B. Methods for Evaluating and Controlling Risk

The approach adopted by Barits International Securities Co., Ltd. in relation to its risk management involves the business unit being responsible for evaluating risks and the potential gains, compiling an operating handbook, and clearly describing how

responsibilities for different products are divided among staff. The Risk Management Office then quantifies this risk and then, based on the capital adequacy ratio, calculates each business unit's trading limits and loss limits, which are then forwarded to the Asset Allocation Committee for verification. Subsequently, the Risk Management Office enters the various limits that have been approved into the risk management system, which is linked up with the trading system and the market information system, so that controls can be implemented instantaneously on line.

The risk management system developed by this company has four functions: monitoring controls over trading, the measurement of risk, the simulation of actual conditions, and the scenario analysis. Besides being able to provide an analysis in market value, position limits, profits and losses, value-at-risk, and back testing, it is also able to calculate on line profits and losses, and provide risks and returns information.

### C. Risk Management Reports

Each business unit furnishes the Risk Management Office with reports on daily transactions and risk positions. The Risk Management Office then

1.46	11.29	+0.12	+1.36	131
1.88	7.70	+0.31	+1.06	185
97	11.03	+0.27	+2.31	58
3	10.68	+0.47	+2.39	322
	7.80	+0.26	+5.75	480
	7.85	+0.12	+2.33	230
	10.55	-0.02	+1.12	749
	10.97	-0.01	-0.25	405
	5.80	-0.06	-0.13	1,541
	13.50	-0.28	-0.56	1,535
	11.35	-0.27	-2.48	300
	8.40	+0.49	-4.43	87
	1.90	+0.10	+3.75	137

compiles these risk management reports, making necessary disclosures, and then forwards these to higher levels of management.

### Chung Kuo Insurance Co., Ltd.

Chung Kuo Insurance Co., Ltd. has established insurance undertaken information system to control insurance risk. This system is based on guidelines that have been drawn up for each kind of insurance. Before a policy is issued, the system automatically conducts an examination to determine whether a limited insurance coverage is required, and establishes a retention amount according to the risk exposure. The system can automatically control the expense and commission rates according to the type of insurance, the source of business and the risk exposure. It can also provide various kinds of loss rates analysis which are used to adjust Company's policies. When handling emergency reinsurance business, Chung Kuo Insurance Co., Ltd. will not issue a policy until the procedures of reinsurance are finished.

Chung Kuo Insurance Co., Ltd. has installed procedures regarding authorization limits, and has also established authorized compensation levels. Now that it is a part of the group, this company will, based on the type of business involved and in accordance with the financial holding company's risk management policies and guiding principles, formulate its own in relation to credit risk, market risk, liquidity risk, operational risk, legal risk, human resource and crises management.



## *Business and Funding Utilization Plans*



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## **I Business Plans for 2003**

### **Mega Financial Holding Company**

- Actively integrating the business activities of the Group's subsidiaries and sub-subsidiaries, eliminating and reducing the duplication of resources, and when deemed necessary combining organizational activities or rearranging group assets. Reanalyzing the Group's competitive strengths, identifying and developing the Company's business niches and industries with future potential, and pulling out of industries in which the Company is not competitive.
- Continuing to evaluate investments that complement the activities of the Company or that are able to create its synergy, and, by means of mergers, investments or strategic alliances, enlarging the group's financial scope, in order to provide a comprehensive range of financial services.
- In accordance with the speciality of each of the Company's subsidiaries, providing enterprises with a more complete range of services, while also actively seeking to promote consumer banking business.
- Strengthening the Group's risk management, and especially paying attention to the Company's capital adequacy (or BIS) ratio, by raising and utilizing funds in the most appropriate manner.
- By disposal of the Company's treasury stocks to strategic investors, to increase the Company's international competitiveness and provide customers with a more complete and up-to-date financial services.
- Establishing the Group's common IT platforms, integrating the various information systems, and strengthening the management of each of operations.

- Strengthening the creation of a superior business image for the Group, with a view to becoming the most outstanding financial holding company in Asia.

### **Chiao Tung Bank**

#### **A. Business Plans for 2003**

- Actively developing its four core businesses, namely, lending, investment, foreign exchange and consumer banking business, to enlarge the scale of operations.
- Strengthening its cross selling with other subsidiaries within the Group, to provide customers with a wide range of financial services.
- Increasing fee based income to achieve the target that fee based income accounts for more than 5% of the total revenues in 2003.

#### **B. Operating Policies for 2003**

- Lead managing or participating in syndicated loans, to expand market share and seek to be among the three largest players in the syndicated loans market.
- Strengthening cooperation with sound venture capital companies domestic and abroad, to increase the sources of investment, and encouraging the development of the local high-tech industry.
- Actively developing various foreign exchange businesses with high yielding, such as letter of credit forfaiting business and derivative financial products.
- Actively engaging in offshore banking and cross Strait banking business, in order to achieve a target growth rate of 20%.
- Promoting Treasury agent business, and custodian service in relation to the government book-entry bonds and institutional funds, in order to increase profitability.



- Strengthening cross selling with the Group's subsidiaries, providing clients with comprehensive services by integrating investment, credit, securities, and bills businesses.
- Improving the Bank's funding structure by attracting more demand deposits with a targeted growth rate of above 10% to lower the funding cost.

### Barits International Securities Co., Ltd.

#### A. Business Plans for 2003

- Achieving a targeted net income after tax of NT\$1 billion for 2003 with the consolidation of the three securities companies.
- Actively involving in the mainland China market.
- Using the Group's resources to effectively integrate business activities and establish a complete marketing network, with a view to becoming ranked among the top 5 securities companies within a period of three years.

#### B. Operating Policies for 2003

- **Brokerage business:** Increasing market share by 50%, seeing 100% growth in brokerage services for institutional investors, and being ranked among the top ten brokers by the end of 2003. Increasing the volume of business but not increasing risk, with equal emphasis on both market share and profitability.
- **Underwriting:** Cultivating professional staff in this field and giving them a broad training, with a view to developing financial advisory business.
- **Bonds:** Focusing on R/P and R/S business, and actively developing asset securitization products.
- **International business:** Assisting Taiwan enterprises with their overseas fund raising and merger activities. Promoting asset management

business in Hong Kong to manage the overseas funds and mainland China funds of Taiwanese people, and making every effort to become an international investment bank.

- **Private banking business:** Striving to become a major private bank in Taiwan within 2 years by taking advantage of the Group's resources and IT platforms.
- **Developing financial products:** Designing new financial products, with a view to becoming a financial product development center within two years in Taiwan. In addition, helping clients to arbitrage and hedge their positions to build up the company's brokerage business.

### Chung Hsing Bills Finance Corporation (CHBFC)

#### A. Operating Plans for 2003

- Implementing internal restructure to grasp the concept of integrated selling and develop new business opportunities for CHBFC.
- Taking strict control of the credit quality of its clients to maintain the soundness of its assets.
- Issuing corporate bonds in due course to diversify its funding sources.
- Carefully studying interest rate trends to maintain profitability, as well as further sharpen its bills and bonds trading skills.
- Developing new products and conducting staff training to boost professional knowledge among staff.

#### B. Operating Policies for 2003

- In order to strengthen their financial structures and make adequate provision for bad debts, CHBFC will dispose of a portion of its government bonds holding.
- CHBFC will make every effort, through joint



marketing meetings with the Group's subsidiaries, to research and design financial products that meet customer needs.

- CHBFC will establish a model for trading in financial derivative products and a risk management system, and keep track of relationships between underlying products and the prices of financial derivative products, in order to seek out arbitrage or hedging opportunities.

## International Commercial Bank of China

### A. Operating Plans for 2003

- Expanding its core businesses such as international financing, syndicated loans and foreign exchange.
- Pushing forward wealth management and investment banking business to improve its profit structure.
- Introducing more customer-oriented consumer banking products so as to satisfy diverse needs of the customers.
- Conducting joint marketing efforts by integration of units within the Group.

### B. Operating Policies for 2003

- In order to enhance the synergies of the Group, the Bank's securities business to be transferred to Barits International Securities Co., Ltd., with the Bank serving as the principal settlement bank. In addition, encouraging the Group's subsidiaries to make use of the Bank's overseas branch network in dealing with related foreign exchange business.
- Appraising the operating performance of each business unit, closing down overseas branches that have not reached their scale of operation, and applying for certain domestic branches to be scaled down to mini bank branches.
- Promoting cross-Strait correspondent banking and

OBU business, to create new deposits and foreign exchange business.

- Promoting accounts receivable factoring, to help clients in financing, transferring of credit risk, accounts receivable management, and debt collection services.
- Paying close attention to the large-scale investment plans of industrialists, and actively seeking to lead manage or participate in syndicated loan business.
- Continuing to issue Mega Business Funds, and achieving the goal of issuing European Convertible Bonds within two years.
- Strengthening consumer banking business, wealth management business to provide financial planning services.
- In line with the launch of bank assurance business, increasing the numbers and expertise of financial planning personnel, and placing increased emphasis on marketing skills.

## Chung Kuo Insurance Co., Ltd.

### A. Operating Plans for 2003

- Boosting the volume of new business with emphasis both on quality and quantity to ensure underwriting profits, consolidating and stabilizing core businesses while actively developing new products so as to enhance operating performance.
- Drawing out cross-selling strategies as a member of the Group, actively exploring new marketing channels to raise revenues while strengthening employee training to improve service quality.
- Actively managing its investment portfolios to improve fund performance and raise the financial returns.
- Reinforcing actuarial functions to control operating costs and secure solvency.

## B. Operating Policies for 2003

- Abiding by guidelines for underwriting, reinsurance and claims processing to control business quality; cutting down expenses while increasing retention amount to raise underwriting profits.
- Speeding up the development of Personal Accident or other personal insurance products to meet the market demand and enhance competitiveness.
- Enhancing the functions of Internet website; expanding e-business opportunities through Internet marketing channels.
- Continuing the efforts of globalization; exploring overseas markets to be in line with the government's south-bound policy and win over businesses of Taiwan investors at abroad through the Company's overseas offices.
- Improving the interaction with clients; providing customer-oriented high quality service.
- Strengthening human resources planning; reinforcing the education and training of personnel; improving the professional knowledge and skills of employees to manifest the effects of human resources management.
- Building up a comprehensive marketing and service networks for policyholders to upgrade service standard and operational efficiencies while improving business competitiveness.
- Realizing the functions of internal control and auditing; speeding up premium collections and shorten the time of recovering claims from reinsurers to increase the cash turnover rate.
- Monitoring the expenditures incurred by all classes

of business through actuarial systems to enable the fine-tuning of management strategies and boost competitiveness.

## II **Plans to Acquire or Dispose of Real Estate or Long-term Investments in 2003**

The Company still does not have any definite plans to acquire other financial institutions in 2003. However, should there be financial institutions whose business activities are capable of truly complementing those of the Group, this does not rule out the possibility that they might become the Company's subsidiaries. To expand the group's synergies, the Company's current investment plans are as follows:

- Planning to invest a sum of NT\$79.412 million in the Taipei Financial Center Corporation, resulting in an expected 0.397% shareholding.
- Planning to acquire from subsidiary Barits International Securities Co., Ltd and other parties, shares of Central Securities Investment Trust Corporation (CSITC) with a sum of approximately NT\$435 million and make CSITC become the wholly owned subsidiary of the Company.
- Planning to invest a sum of NT\$100 million in the Taiwan Bills & Bonds Central Depository Clearing Corporation, thereby acquiring a 5% shareholding.
- The Company's subsidiary Barits International Securities Co., Ltd. plans a cash-to-capital increase of NT\$5,207.988 million, with the whole amount being subscribed by the Company.



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## I Financial Highlights

Expressed in NT\$ million, except per share

<b>2002</b>	
<b>FINANCIAL CONDITION</b>	
Paid-in Capital	110,488
Total Shareholders' Equity	142,537
Total Assets	1,649,625
<b>PER SHARE</b>	
Earnings Per Share	1.06
Shareholders' Equity Per Share	15.08
Dividends Declared Per Share	1.0392
<b>FINANCIAL RATIO</b>	
Capital Adequacy Ratio	119.61%
Return on Assets	0.76%
Return on Shareholders' Equity	8.84%
Net Income to Operation Revenues	7.34%

## Pro Forma Statement of Income

Expressed in NT\$ million, except per share

Item	2002		2001	
	Amount	%	Amount	%
OPERATING REVENUES	10,627,669	100.00%	12,781,218	100.00
Gains on Long-term Stock Investments	10,627,669	100.00%	12,781,218	100.00
OPERATING AND ADMINISTRATIVE EXPENSES	(127,284)	(1.20%)		
Administrative Expenses	(127,009)	(1.20%)		
Other Operating and Administrative Expenses	(275)	-		
OPERATING PROFIT	10,500,385	98.80%	12,781,218	100.00
NON-OPERATING INCOME	29,731	0.28%		
NON-OPERATING EXPENSES	(105,636)	(0.99%)		
NET INCOME BEFORE TAX	10,424,480	98.09%	12,781,218	100.00
INCOME TAX	(477)	(0.01%)		
CONSOLIDATED NET INCOME	10,424,003	98.08%	12,781,218	100.00
BASIC EARNING PER SHARE	1.01	-	1.22	-

## **II Consolidated Financial Statements**

DIWAN, ERNST & YOUNG

English Translation of a Report Originally Issued in Chinese

### **Report of Independent Auditors**

The Board of Directors and Stockholders  
Mega Financial Holding Company

We have audited the accompanying consolidated balance sheet of Mega Financial Holding Company (the Company; formerly CTB Financial Holding Co., Ltd.), and its subsidiaries as of December 31, 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the financial period from February 4 (inception date) to December 31, 2002. These 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 audit.

We conducted our audit in accordance with "Regulations for Auditing and Certification of Financial Statements in the Banking Industry by Certified Public Accountants" and auditing standards generally accepted in the Republic of China on Taiwan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe our audit provides 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 Mega Financial Holding Company and its subsidiaries as of December 31, 2002, and the results of its operations and its cash flows for the financial period from February 4 to December 31, 2002 in conformity with the guidelines for preparation of financial reports by financial holding companies, securities companies and securities issuers and accounting principles generally accepted in the Republic of China on Taiwan.

*Diwan, Ernst & Young*

February 14, 2003  
Taipei, Taiwan  
Republic of China

#### Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position and results of operations and cash flows in accordance with 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 on Taiwan.

## Mega Financial Holding Company (Formerly CTB Financial Holding Co., Ltd.) and its Subsidiaries

### Consolidated Balance Sheet

December 31, 2002

Assets	Notes	December 31, 2002	
		Amount	%
<b>Current Assets</b>			
Cash	IV-1	\$ 47,383,619	2.87
Due from banks and Central Bank	IV-2	299,779,354	18.17
Short-term investments in money market instruments-net	II & IV-3	252,951,708	15.33
Receivables-net	II & IV-4	47,936,048	2.91
Other current assets		4,763,316	0.29
<b>Total Current Assets</b>		<b>652,814,045</b>	<b>39.57</b>
Loans and Exchange Bills Negotiated and Discounted	II & IV-5	890,175,311	53.97
<b>Long-Term Investments</b>			
Long-term investments-net	II & IV-6	49,722,590	3.01
<b>Fixed Assets</b>			
Costs:			
Land		10,309,671	0.63
Land improvements		2,849	-
Buildings and structures		11,813,146	0.72
Machinery and equipment		1,139,558	0.07
Office and transportation equipment		2,787,496	0.17
Miscellaneous equipment and leasehold improvements		1,546,924	0.09
Asset revaluation increment		2,531,097	0.15
Total costs and asset revaluation increment		30,130,741	1.83
Less: accumulated depreciation		(7,021,101)	(0.43)
		23,109,640	1.40
Unfinished construction and prepayments for equipment		480,518	0.03
<b>Total Fixed Assets-Net</b>		<b>23,590,158</b>	<b>1.43</b>
<b>Other Assets</b>			
Intangible assets	II	90,752	0.01
Rental assets	II	33,342	-
Guarantee deposits paid		4,836,696	0.29
Overdue accounts receivable-net	II & IV-8	10,346,761	0.63
Reinsurance liability reserve contributed		2,125	-
Deferred expenses		503,681	0.03
Deferred income tax assets-net	II	2,295,746	0.14
Restricted assets		13,078,849	0.79
Assets to be adjusted		75,151	0.01
Miscellaneous assets		2,059,318	0.12
<b>Total Other Assets</b>		<b>33,322,421</b>	<b>2.02</b>
<b>Total Assets</b>		<b>\$1,649,624,525</b>	<b>100.00</b>

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



Liabilities & Stockholders' Equity	Notes	December 31, 2002	
		Amount	%
<b>Current Liabilities</b>			
Short-term borrowings and commercial paper payable	IV-9	\$ 13,248,708	0.80
Due to Central Bank and other banks	IV-10	275,349,986	16.69
Payables	II & IV-11	86,056,576	5.22
Advance receipts		1,058,416	0.06
Other current liabilities		104,724	0.01
<b>Total Current Liabilities</b>		<b>375,818,410</b>	<b>22.78</b>
Deposits and Remittances	IV-12	864,439,617	52.39
Financial Debentures-Net	IV-13	64,209,200	3.89
Borrowings from Central Bank and Other Banks	IV-14	155,593,810	9.43
<b>Long-Term Liabilities</b>			
Corporate bonds payable	IV-15	15,000,000	0.91
Development loan fund		1,057,167	0.06
Appropriated loan fund		9,744,824	0.59
Reserve for land revaluation increment tax	IV-7	1,317,349	0.08
Accrued pension liability	IV-16	6,122	—
<b>Total Long-Term Liabilities</b>		<b>27,125,462</b>	<b>1.64</b>
<b>Other Liabilities</b>			
Guarantee deposits received		3,557,660	0.22
Reserves for operations	II	11,335,314	0.69
Others	II	5,008,332	0.30
<b>Total Other Liabilities</b>		<b>19,901,306</b>	<b>1.21</b>
<b>Total Liabilities</b>		<b>1,507,087,805</b>	<b>91.34</b>
<b>Stockholders' Equity</b>			
<b>Capital stock</b>			
Common stock	IV-17	110,488,402	6.70
Capital Surplus	II & IV-18	49,925,341	3.03
<b>Retained Earnings</b>			
Legal reserve		5,077,446	0.31
Special reserve		354,967	0.02
Unappropriated retained earnings	II	6,239,231	0.38
<b>Total Retained Earnings</b>		<b>11,671,644</b>	<b>0.71</b>
<b>Equity Adjustments</b>			
Unrealized decline in market value of long-term stock investments		(66,241)	—
Cumulative translation adjustments		258,034	0.02
<b>Total Equity Adjustments</b>		<b>191,793</b>	<b>0.02</b>
Treasury Stock	II & IV-19	(29,740,460)	(1.80)
<b>Total Stockholders' Equity</b>		<b>142,536,720</b>	<b>8.66</b>
Commitments and Contingencies	VII		
<b>Total Liabilities and Stockholders' Equity</b>		<b>\$1,649,624,525</b>	<b>100.00</b>

## Mega Financial Holding Company (Formerly CTB Financial Holding Co., Ltd.) and its Subsidiaries Consolidated Income Statement

For the Period from February 4 to December 31, 2002

Expressed in New Taiwan Thousand Dollars

	Notes	February 4 to December 31, 2002	
		Amount	%
<b>Operating income</b>			
Interest income	II	\$ 52,001,754	60.62
Premiums income	II	6,088,104	7.10
Reinsurance commissions income		473,755	0.55
Reinsurance payments refund		1,740,497	2.03
Recovered premiums and reserves		1,699,675	1.98
Recovered special reserve		316,873	0.37
Recovered Indemnity reserve		33,727	0.04
Fees income	II	6,906,576	8.05
Gains on sale of securities		226,633	0.27
Warehousing & shipping income		4,109	—
Securities brokerage income		352,679	0.41
Gains on trading notes and bills		6,453,296	7.52
Gains on long-term stock investments	II	6,805,304	7.93
Gains on real estate investments		4,904	0.01
Exchange gains		1,421,056	1.66
Gains on trust investments		70,497	0.08
Gains on issuance of stock warrants		164,762	0.19
Gains on futures contracts		52,798	0.06
Other operating income		969,316	1.13
<b>Total Operating income</b>		<b>85,786,315</b>	<b>100.00</b>
<b>Operating Costs</b>			
Interest expense		(28,273,011)	(32.96)
Insurance expense		(3,866,419)	(4.51)
Underwriting expense		(14,497)	(0.02)
Commissions expense		(626,667)	(0.73)
Provision for insurance indemnities		(3,467,991)	(4.03)
Unearned premium reserve		(1,649,122)	(1.92)
Provision for special reserve		(134,071)	(0.16)
Provision for indemnity reserve		(30,088)	(0.04)
Processing fees		(516,884)	(0.60)
Securities brokerage expense		(3,266)	—
Loss on real estate investments		(4,030)	—
Provisions expense	II	(16,332,777)	(19.04)
Loss on decline in value of trading securities		(255,036)	(0.30)
Other operating costs		(62,223)	(0.07)
<b>Total Operating Costs</b>		<b>(55,236,082)</b>	<b>(64.38)</b>

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

	Notes	February 4 to December 31, 2002	
		Amount	%
Gross Operating Profit		30,550,233	35.62
Operating Expenses			
Business expenses		(10,850,035)	(12.66)
Administrative and general expenses		(4,497,850)	(5.24)
Other operating expenses		(636,767)	(0.74)
Total Operating Expenses		(15,984,652)	(18.64)
Operating Profit		14,565,581	16.98
Non-operating Income			
Interest income		10,775	0.01
Exchange gains		68,644	0.08
Rental income		4,458	0.01
Investment gains		32,739	0.04
Gains on property exchange		249,849	0.29
Miscellaneous income		1,160,905	1.35
Total Non-operating Income		1,527,370	1.78
Non-operating Expenses			
Interest expense		(75,949)	(0.09)
Property exchange losses		(15,620)	(0.02)
Asset retirement losses		(18,859)	(0.02)
Miscellaneous expenses		(4,035,398)	(4.70)
Total Non-operating Expenses		(4,145,826)	(4.83)
Net Income before Tax		11,947,125	13.93
Income Tax Expense	II & IV-20	(1,932,525)	(2.25)
Net Income before Cumulative Effect of Changes in Accounting Principle		10,014,600	11.68
Cumulative Effect of Changes in Accounting Principle	III	542,291	0.63
Consolidated Net Income from January 1 to December 31, 2002		10,556,891	12.31
Subsidiaries' Net Income before Exchange of Shares		(4,258,816)	(4.97)
Consolidated Net Income from February 4 to December 31, 2002		\$ 6,298,075	7.34
		Before Tax	After Tax
Basic Earnings Per Share ( Expressed in New Taiwan Dollars)	IV-21	\$ 1.06	\$ 1.06
Pro-forma disclosure based upon the assumption that short-term investments in money market instruments are accounted for under lower of total consolidated cost or total consolidated market value method:			
Consolidated Net Income		\$ 5,756,261	\$ 5,755,784
Basic Earnings Per Share ( Expressed in New Taiwan Dollars)		\$ 0.97	\$ 0.97
Pro-forma disclosure based upon the assumption that shares issued by the Company and held by subsidiaries are not treated as treasury stocks:			
Consolidated Net Income		\$ 6,286,350	\$ 6,285,873
Basic Earnings Per Share ( Expressed in New Taiwan Dollars)		\$ 1.05	\$ 1.05



## Mega Financial Holding Company (Formerly CTB Financial Holding Co., Ltd.) and its Subsidiaries Consolidated Statement of Changes in Stockholders' Equity

For the Period from February 4 to December 31, 2002

	Common Stock		Capital Surplus
	No. of Shares	Amount	
Balance as of February 4, 2002	2,915,608	\$ 29,156,078	\$ 30,094,296
Adjustment for subsidiaries' income in prior year	—	—	(128,220)
Capitalization of capital surplus	291,561	2,915,608	(2,915,608)
Shares issued due to exchange of shares	7,841,671	78,416,716	—
Premium from merger	—	—	22,873,741
Adjustments for long-term stock investments accounted for under equity method:			
Changes in capital surplus	—	—	1,132
Changes in cumulative translation adjustments	—	—	—
Unrealized loss on decline in market value of long-term stock investments	—	—	—
Net Income from February 4 2002 to December 31, 2002	—	—	—
Transfer from gains on investments accounted for under equity method prior to exchange of shares	—	—	—
Stocks bought back	—	—	—
Stocks held by subsidiaries that are treated as treasury stocks	—	—	—
Balance as of December 31, 2002	11,048,840	\$ 110,488,402	\$ 49,925,341

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

Expressed in New Taiwan Thousand Dollars / Thousand Shares

Retained Earnings			Treasury Stock	Unrealized Decline in Market Value of Long- term Stock Investments	Cumulative Translation Adjustments	Total Stockholders' Equity
Legal Reserve	Special Reserve	Unappropriated Retained Earnings				
\$ —	\$ —	\$ —	\$ (1,283,552)	\$ —	\$ —	\$ 57,966,822
—	—	—	—	—	—	(128,220)
—	—	—	—	—	—	—
—	—	—	—	—	—	78,416,716
5,077,446	354,967	34,524	—	(33,645)	91,285	28,398,318
—	—	—	—	—	—	1,132
—	—	—	—	—	166,749	166,749
—	—	—	—	(32,596)	—	(32,596)
—	—	6,298,075	—	—	—	6,298,075
—	—	(93,368)	—	—	—	(93,368)
—	—	—	(28,364,696)	—	—	(28,364,696)
—	—	—	(92,212)	—	—	(92,212)
\$ 5,077,446	\$ 354,967	\$ 6,239,231	\$ (29,740,460)	\$ (66,241)	\$ 258,034	\$142,536,720

## Mega Financial Holding Company (Formerly CTB Financial Holding Co., Ltd.) and its Subsidiaries

### Consolidated Statement of Cash Flows

For the Period from February 4 to December 31, 2002

Expressed in New Taiwan Thousand Dollars

February 4 to December 31, 2002

<b>Cash Flows from Operating Activities:</b>	
Consolidated net income from February 4 to December 31, 2002	\$ 6,298,075
Subsidiaries' net income before exchange of shares	4,258,816
Consolidated net income from January 1 to December 31, 2002	10,556,891
<b>Adjustments:</b>	
Depreciation and provisions expense	9,754,814
Gains on disposal of assets	(212,219)
Gains on investments accounted for by equity method	(275,152)
Cash dividends received from investee companies accounted for by equity method	3,186,736
Increase in bills purchased for trading purposes	(112,674,817)
Increase in receivables	(3,862,645)
Increase in other current assets	(480,112)
Increase in deferred income tax assets	(40,900)
Increase in payables	14,030,675
Decrease in advance receipts	(385,959)
Decrease in other current liabilities	(106,046)
Increase in forward exchange receivable and payable for trading purpose	(2,512,599)
Provision for pension reserve	(504,730)
Others	(45,076)
Net cash used by operating activities	(83,571,139)
<b>Cash Flows from Investing Activities:</b>	
Decrease in due from Central Bank and other banks	24,003,114
Increase in loans and exchange bills negotiated and discounted	(23,231,145)
Increase in long-term investments	(3,156,184)
Payments for fixed assets	(1,186,347)
Proceeds from sale of fixed assets	376,588
Decrease in other assets	2,041,622
Increase in forward exchange receivable for non-trading purposes	(2,148,813)
Increase in short-term investments	(519,192)
Others	17,792
Net cash used by investing activities	(3,802,565)
<b>Cash Flows from Financing Activities:</b>	
Increase in due to Central Bank and other banks	11,719,393
Increase in deposits and remittances	70,250,475
Increase in financial debentures	5,681,700
Increase in borrowings from Central Bank and other banks	11,036,807
Decrease in long-term liabilities	(5,825,517)
Increase in other liabilities	1,119,743
Distribution of cash dividends and cash bonus	(7,462,398)
Increase in forward exchange payable for non-trading purposes	4,701,493
Increase in notes issued under repurchase agreement	1,240,353



Expressed in New Taiwan Thousand Dollars

**February 4 to December 31, 2002**

Increase in short-term borrowings	15,453,000
Increase in short-term notes and bills payable	15,544,211
Stock buyback	(28,327,032)
Others	(750)
Net cash provided by financing activities	95,131,478
Effect of exchange rate changes	210,229
Increase in cash	7,968,003
Cash balance at beginning of the period	39,415,616
Cash balance at the end of the period	\$ 47,383,619
Supplemental Disclosures of Cash Flow Information:	
Cash paid for interest	\$ 31,424,888
Cash paid for income tax	\$ 1,613,905

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

# Mega Financial Holding Company (Formerly CTB Financial Holding Co., Ltd.) and its Subsidiaries

## Notes to Consolidated Financial Statements

December 31, 2002

(Expressed in New Taiwan Thousand Dollars unless otherwise stated)

*The reader is advised that these consolidated financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.*

### **I** Background

Mega Financial Holding Company (the Company) was formed by Chiao Tung Bank Co., Ltd. (CTB) and Barits International Securities Co., Ltd. (BIS; formerly International Securities Co., Ltd.) on February 4, 2002 in accordance with the Financial Holding Company Law and other related laws through exchange of shares. On August 22, 2002, Chung Hsing Bills Finance Corporation (CHBF) and Barits Securities Co., Ltd (BS) joined the Company through exchange of shares. On December 31, 2002, the Company acquired a 100% equity stake both in International Commercial Bank of China (ICBC), an investee of the Company originally accounted for under equity method with a 28% stake, and Chung Kuo Insurance Co., Ltd. (CKI). On the same date, the Company changed its name from CTB Financial Holding Company Co., Ltd. to Mega Financial Holding Company. Shares of the Company have been listed and traded on the Taiwan Stock Exchange since February 4, 2002. The Company is mainly engaged in investment activities approved by the governing authorities and management of the investee companies. Backgrounds of the Company's subsidiaries are summarized as follows:

- (1) CTB was established in mainland China in 1907, five years before the founding of the Republic of China (ROC), and moved to Taiwan along with the central government of ROC in 1949. CTB resumed its operation in 1960 to continue its role of assisting the ROC government in implementing economic programs. CTB's shares were traded on the Taiwan Stock Exchange since September 1996 and the bank completed its privatization process in September 1999. On February 4, 2002, CTB was transformed into a 100% owned subsidiary of the Company through exchange of shares in accordance with the Financial Holding Company Law and was delisted from the Taiwan Stock Exchange. As a development bank, CTB is mainly engaged in extending medium- and long-term loans, equity and venture capital investments, international banking and trust related business. In line with the government's economic policy and economic development programs, CTB also assists major industries in developing strategies for improving the industrial infrastructure and promotes industrial development of the nation.
- (2) Incorporated on October 19, 1989, BIS (formerly International Securities Co., Ltd.) became a 100% owned subsidiary of the

Company on February 4, 2002 through exchange of shares and changed its name to Barits International Securities Co., Ltd. on December 6, 2002. Principal activities of BIS include underwriting, brokerage and proprietary trading of securities, margin trading of securities and bills, issuance of stock warrants, and brokerage of overseas securities.

- (3) CHBF, established on May 3, 1976, was 100% incorporated into the Company through exchange of shares on August 22, 2002 and was delisted from the Taiwan Stock Exchange accordingly. CHBF is mainly engaged in proprietary trading, brokerage and underwriting of short-term notes and bills and financial debentures, providing guarantees for short-term notes and bills, brokerage of inter-bank call loans, corporate financial consulting and proprietary trading of government bonds.
- (4) Established on July 3, 1989, BS became a 100% owned subsidiary of the Company through exchange of shares on August 22, 2002. BS entered into a merger agreement with International Securities Co., Ltd. on November 5, 2002 with the effective merger date set on January 31, 2003. The proposed merger was formally approved by the Securities and Futures Commission (SFC) on November 28, 2002. Barits Securities (Hong Kong) Ltd., registered in British Virgin Islands and 100% owned by BS, is mainly involved in asset management and investment activities.
- (5) International Commercial Bank of China (ICBC), formerly Bank of China, was restructured on December 17, 1971 in accordance with the Chinese commercial banking regulations. Shares of ICBC were originally traded on the Taiwan Stock Exchange and was delisted as it became a 100% owned subsidiary of the Company through exchange of shares on December 31, 2002. ICBC's major activities include foreign exchange, trade finance and guarantee, trust related business and other commercial banking business related to international trade.
- (6) Initially established by Bank of China (currently ICBC) in November 1931, CKI merged with the Central Trust of China's Non-life Insurance Department in February 1972 and became an investee company directly under the Ministry of Finance (MOF). CKI completed its privatization process on May 5, 1994 and became a 100% owned subsidiary of the Company through

exchange of shares on December 31, 2002. CKI's is primarily engaged in general insurance business.

## II Significant Accounting Policies

### 1. Principles for preparation of consolidated financial statements

- (1) Yearly and half-yearly consolidated financial statements are prepared as required by the governing authorities. Apart from the bank, insurance and securities subsidiaries, accounts of the investee companies are required to be consolidated into those of the Company where the Company directly or indirectly holds more than 50% of an investee's common stocks and the respective investee's total assets or operating revenue represent more than 10% of the Company's each respective account. For the subsidiaries not meeting the above-mentioned consolidation requirements, consolidation is also mandatory if the total assets or operating revenue of a single subsidiary exceed 3% of the respective account of the Company, as the total assets and operating revenue of all the subsidiaries that do not meet the above-mentioned consolidation requirements exceed 30% of the Company's respective accounts.
- (2) Inter-company transactions are eliminated from the consolidated financial statements.
- (3) Operating subsidiaries included in the Company's consolidated financial statements and the Company's percentage of ownership in each subsidiary are as follows:

Subsidiaries	%
Chiao Tung Bank Co., Ltd.	100.00
Barits International Securities Co., Ltd.	100.00
Chung Hsing Bills Finance Corporation	100.00
Barits Securities Co., Ltd.	100.00
International Commercial Bank of China	100.00
Chung Kuo Insurance Co., Ltd.	100.00
Barits Securities (Hong Kong) Ltd. (Subsidiary of BS)	100.00

### 2. Securities purchased

Securities purchased, including investments in government bonds, corporate bonds, convertible corporate bonds, short-term notes and bills, equity stocks of listed companies, and mutual funds, are stated at historical cost and are revalued by the lower of cost or market value method at balance sheet date. Costs of the stocks and mutual funds are calculated by the weighted average method when they are sold. The other securities are calculated using the specific identification method.

### 3. Allowance for doubtful accounts

Allowance for doubtful accounts is estimated based on the

balances of the exchange bills negotiated and discounted, loans, receivables and overdue receivables on the closing date and their collectibility. Loans which have been confirmed to be uncollectible are written off with the approval from the Board of the Directors.

### 4. Long-term stock investments

Long-term stock investments are stated at historical cost. For the investee companies in which the Company holds more than 20% of the voting shares or over which the Company can exercise significant influence, the equity method is applied.

The cost method is applied where the Company holds less than 20% of the voting shares and cannot exercise significant influence on the investee. For stock investments in listed companies, allowance for valuation losses on long-term investments is made and the unrealized loss on decline in market value is accounted for as a deduction from stockholders' equity where the book value of the investment exceeds the market value. For stock investments in unlisted companies, investment loss is recognized and the book value is adjusted downward once the decline in investment value is confirmed and the probability of a recovery in value is minimal.

On disposal of stock investments, the cost is calculated with the weighted average method.

### 5. Real estate investments

Valuation is based on the lower of cost or market value and revaluation is conducted in accordance with the respective regulations. Depreciation is estimated according to the cost or revalued price and is amortized over the useful life.

### 6. Capital expenditure and revenue expenditure

Expenditures for the acquisition of fixed assets are capitalized. Leasehold improvements, bond issuance costs and other deferred charges are amortized over the prescribed period and are charged to expenses. All other expenditures are charged to revenue as incurred.

### 7. Leases

All leases are treated as operating leases. Leasehold improvements are stated at cost and amortized over the lease period.

### 8. Valuation and depreciation of fixed assets

Except for land, assets after revaluation are depreciated using the straight-line method. Gains or losses on sale or exchange of fixed assets are recorded as gains or losses on property exchange. Gains on property exchange were originally booked as non-operating income and the net amount after tax was transferred to capital surplus as required by SFC. From year 2001 and onwards, to meet the new requirement of the Ministry of Economic Affairs, gains on disposal of fixed assets are no longer transferred to capital surplus.

### 9. Intangible assets

Excess of the cost incurred by acquisition of other companies



over the book value of the identifiable assets is accounted for as intangible assets - goodwill which is amortized over five years using the straight-line method.

## 10. Rental assets

Properties leased out as operating leases are stated at cost and recorded as "rental assets". Depreciation of the rental assets is calculated based on the estimated useful life using the straight-line method. The resulting rental income after deducting depreciation expense is recorded as non-operating income.

## 11. Stock warrants liabilities

Proceeds received from issuing stock warrants are recorded as liabilities. The Company is allowed to repurchase those warrants from the market and accounts for such purchases as a reduction in the stock warrants' liabilities. Liabilities for stock warrants issued are valued at market value at the balance sheet date. The decrease in stock warrants' liabilities should be recognized as a gain on issuance of stock warrants. As stipulated in the SFC regulations, the increase in stock warrants' liabilities should be deferred but not recorded as a loss in the current period if such an increase is less than the unrealized gain from the increase in the market value of the hedged securities' position. However, if the increase in stock warrants' liabilities exceeds the unrealized gain from the increase in the market value of the hedged securities' position, the excess is recognized as a loss in the current period.

## 12. Business provisions

Business provisions include provisions for guarantees, house account losses and losses on breach of contracts. Provision for guarantees is estimated at 1% of the ending balance of guarantee accounts but the amount of the provision cannot exceed the total guarantee commissions received for the year. According to the Rules Governing Administration of Securities Firms (RGASF), 10% of the excess of securities trading gains over losses must be provided as a house account loss provision on a monthly basis until the cumulative balance of such provision reaches \$200 million. Such provision can only be used to offset the excess of securities trading losses over gains. According to the RGASF, 2% of monthly brokerage commissions must be provided as provision for losses on breach of contracts. On July 1, 2000, the SFC amended the rules and requires that 0.0028% of the monthly brokerage trading amount be provided as a provision for losses on breach of contracts until the balance of such provision reaches \$200 million. Such provision can only be used to offset losses on breach of contracts or other losses as approved by the SFC.

## 13. Insurance reserves

On December 24, 2002, the Department of Insurance promulgated the "Regulations on Setting Reserves for Insurance

Industry". Rules for provisions of the respective reserves are set forth below:

### (1) Unearned premium reserve

The entire retained premium income should be calculated in accordance with the retained risk for the in-force policies or insured risk. Unearned premium reserve should be set aside according to the characteristics of each insurance category.

Computation of unearned premium reserve for year 2002 is the same as that for year 2001 and is based on the entire retained premium income and the provision rate prescribed in the Insurance Law according to the insurance category. The unearned premium reserve is reversed in the following financial year.

### (2) Special reserve

For year 2002, the special reserve falls into two categories, "catastrophe special reserve" and "risk special reserve", and is set aside in accordance with the following:

#### ① Catastrophe special reserve

Catastrophe special reserve is set aside from the retained earned premiums based on the provision rate prescribed by the Ministry of Finance (MOF). If the actual retained claims on catastrophes exceed NT\$30 million, the excess may be offset against the catastrophe special reserve. The catastrophe special reserve can be released with the method prescribed by MOF after being set aside for 15 years and the released reserve is treated as income.

#### ② Risk special reserve

If the actual claim for each insurance category after offsetting against catastrophe special reserve is less than the anticipated claim, 30% of the difference between the two shall be set aside as risk special reserve.

If the actual claim for each insurance category after offsetting against catastrophe special reserve exceeds the anticipated claim, the excess may be offset against the risk special reserve. If the risk special reserve for the respective insurance category is insufficient to offset the excess, risk special reserve in other insurance categories may be used. However, MOF must be notified of the offset amount and insurance category. If the risk special reserve accumulated for each insurance category exceeds 60% of the gross earned premiums retained for the current year, the excess shall be treated as income.

### (3) Claim reserve

The claim reserve should be computed based on the losses incurred but not reported and those not incurred and not reported. For the retained business prior to December 31, 2005, claim reserve for losses incurred but not reported should be set aside on a policy by policy basis whereas the claim reserve for losses not incurred and not reported is set aside based on the retained earned premiums and the provision rate prescribed by MOF. The claim

reserve is reversed in the following financial year.

From January 1, 2006 and onwards, claim reserve for the retained business should be set aside based on the past claim experience and expenses as well as the rules agreed by MOF.

#### (4) Compulsory automobile liability insurance

Premium reserves for compulsory automobile liability insurance for both cars and motorcycles are set aside in conformity with the rules stipulated in MOF's Letter No.860817977 issued in 1997 and Letter No.871878188 issued in 1998.

The unearned premium reserve is set aside based on the net premiums retained for the current year.

The special reserve is set aside based on the gross earned premium income and the special reserve provision rate calculated in accordance with the premium structure. Additionally, the sum of net earned premium income, reinsurance commission income, claim reserve released and interest on the special reserve account after deducting retained claims and the provision for claim reserve is transferred to special reserve in full. If the resulting balance is negative, the special reserve set aside in accordance with the premium structure shall be used first to make up the shortage, followed by the accumulated special reserve released in previous years. If the balance is still negative, the amount of shortage is recorded in the memo account and will be made up with the special reserve set aside in the following year.

Claim reserve for the retained business should be set aside on a policy by policy basis for losses incurred but not reported whereas the claim reserve for losses not incurred and not reported should be set aside based on the net earned premiums.

### 14. Pensions

Accounting for pensions is dealt with in accordance with the Financial Accounting Standard No.18, Accounting Standard for Pensions. Minimum accrued pension liability and net pension cost must be recognized based on actuarial calculations. Service costs in prior period and pension gain/loss are amortized on the straight line basis according to the average remaining service years of the employees.

### 15. Income tax

(1) Inter-period and intra-period income taxes are allocated in accordance with the Financial Accounting Standard No.22, Accounting Standard for Income Taxes. Income tax effects arising from taxable temporary differences are recognized as deferred income tax liabilities. Income tax effects arising from deductible temporary differences, deductible losses and income tax credits are recognized as deferred income tax assets and a valuation allowance is made based on the expected realizability of the deferred income tax assets.

(2) Accounting for income tax credits is dealt with in accordance

with the Financial Accounting Standard No.12, Accounting Standard for Income Tax Credits. Income tax credits arising from acquisitions of equipment and technology, research and development, staff training and stock investments are recognized in the year when the expenditures are incurred.

(3) An additional 10% income tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year when the tax is levied.

(4) Projected income tax is estimated based on the expected taxable income. Any difference between the tax estimated by the Company and that assessed by the National Tax Administration (NTA) is adjusted in the year when the income tax is assessed.

### 16. Capital surplus

According to the Company Law, capital surplus arising from share issue premium and donations can be capitalized with the approval from shareholders. According to the SFC regulations, capital surplus arising from share issue premium is allowed to be capitalized once a year and is subject to a specified limit. In addition, capitalization is prohibited in the year when the shares are issued.

Pursuant to the Letter of Tai-Tsai-Zen (6) No.0910003413 issued by SFC, capital surplus arising from exchange of shares between financial institutions can be appropriated as cash dividends and capitalized in the year of share exchange according to Section 4, Article No.47 of the Financial Holding Company Law, if the capital surplus arises from the unappropriated earnings generated prior to exchange of shares. The capitalization amount is not subject to the limit stipulated in the Article 8 of the Securities and Exchange Law.

### 17. Appropriation of retained earnings and dividend policy

Dividends are distributed not only in accordance with the Company's Articles of Incorporation which regulate the appropriation of retained earnings but also the financing requirements of the Company. According to the Company's Articles of Incorporation, the after-tax net income shall be used to offset the accumulated deficit first and then be appropriated to the legal reserve at the rate regulated by the governing authority. The remainder shall be appropriated to the special reserve, if necessary, and an appropriated portion is retained according to the Company's financing requirements. Any remaining income will be distributed in the following order based on the resolution from the shareholders.

#### (1) Dividends

Cash dividends should not exceed 50% of the total distributed amount, and the remainder will be in the form of stock dividends.

#### (2) Remuneration to directors and supervisors

Remuneration to directors and supervisors should not exceed 1% of the total distributed amount.

### (3) Bonus to employees

Bonus to employees ranges from 2‰ to 16‰ of the total distributed amount. Bonus to employees can be distributed in the form of cash or stocks based on the shareholders' resolution. Employees from affiliated companies may be entitled to the Company's stock bonus at the Board's discretion.

If there are any negative stockholders' equity items recorded by the Company, such as unrealized losses on declines in market value of long-term stock investments and cumulative translation adjustments, the Company is required to set aside a special reserve with an amount equal to the total amount of the negative items but not exceeding the limits listed below before the earnings are appropriated.

- ① The special reserve set aside for the negative stockholders' items which occur in the current year should not exceed the sum of after-tax net income generated in that year plus the unappropriated retained earnings accumulated for previous years.
- ② The special reserve set aside for the negative stockholders' items which occur in previous years should not exceed the amount of the unappropriated retained earnings accumulated for previous years minus the amount of special reserve set aside in ①.

According to the regulation stipulated in the SFC's Letter (90) Tai-Tsai-Zen (1) No.170010, the Company is required to set aside a special reserve with an amount equal to the excess of the book value of the Company's stocks held by the subsidiaries over their market value. If the market value recovers in the future, the special reserve can be reversed by the recovered amount.

## 18. Treasury stocks

- (1) Costs incurred on the stock buyback are debited to "treasury stocks". Book value of the treasury stocks is calculated based on the weighted average book value of the common stocks and preferred stocks and their respective reasons for buyback. The amount of the deregistered treasury stocks is credited to "treasury stocks" and debited to "capital surplus - share issue premium" and "common stocks". While the book value of the treasury stocks exceeds the sum of the par value and share issue premium, the excess should be first offset against the capital surplus arising from transactions of treasury stocks of the same kind and then debited to retained earnings if the capital surplus is insufficient. While the book value of the treasury stocks is less than the sum of the par value and share issue premium, the difference is credited to the capital surplus arising from transactions of treasury stocks of the same kind. When securities holders exercise the right of conversion in exchange for the treasury stocks, it should be recorded at the book value of the securities converted. That is, the book value of the securities converted is considered as the disposal price of the treasury stocks.

- (2) According to the SFC's Letter (91) Tai-Tsai-Zen (6) No.111467, the stocks originally bought back by the financial institutions in accordance with Section 1, Article No.28-2 of the Securities and Exchange Law and transformed into the Company's shares in accordance with Article No.31 of the Financial Holding Company Law when the respective financial institutions are transformed into the Company's 100% owned subsidiaries are still treated as treasury stocks of the subsidiaries and a negative item under stockholders' equity. Those stocks should also be treated as the Company's treasury stocks. Other financial institutions which hold the stocks of the financial institutions incorporated into a financial holding company through share exchange and subsequently become the shareholders of the respective financial holding company should maintain the original accounting treatment for those stocks. According to the SFC's Letter (89) Tai-Tsai-Zen (6) No.69950, the Company's stocks held by the subsidiaries are treated as treasury stocks.

## 19. Transactions in foreign currencies

Transactions in foreign currencies are booked in the respective denominating currencies. The foreign currency denominated assets and liabilities arising from transactions other than currency forwards are translated into New Taiwan dollars at the balance sheet date with the respective closing exchange rates on that date. Differences arising from the translation of foreign currency denominated financial statements are recorded as cumulative translation adjustments under stockholders' equity.

## 20. Derivative financial instruments

### (1) Currency forwards

Foreign currency denominated assets and liabilities arising from the currency forward contracts used for purposes other than trading are recorded at the contracted forward rates on the contract dates. Gains / losses on the forward contracts are charged to current income on the settlement dates. Unsettled forward contracts at the balance sheet date are adjusted based on the forward rates prevailing over the respective remaining contract periods. The resulting translation differences are charged to current income. Receivables and payables arising from the forward contracts are offset against each other at the balance sheet date and only the net amount of receivables or payables is recorded.

### (2) Interest rate swaps

As no principal amounts are exchanged for interest swaps upon settlement, the transactions are recorded in the memo account on the contract dates. For interest rate swap contracts used for purposes other than trading, net interest received or paid upon each settlement, or accrued on the balance sheet date, is recorded as an adjustment to interest income or expense of the items being hedged.



### (3) Foreign exchange swaps

Foreign exchange swaps are on-balance-sheet transactions. Accrued interest income and prepaid interest expense are calculated based on the spot rates and forward rates on the contract dates and are recorded accordingly. Adjustments are made for the accrued interest income and prepaid interest expense at the balance sheet date based on the unamortized portion.

### (4) Cross currency swaps

Cross currency swap contracts entered into for purposes other than trading are recorded in the memo account at the nominal principal amounts on the contract dates. Difference between the interest received and paid upon each settlement, or accrued on the balance sheet date, is recorded as an adjustment to revenue or expense of the items being hedged.

### (5) Forward rate agreements (FRA)

Forward rate agreements are used to lock in at an interest rate for a specified period in the future and are recorded in the memo account at the nominal principal amounts or the contract amounts on the contract dates. Interest expense is recognized for each month. For FRAs used for trading purposes, difference between the interest received and paid is recorded as an adjustment to the interest expense. For FRAs used for hedging purposes, the difference is amortized as deferred interest income (expense) over the contract period. The memo account is reversed at expiration.

### (6) Futures

Futures are traded according to the regulation set by the Taiwan Futures Exchange. Only the nominal principal amount or contractual amount is recorded in the memo account on the contract date. Deposits and agent commissions are debited to "guarantee deposits paid" and "prepaid expenses", respectively. Losses on the futures contracts are assessed at the end of each month and are recognized as interest expense for the contracts used for trading purposes and as exchange losses for those used for hedging purposes. At expiration, the memo account is reversed and commissions are charged to income or amortized as gain / loss on the respective hedged item.

### (7) Options

An option gives the buyer, in return for paying a premium, the right, but not the obligation, to buy or sell a specified amount of an underlying good at a specified price on or before the expiration date. The nominal principal amount or the contract amount is recorded in the memo account on the contract date. Premiums paid for call options are recorded as prepaid expense whereas those received for put options are recorded as deferred revenue. Losses are assessed at month end. On the expiration date or upon closure of the option position, the memo account is reversed and the premiums are charged to income.

### (8) Non-delivery forwards (NDF)

As the principal amounts are not exchanged for NDFs upon settlement, the nominal principal amounts are recorded in the memo account. Upon settlement of the contract, gains / losses arising from the difference between the contract rate and the spot rate prevailing on the settlement date are charged to current income. Unsettled position is adjusted based on the forward rate prevailing over the remaining contract period and the resulting translation difference is recognized as current exchange gain / loss.

## 21. Recognition of interest, commission and financial revenues

### (1) Bank subsidiaries

Interest revenue from loans is recognized on an accrual basis. Interest on overdue loans is not recognized until such loans are collected. Commission revenue is recognized when collected.

### (2) Securities subsidiaries

According to the rules governing financial reporting for securities companies, interest income and expense arising from securities margin trading, bonds sold under repurchase agreements and those purchased under resell agreements, and interest-bearing securities are recorded as interest income or expense. Financial income or expense derived from activities other than those mentioned above is recorded as non-operating income or expense.

## 22. Collaterals taken over

Collaterals taken over are stated at the prices paid for the collaterals and are revalued by the lower of cost or market value method at the balance sheet date.

## 23. Contingent losses

At the balance sheet date, if any asset is considered to be potentially impaired or potential obligations have been incurred, the contingent losses which can be reasonably estimated are recorded as losses for the current year. If the amount of the losses cannot be reasonably estimated or the losses are not likely to occur, disclosure in the notes to the financial statements is required.

## 24. Premiums income and acquisition cost of insurance policies

The insurance subsidiary's premiums income and acquisition cost of insurance policies such as commissions and agency cost are recognized as the income and expenses for the period when the respective policies are issued.

### III Reasons for and Effects of Changes in Accounting Principles

Accounting for the equity and non-equity securities purchased by CTB has been changed from the lower of total cost or total market value method to the lower of total consolidated cost or total consolidated market value method from year 2002 and onwards. The above change was approved by the SFC on November 15, 2001 and has no effect on the beginning balance of retained earnings in year 2002 but has resulted in an increase in net income after tax for year 2002 by \$590,236 thousand.

The original accounting principles applied by ICBC for equity and non-equity securities purchased were the lower of total cost or

total market value method and the lower of individual security cost or market value method, respectively. The Securities Division of the bank also adopted the lower of total cost or total market value method for its proprietary trading and underwriting businesses. The reason for the change to the lower of total consolidated cost or total consolidated market value method for all the bank's securities investments in year 2002 is to improve evaluation of the overall performance of its securities investments and increase comparability with the financial statements of its peers. The above change was approved by the SFC on January 9, 2002 and has resulted in a decrease in allowance for valuation loss on securities investments for year 2002 by \$542,291 thousand, which in turn has resulted in an increase in net income by \$216,634 thousand.

### IV Explanations for Significant Accounts

#### 1. Cash

Items	Dec. 31, 2002
Cash	\$9,102,403
Cash in banks	7,977,454
Certificates of time deposit purchased	23,900,196
Post-dated checks for clearance	6,403,566
Total	\$47,383,619

#### 2. Due from banks and Central Bank

Items	Dec. 31, 2002
Due from banks	\$77,875,517
Banks' overdrafts	117
Call loans to banks	160,495,545
Due from Central Bank	61,408,175
Total	\$299,779,354

The reserve fund deposited in Central Bank was \$15,107,850 thousand as of December 31, 2002.

#### 3. Short-term investments—net

Items	Dec. 31, 2002
Marketable securities purchased	\$118,757,010
Securities held for operations	19,845,343
Bankers' acceptances purchased	81,659
Commercial paper purchased	29,259,283
Treasury bills purchased	1,272,905
Certificates of time deposit	76,626,900
Trust funds and trust receipts	4,354,522
Negotiable certificates of time deposit	840,729
Bonds purchased under resell agreements	2,269,808
Total	253,308,159
Less: allowance for valuation loss on bills and securities purchased	(356,451)
Short-term investments - net	\$252,951,708

Please refer to Note VI for details of the above assets pledged by the subsidiaries for loans.

#### 4. Receivables—net

Items	Dec. 31, 2002
Notes receivable	\$386,104
Accounts receivable	13,497,972
Tax refund receivable	435,475
Accrued income	198,936
Interest receivable	7,737,843
Acceptances receivable	8,849,290
Premiums receivable	435,423
Indemnity refundable on reinsurance ceded	5,163,394
Deposits paid to other securities lenders	1,329
Refinancing guarantees receivable	3,666
Receivables from banks	199,086
Marginal receivables	3,052,904
Forward exchange receivable - foreign currencies	34,466,854
Payables on forward exchange purchased	(30,533,598)
Other receivables	5,112,480
Total	49,007,158
Less: allowances for doubtful accounts	(1,071,110)
Receivables - net	\$47,936,048

#### 5. Loans and exchange bills negotiated and discounted—net

Items	Dec. 31, 2002
Exchange bills, import bills and export bills negotiated	\$13,903,052
Bills and notes discounted	163,946
Short-term loans	512,566,329
Short-term secured loans	8,863,718
Overdrafts	48,239
Secured overdrafts	389,582
Medium-term loans	73,315,177
Medium-term secured loans	90,684,450
Long-term loans	37,487,676
Long-term secured loans	149,786,927
Overdue receivables	10,981,367
Total	898,190,463
Less: allowance for doubtful accounts	(8,015,152)
Loans and exchange bills negotiated and discounted - net	\$890,175,311

#### 6. Long-term investments

Items	Dec. 31, 2002
Long-term stock investments	\$37,390,185
Long-term investments in bonds	12,039,016
Long-term investments in trusts	237,287
Real estate investments	56,102
Total	\$49,722,590



## (1) Long-term stock investments

Investees	Dec. 31, 2002	
	Amount	Percentage of Ownership
Equity method:		
CTB Financial Management & Consulting Co., Ltd	\$24,849	100.00
International Futures Co., Ltd.	333,333	100.00
International Securities Investment Consulting Co., Ltd.	94,048	100.00
ISI Securities (Global) Holdings Ltd.	21,127	100.00
Cathay Investment & Development Corporation (Bahamas)	941,507	100.00
International Commercial Bank of Cathay (Canada)	476,484	100.00
Barits Investment Services Corp.	333,694	99.98
Chung Hsing Securities Corp.	4,150,720	99.58
Yung Shing Industries Co.	444,640	95.22
Cathay Insurance Company, Inc.	17,173	56.09
Euroc II Venture Capital Corp.	218,726	25.00
Grand Cathay Venture Capital Co., Ltd.	611,638	25.00
International Trade Building Corp.	328,300	25.00
Grand Cathay II Venture Capital Corp.	218,055	25.00
Central Securities Investment Trust Co., Ltd.	73,879	25.00
Taiwan Finance Corporation	1,002,361	24.55
Quartz Frequency Technology Ltd.	6,354	23.02
United Investments Corp.	201,621	22.60
Everstrong Iron & Foundry & Mfg. Corp.	19,753	22.22
China Real Estate Management Co., Ltd.	100,235	20.00
Others	113,663	-
Subtotal	9,732,160	
Cost method:		
Listed companies	6,677,663	
Less: allowance for declines in market value	(22,909)	
Listed companies - net	6,654,754	
Unlisted companies	21,006,041	
Less: allowance for declines in market value	(2,770)	
Unlisted companies - net	21,003,271	
Subtotal	27,658,025	
Total	\$37,390,185	

The above investees accounted for under equity method and their resulting investment gains/losses are recorded based on their audited financial statements. Additionally, for the above investees in which the Company holds more than 50% interest, neither the total assets and operating revenue of each individual investee exceed 10% of all the subsidiaries' respective accounts nor the total assets or operating revenue of all these investees exceed 30% of all the subsidiaries' respective accounts. Therefore, these investees are not included in the consolidated financial statements.

## (2) Long-term investments in bonds

Items	Dec. 31, 2002
European financial debentures	\$1,494,410
US government bonds	4,278,328
Singapore government bonds	409,304
Domestic government bonds	2,824,267
Thailand bonds	925,096
Others	2,107,611
Total	\$12,039,016

## (3) Long-term investments in trusts

Items	Dec. 31, 2002
ED & F Man Fund Corp. (AHL P Ltd., principal protection fund)	\$167,726
ED & F Man Fund Corp. (MIN-IP 360 Ltd., principal protection fund)	69,560
Total	\$237,286

## 7. Fixed assets

Item	Dec. 31, 2002			
	Cost	Revaluation increment	Accumulated depreciation	Balance
Land	\$10,309,671	\$2,483,091	\$-	\$12,792,762
Land improvements	2,849	418	(3,169)	98
Buildings & Structures	11,813,146	47,588	(3,241,022)	8,619,712
Machinery	1,139,558	-	(662,352)	477,206
Office and transportation equipment	2,787,496	-	(1,980,856)	806,640
Miscellaneous equipment	1,211,798	-	(896,689)	315,109
Leasehold improvements	335,126	-	(237,013)	98,113
Subtotal	27,599,644	2,531,097	(7,021,101)	23,109,640
Unfinished construction	387,718	-	-	387,718
Machinery on order	92,800	-	-	92,800
Total	\$28,080,162	\$2,531,097	(7,021,101)	\$23,590,158

- (1) As required by the government regulations, the land and other fixed assets of CTB were revalued on June 30, 1975, 1991 and 1995. As of December 31, 2002, the total revaluation increment for land and other fixed assets amounted to \$2,531,097 thousand and was booked under fixed assets. Provision for land revaluation increment tax amounted to NT\$1,317,349 thousand as of December 31, 2002 and was booked under long-term liabilities.
- (2) As of December 31, 2002, the insurance coverage for all fixed assets and real estate investments owned by the subsidiaries was \$3,765,662.
- (3) Please refer to Note VI for details of the fixed assets pledged by the subsidiaries.

## (4) Real estate investments

Items	Dec. 31, 2002
Costs	
Land	\$28,737
Buildings and equipment	35,784
Revaluation increment	344
Subtotal	64,865
Accumulated depreciation	(8,763)
Real estate investments-net	\$56,102

① Real estate investments in buildings and equipment were revalued on June 30, 1975.

② Please refer to Note IV-7, fixed assets, for details of the insurance coverage for real estate investments.

③ As of December 31, 2002, rents receivable for the next two years are as follows:

Period	Amount
January 2003 ~ December 2003	\$6,104
January 2004 ~ December 2004	2,603
Total	\$8,707

## 8. Overdue receivables—net

Items	Dec. 31, 2002
Overdue receivables	\$12,462,869
Less: allowance for bad debts	(2,116,108)
Overdue receivables - net	\$10,346,761

## 9. Short-term borrowings and commercial paper payable

Items	Dec. 31, 2002
Short-term secured borrowings	\$10,670,000
Commercial paper payable	2,585,000
Less: discounts on commercial paper payable	(6,292)
Total	\$13,248,708

(1) Interest rates on short-term borrowings and commercial paper payable range from 1.33% to 4.35%.

(2) Please refer to Note VI for details of the assets pledged by the subsidiaries for borrowings.

## 10. Due to Central Bank and banks

Items	Dec. 31, 2002
Due to Central Bank	\$155,451,575
Due to banks	73,105,448
Overdrafts on banks	1,594,428
Call loans from banks	45,198,535
Total	\$275,349,986

## 11. Payables

Items	Dec. 31, 2002
Accounts payable	\$7,894,410
Collections for others	263,636
Accrued expenses	2,695,731
Taxes payable	1,764,703
Interest payable	5,893,094
Acceptances	8,975,201
Commissions payable	42,133
Dividends payable	5,704,804
Margin deposits on short sales	269,332
Payables on proceeds from short sales	299,830
Indemnity payable	4,981,835
Liability on bonds sold under repurchase agreements	35,591,576
Liability on stock warrant issuance	10,063
Payables to other insurers	516,595
Forward exchange payable - foreign currencies	34,590,050
Receivables on forward exchange sold	(30,692,731)
Other payables	7,256,314
Total	\$86,056,576

Please refer to Note VI for details of the bonds sold under repurchase agreements and pledged by the subsidiaries for loans.

## 12. Deposits and remittances

Items	Dec. 31, 2002
Checking account deposits	\$22,876,192
Demand deposits	147,516,509
Time deposits	411,962,157
Time savings deposits	185,851,256
Demand savings deposits	89,340,045
Remittances	6,893,458
Total	\$864,439,617

## 13. Financial debentures—net

Items	Dec. 31, 2002
Financial debentures	\$64,209,200
Less: discounts on financial debentures	-
Total	\$64,209,200

In April 1998, CTB gained approval from MOF to issue 10-year subordinated bonds in the United States for US\$300 million with the principal to be repaid at maturity in 2008. The interest rate on the bonds is LIBOR plus 0.65% per annum for the first five years and LIBOR plus 3.00% per annum for the last five years. (Please refer to Table 2 for details.)

## 14. Borrowings from Central Bank and other banks

Items	Dec. 31, 2002
Borrowings from Central Bank	\$124,595,569
Borrowings from other banks	30,998,241
Total	\$155,593,810

## 15. Corporate bonds payable

Items	Dec. 31, 2002
Unsecured corporate bonds	\$15,000,000

The Company issued its first unsecured corporate bonds in December 2002 with a total amount of \$15 billion and principal to be repaid at maturity. Please refer to Table 3 for details of the terms on the corporate bonds.

## 16. Pensions

(1) Reconciliation of the pension provision with the carrying amount of accrued pension liability as of December 31, 2002 is as follows:

Items	Dec. 31, 2002
Benefit obligations:	
Vested benefit obligation (VBO)	\$(1,833,035)
Non-vested benefit obligation	(2,897,090)
Accumulated benefit obligation (ABO)	(4,730,125)
Effects of future salary increments	(1,674,290)
Projected benefit obligation (PBO)	(6,404,415)
Fair value of assets	5,579,620
Funded status	(824,795)
Unrecognized net transition obligation	343,187
Unrecognized prior service costs	74,487
Unrecognized gain (loss) on pension assets	(1,016,689)
Additional accrued pension liability	(22,249)
Accrued pension liability (recorded as long-term liability)	\$(6,122)
Accrued pension liability (recorded as other liability)	\$(1,451,846)
Prepaid pension costs (recorded as other asset)	\$11,909



(2) Pension costs consist of the following:

Items	Feb. 4 to Dec. 31, 2002
Service costs	\$567,880
Interest	310,890
Projected return on pension assets	(136,422)
Amortization and deferrals	(185,777)
Decrease in gain/loss	(93,782)
Net pension costs	\$462,789

(3) Actuarial assumptions:

Items	Dec. 31, 2002
Discount rate	3.50%-4.00%
Increase in future level	2.00%-2.50%
Expected rate of return on plan assets	2.50%-4.00%

## 19. Treasury stock

Reasons for stock buyback	Beginning balance		Increase		Decrease		Ending balance	
	No. of shares (in '000)	Amount	No. of shares (in '000)	Amount	No. of shares (in '000)	Amount	No. of shares (in '000)	Amount
Shares bought back to be transferred to employees	—	\$ —	132,010	\$ 2,364,701	—	\$ —	132,010	\$ 2,364,701
Shares of ICBC originally held by the Company and treated as treasury stocks due to exchange of 100% shares	—	—	1,398,544	25,999,995	—	—	1,398,544	25,999,995
Shares of the Company held by CTB	60,000	1,283,552	—	—	—	—	60,000	1,283,552
Shares of the Company held by CKI	—	—	4,885	92,212	—	—	4,885	92,212
Total	60,000	\$ 1,283,552	1,535,439	\$ 28,456,908	—	\$ —	1,595,439	\$ 29,740,460

(1) The Securities and Exchange Law sets a ceiling on the outstanding shares allowed to be bought back at 10% of the total issued shares of a company and the amount of shares bought back cannot exceed the sum of the retained earnings, share issue premium and realized capital surplus. The ceiling on the shares allowed to be bought back by the Company as of December 31, 2002 was 1,104,884 thousand shares or \$56,163,440 thousand. As of December 31, 2002, the Company's treasury stocks amounted to 132,010 thousand shares or \$2,364,701 thousand.

(2) On November 7, 2002, the Company acquired a 28% equity stake in ICBC, totaling 1,043,734 thousand shares. As ICBC joined the Company on December 31, 2002 through exchange of 100% shares, the 1,043,734 thousand shares acquired on November 7, 2002 were transformed into the Company's treasury stocks which consist of 1,398,544 thousand shares. The original acquisition cost

## 17. Capital stock

The amount of the Company's issued shares as at its inception date, February 4, 2002, was \$29,156,078 thousand. A resolution was passed in the year 2002 shareholders' meeting to increase capital through capitalization of capital surplus for \$2,915,608 thousand and to incorporate CHBF, BS, ICBC and CKI under the Company's umbrella through share exchange by issuing new shares of \$78,416,716 thousand. As of December 31, 2002, the authorized and issued shares of the Company amounted to \$120 billion and \$110,488,402 thousand, respectively, consisting of 11,048,840 thousand shares of common stocks with a par value of \$10 per share.

## 18. Capital surplus

Items	Dec. 31, 2002
Capital surplus arising from exchange of shares	\$49,924,209
Changes in capital surplus arising from investees accounted for under equity method	1,132
Total	\$49,925,341

of these treasury stocks is \$25,999,995 thousand with a par value of \$24.91 per share and market value of \$16.38 per share at the end of year 2002.

(3) CTB originally bought back 60 million shares in compliance with Section 1, Article 28-2 of the Securities and Exchange Law. As CTB became a 100% owned subsidiary of the Company on February 4, 2002 through exchange of shares, these treasury stocks were transformed into the Company's shares accordingly. Shares of the Company held by CTB are treated as treasury stocks of the Company, which totaled 60 million shares as of December 31, 2002 with an acquisition cost of \$1,283,552 thousand and a par value of \$21.39 per share. The market value as of December 31, 2002 was \$16.38 per share. No sale of these treasury stocks occurred in year 2002.

(4) CKI originally acquired 4,885 thousand shares of CTB as short-

term investments. As CTB joined the Company as a 100% owned subsidiary through exchange of shares, these CTB's shares were transformed into the Company's shares. In addition, CKI was incorporated into the Company through exchange of shares on December 31, 2002. Accordingly, shares of the Company held by CKI are treated as treasury stocks of the Company. As of December 31, 2002, the number of these treasury stocks was 4,885 thousand with an acquisition cost of \$92,212 thousand and a par value of \$18.88 per share. The market value as of December 31, 2002 was \$16.38 per share and no sale of these treasury stocks occurred in year 2002.

- (5) Treasury stocks of the Company are prohibited from being pledged as collaterals and are not entitled to dividends and voting rights.

## 20. Income tax

- (1) The income tax comprises the followings:

Items	Feb. 4 to Dec. 31, 2002
Income tax payable - current year	\$606,213
10% tax on unappropriated retained earnings	600,377
Separate tax expenses	336,213
Income tax expenses incurred by foreign branches	333,732
Deferred income tax benefit	(64,552)
Adjustments for income tax in previous years	120,542
Total	\$1,932,525

- (2) Imputation tax credit:

Items	Dec. 31, 2002
Account balance of imputation tax credit	\$8,547

Items	Feb. 4, to Dec. 31, 2002
Estimated tax credit rate for individual stockholders	0.14%

- (3) Unappropriated retained earnings:

Items	Dec. 31, 2002
1997 and before	\$-
1998 and onwards	6,239,231
Total	\$6,239,231

- (4) Corporate income tax returns filed by the subsidiaries:

- ① As of December 31, 2002, CTB's income tax returns were assessed by the National Tax Administration (NTA) up to the six months ended December 31, 1999. However, its tax refund receivable for the six months ended December 31, 1999 was \$11,879 thousand short, compared to the income tax return filed by CTB, as NTA made adjustments for the withholding tax levied on the accrued

coupon interest income generated from bonds sold under repurchase agreements. CTB has filed an appeal and has made provision for income tax expenses. The case was not yet finalized as of December 31, 2002.

- ② BIS's income tax returns were assessed by NTA up to December 31, 1999. An additional income tax of \$29,751 thousand was levied by NTA for the year 1999 as NTA revised the withholding tax levied on the accrued coupon interest income from bonds, coupled with the discrepancy in the recognition of related expenses incurred on securities exchange. BIS did not agree with the ruling and has filed an appeal which was still under review as of December 31, 2002. BIS has made necessary provision for income tax expenses.
- ③ CHBF's income tax returns were assessed by the NTA up to December 31, 1999. However, the withholding tax levied on the accrued coupon interest income generated from government bonds for the years from 1994 to 1999, totaling \$2,110,301 thousand, is neither allowed to be used as a tax credit nor refundable. CHBF did not agree with the ruling and has filed a petition for the year 1998 and 1999 tax returns. CHBF has also filed an appeal for the tax returns from 1994 to 1997 and has made a deposit of \$460,471 thousand with NTA of Taipei. To minimize uncertainty, CHBF set aside \$2,535,000 thousand as a provision for income tax expense on December 31, 2001. As of December 31, 2002, the provision was assessed to be adequate to cover any potential increase in income tax expenses in the future.
- ④ BS's income tax returns have been assessed by the NTA up to December 31, 1998.
- ⑤ ICBC's income tax returns have been assessed by the NTA up to December 31, 1997. An additional tax of \$175,970 thousand was levied by NTA for year 1997 as NTA eliminated the income tax effects of \$153,411 thousand arising from other losses of \$613,644 thousand and the \$21,937 thousand of withholding tax levied on accrued coupon interest income from bonds. In addition, the NTA of Taipei eliminated \$25,643 thousand and \$25,517 thousand of withholding tax levied on accrued coupon interest income from government bonds for the year 1994 and 1995 tax returns, respectively. ICBC did not agree with the above ruling and has filed an appeal. Moreover, the Company incurred a withholding tax, totaling \$192,888 thousand, on accrued coupon interest income from government bonds for the years 1996, 1998, 1999, 2000 and 2001. The total amount of the above-mentioned tax expenses on accrued coupon interest income from government bonds for the years 1994 to 2001 was recorded in the ICBC's book in year 2001. The withholding tax of \$17,496 thousand on accrued coupon interest income from bonds for the six months ended June 30, 2002 has also been incorporated into the income tax expense for the same period.
- ⑥ CKI's income tax returns have been assessed by the NTA up to December 31, 2000, except for the years 1998 and 1999.

## 21. Basic earnings per share

(In thousand shares)	Feb. 4 to Dec. 31, 2002
Beginning balance of outstanding shares	2,915,608
Add: capitalization of capital surplus	291,561
Add: issuance of 7,841,672 thousand new shares due to exchange of shares	2,863,991
Less: shares bought back from May 21 to December 31, 2002	(55,511)
Less: shares of the Company held by subsidiaries and treated as treasury stocks	(64,885)
Weighted average number of outstanding shares	5,950,764

(In NT\$'000)	Feb. 4 to Dec. 31, 2002
Net income before tax	\$6,298,552
Consolidated net income	\$6,298,075
Basic earnings per share (in NT\$)	
Net income before tax	\$1.06
Consolidated net income	\$1.06

Pro forma basic earnings per share based on the assumption that short-term investments in money market instruments are accounted for under lower of total consolidated cost or market value method:

(In thousand shares)	Feb. 4 to Dec. 31, 2002
Beginning balance of outstanding shares	2,915,608
Add: capitalization of capital surplus	291,561
Add: issuance of 7,841,672 thousand new shares due to exchange of shares	2,863,991
Less: shares bought back from May 21 to December 31, 2002	(55,511)
Less: shares of the Company held by subsidiaries and treated as treasury stocks	(64,885)
Weighted average number of outstanding shares	5,950,764

(In NT\$'000)	Feb. 4 to Dec. 31, 2002
Net income before tax	\$5,756,261
Consolidated net income	\$5,755,784
Basic earnings per share (in NT\$)	
Net income before tax	\$0.97
Consolidated net income	\$0.97

Pro forma earnings per share based on the assumption that shares of the Company held by the subsidiaries are not treated as treasury stocks:

(In NT\$'000)	Feb. 4 to Dec. 31, 2002
Beginning balance of outstanding shares	2,915,608
Add: capitalization of capital surplus	291,561
Add: issuance of 7,841,672 thousand new shares due to exchange of shares	2,863,991
Less: shares bought back from May 21 to December 31, 2002	(55,511)
Weighted average number of outstanding shares	6,015,649

(In NT\$'000)	Feb. 4 to Dec. 31, 2002
Net income before tax	\$6,286,350
Consolidated net income	\$6,285,873
Basic earnings per share (in NT\$)	
Net income before tax	\$1.05
Consolidated net income	\$1.05



## V Related Party Transactions

### Chiao Tung Bank (CTB)

#### 1. Names of the related parties and their relationship with CTB

Related parties	Relationship with CTB
China Real Estate Management Co., Ltd., etc. Directors, supervisors and managers of the Company	Investee companies of CTB accounted for under equity method CTB's directors, supervisors, managers, Chairman of the Board, General Manager and their spouses and relatives
Taiiping Insurance Co., Ltd., etc. Ministry of Finance, etc.	CTB is the director and supervisor of Taiping. Directors, supervisors and shareholders of CTB's parent company

#### 2. Major transactions with related parties

##### (1) Credits granted to and deposits from related parties

Year	Item	Related parties	Ending Balance as of Dec. 31, 2002	% of the account's ending balance	Interest income (expense)	% of the account's total amount	Interest rate
2002	Deposits	Directors, supervisors and managers of the Company	\$182,004	0.06%	\$(5,499)	0.05%	0%~13%
		China Real Estate Management Co., Ltd., etc.	43,161	0.02%	(179)	-	0%~1.925%
		Taiiping Insurance Co., Ltd., etc. Ministry of Finance, etc.	2,362,411 73,339,678	0.83% 25.67%	(328,440) (58,680)	2.78% 0.50%	0%~2.2% 0%~2.15%
	Loans	Directors, supervisors and managers of the Company	34,304	0.01%	111	-	2.2%~3.95%
		Taiiping Insurance Co., Ltd., etc.	5,758,251	1.41%	24,920	0.13%	1.12%~6.365%
		Ministry of Finance, etc.	867,820	0.21%	619	-	2.07%~3%

As the credits granted to and deposits from individual related parties are less than 10% of the respective account balances of CTB, only total amounts (not individual amounts) are disclosed.

##### (2) Guarantees for related parties

Related parties	Dec. 31, 2002
China Real Estate Management Co., Ltd., etc.	307
Taiiping Insurance Co., Ltd., etc.	572,707

##### (3) Leases

Year	Lessor	Relationship	Lease Period	Usage	Deposits	Rental	Address
2002	International Trade Building Corp.	Investee accounted for under equity method	Jan. 1, 2001 ~ Dec. 31, 2002	World Trade Center Branch	\$3,587	\$13,681	333, Keelung Rd. Sec. 1, Taipei

##### (4) Acceptances receivable

Related party	Dec. 31, 2002	
	Amount	%
Taiiping Insurance Co., Ltd., etc.	\$12,154	0.37%

(5) Long-term stock investments

Year	Seller	Investee	No. of shares	Price per share	Total amount paid
2002	Ministry of Finance	Financial Information Service Co., Ltd.	4,550 thousand	\$10	\$45,500

(6) Miscellaneous revenues

Related party	2002	
	Amount	%
CTB Financial Management & Consulting Co., Ltd.	\$1,005	0.16%

## Barits International Securities Co., Ltd. (BIS)

### 1. Names of the related parties and their relationship with BIS

Related parties	Relationship with BIS
Fuhwa Bank	Former director of BIS (discharged in February 2002)
International Securities Investment Consulting Co., Ltd. (ISIC)	Subsidiary of BIS
International Futures Co., Ltd. (IF)	Subsidiary of BIS
Central Securities Investment Trust Co., Ltd. (CSIT)	Investee company accounted for under equity method

### 2. Major transactions with related parties

(1) Bank deposits, short-term time deposits pledged, deposits for operations and financial revenue

Related party	Transactions	2002	
		Amount	%
Fuhwa Bank	Bank deposits	\$7,488	7
	Deposits for operations	360,000	61
	Ending balance	\$367,488	
	Financial revenue	\$13,013	12

(2) Short-term borrowings and interest expense

Related party	2002				
	Highest balance	Ending balance	Interest rate	Interest expense	Ending balance of interest payable
Fuhwa Bank	\$500,000	\$500,000	2.10%-2.95%	\$5,660	\$547

(3) Bonds sold under repurchase agreements

Related party	2002				
	Highest balance	Ending balance	Interest rate	Interest expense	Ending balance of interest payable
CSIT	\$150,000	\$-	1.65%-4.80%	4,619	\$-
ISIC	46,177	-	1.60%-2.30%	209	-
IF	40,111	-	1.70%-2.30%	130	-
Total		\$-			\$-

(4) Commission income

BIS has been providing assistance for futures transactions since 2002. The commission income generated from IF for the year 2002 was \$35,175 thousand. As of December 31, 2002, commission receivable amounted to \$2,148 thousand and was booked under other current asset.

(5) Consulting services contracts

BIS signed a consulting services contract with ISIC in the second half of 2000. BIS is required to pay the consulting fees based on the actual services received. The consulting fees paid for the year 2002 were \$6,615 thousand. There was no accrued consulting expense as of December 31, 2002.

(6) Property exchange

BIS sold land, buildings, office and transportation equipment to IF and ISIC for \$68,525 thousand and \$23 thousand, respectively, in 2002. The selling prices were determined based on the book value of the respective equipment on the transaction date and thus, there were no gains or losses on the disposals. As of December 31, 2002, all proceeds from the disposal were received.

(7) Leases

① Properties leased out

Lessees	Rental properties	Rental income
		2002
IF	Office building	\$233
ISIC	Office building	939
Fuhwa Bank	Office building	4,758

All rentals are paid quarterly except for Fuhwa Bank who pays monthly. The rentals charged are based on those charged for surrounding buildings and are negotiable.

② Leasehold properties

Lessor	Rental expense	Deposits paid	Properties	Period	Method of payment
	2002	Dec. 31, 2002			
Fuhwa Bank	\$600	\$200	Kaohsiung Branch	Sept. 1, 1998 ~ June 30, 2002	Monthly

## Chung Hsing Bills Finance Corp. (CHBF)

(1) Names of the related parties and their relationship with CHBF

Related parties	Relationship with CHBF
(A) After joining Mega on August 22, 2002	
United Microelectronics Corp. (UMC)	Director and supervisor of CHBF's parent company
Directorate General of Postal Remittances and Savings Bank (Post Office)	Director of CHBF's parent company
Yu-Chi investment Co., Ltd.	Director of CHBF's parent company
Chan-Lo Investment Co., Ltd.	Director of CHBF's parent company
Hong Tai Electric Industrial Co., Ltd. (Hong Tai)	Director of CHBF's parent company (resigned in November 2002)
Central Investment Co., Ltd. (CI)	Director of CHBF's parent company (resigned in October 2002)
Chung Hsing Securities Corp. (CHS)	Subsidiary of CHBF
Chung Hsing Securities Investment Service Corp. (CHSIS)	Investee of CHBF's subsidiary accounted for under equity method
Chung Hsing Asset Management Co., Ltd.	Investee of CHBF's subsidiary accounted for under equity method
Others	Directors, supervisors, president, vice president, associate vice presidents and department heads of CHBF plus spouses of the Company's directors, supervisors and president, and relatives of the Company's chairman and president
(B) Before joining Mega on August 22, 2002	
Central Investment Co., Ltd. (CI)	Director and supervisor of CHBF
Bank of Taiwan (BOT)	Director and supervisor of CHBF
Land Bank of Taiwan (Land Bank)	Director of CHBF
Shanghai Commercial and Savings Bank (SCSB)	Director of CHBF
Hualon Microelectronics Corp. (HMC)	Director of CHBF
Hua Nan Commercial Bank (HNCB)	Supervisor of CHBF
Taiwan Business Bank (TBB)	Supervisor of CHBF
Taiwan Tea Corp. (TTC)	Supervisor of CHBF
Chung Hsing Securities Corp. (CHS)	Subsidiary of CHBF
Others	Directors, supervisors, president, vice president, associate vice presidents and department heads of CHBF plus spouses of CHBF's directors, supervisors and president, and relatives of CHBF's chairman and president



## (2) Major transaction with related parties

## (A) Call loans to banks

	2002			
	Highest balance	Ending balance	Interest rate	Interest expense
SCSB	\$300,000	\$-	2.275%	\$19

## (B) Overdrafts on banks and call loans from banks

	2002			
	Highest balance	Ending balance	Interest rate(%)	Interest expense
Overdrafts on banks				
BOT	\$2,647,000	\$1,138,000	3.500-6.975	\$47,691
SCSB	18,103	-	7.170	1
Call loans from banks				
Land Bank	3,000,000	500,000	1.550-2.100	19,096
BOT	2,260,000	50,000	1.625-2.325	3,574
TBB	5,100,000	-	1.600-2.350	12,587
Post Office	3,200,000	-	1.675-2.450	2,556
HNCB	1,500,000	-	1.550-2.000	1,848
SCSB	1,350,000	-	1.925-1.975	1,889
		\$1,688,000		\$89,242

## (C) Bills, securities and bonds sold

	2002
BOT	\$432,976,132
Land Bank	233,192,396
Post Office	136,975,685
Subsidiary of UMC	45,324,433
HNCB	44,976,468
SCSB	21,192,482
TBB	16,058,317
CI	12,148,302
CHS	9,185,201
Hong Tai	1,923,288
Chung Hsing Asset Management Co., Ltd.	166,878
Chan-Lo Investment Co., Ltd.	34,858
Yu-Chi investment Co., Ltd.	25,417
Others	563,654
Total	\$954,743,511

Terms and conditions on the above transactions are identical to those with non-related parties.

## (D) Guarantees on commercial papers

	2002
TTC	\$2,516,000
CI	2,300,000
HMC	90,000
Total	\$4,906,000

## (E) Collaterals

Collaterals		Dec. 31, 2002
BOT	Certificates of time deposit, trust receipts, negotiable certificates of time deposit, government bonds and corporate bonds	\$4,282,747
TBB	Certificates of time deposit	200,000
SCSB	Certificates of time deposit	100,000
First Commercial Bank	Certificates of time deposit	-
Total		\$4,582,747

## (F) Service costs

	2002	
	Amount	%
CHSIS	\$1,200	12.87

## (G) Rental income

	2002	
	Amount	%
CHS	\$20,708	20.91

CHBF leased part of its office building to CHS. The rental is based on those charged for surrounding office buildings and is paid monthly. The rental period starts in June 2000 and ends in May 2003. The total rental received amounted to \$5,177 thousand as of December 31, 2002.

## Barits Securities Co., Ltd. (BS)

### 1. Names of the related parties and their relationship with BS

Related parties	Relationship with BS
Barits Investment Services Corp. (BISC)	99.98% owned subsidiary of BS
Barits Securities Investment Trust Co., Ltd. (BSIT)	BS was BSIT's director prior to August 22, 2002.
Pou Chen Corp. (PCC)	Major shareholder of BS prior to August 22, 2002

### 2. Major transactions with related parties

#### (1) Agency income

	2002	
	Amount	%
BSIT	\$4,251	1.52

#### (2) Rental income

	2002	
	Amount	%
BISC	\$1,578	35.40

Rental charged to the related party is based on those charged in the surrounding area and is paid monthly.

#### (3) Property exchange

##### ① Purchase of fixed assets

BS purchased transportation equipment from PCC in 2002, totaling \$2,450 thousand. The price was based on that prevailing in the market.

##### ② Sale of fixed assets

	Item	2002		
		Book value	Selling price	Gain on sale
BISC	Other fixed assets	\$3	\$3	\$-

#### (4) Service costs

	2002	
	Amount	%
BISC	\$3,696	16.18

#### (5) Notes and accounts receivable

	Dec. 31, 2002	
	Amount	%
BSIT	\$303	0.04

#### (6) Other payables

	Dec. 31, 2002	
	Amount	%
BISC	\$308	0.22

#### (7) Share transactions

BS sold part of its stake in BSIT of 4,500 thousand shares to PCC in June 2002 for \$17 per share (based on the net worth per share). Gain on the sale was \$25,649 thousand.

## International Commercial Bank of China (ICBC)

### 1. Transactions with related parties

Major transactions with ICBC's investees accounted for by equity method, 100% owned subsidiaries of ICBC, companies with the same directors, supervisors, managers and chairman with the Company, and companies receiving more than 1/3 of donations from the Company are summarized below:

#### (A) Due to and from banks

Item	2002			
	Ending balance	Highest balance	Interest rate(%)	Interest income(expense)
Due from banks				
International Commercial Bank of Cathay (Canada)	\$868,354	\$960,594	0.25-3.63	\$11,527
ICBC (Europe) N.V.	-	106,071	0.004-3.45	1,402
Taiwan Finance Corp.	435,000	500,000	1.25	542
Due to banks				
Post Office	58,978,877	59,401,160	2-3	(1,463,699)
International Commercial Bank of Cathay (Canada)	80,081	141,715	1.5-1.8125	(1,262)
ICBC (Europe) N.V.	-	277,337	0.004-3.45	(5,738)
Cathay Investment & Development Corp. (Bahamas)	220,095	713,342	1.25-3.20	(8,054)
Taiwan Finance Corp.	582	40,157	-	-

#### (B) Credits granted and deposits

	Dec. 31, 2002	%
Loans and exchange bills negotiated and discounted	\$6,570,650	1
Guarantees issued	8,097	-
Deposits	4,409,366	1

Interest rates on the credits granted and deposits are the same as those on the non-related parties except for those on the deposits from the managers, which are based on the staff rates on savings deposits.

#### (C) Others

- ① Bills and securities purchased from Taiwan Finance Corp. (investee accounted for under equity method) and transactions on bills and bonds with repurchase and resell agreements during the year 2002 were \$9,018,872 thousand and \$2,728,623 thousand, respectively.
- ② ICBC has been outsourcing its credit cards operations to Win Card Co., Ltd. (subsidiary of ICBC) since 2001. The operational costs incurred for the year 2002 were \$218,683 thousand and were

recorded as general expenses. ICBC paid part of the costs on Win Card's behalf, which resulted in a receivable from Win Card of \$5,015 thousand as of December 31, 2002. Additionally, ICBC has a lease agreement with Win Card, which is effective from January 2001 to January 2008. The rent is paid quarterly with a monthly rent of \$507 thousand. The rental income for the year 2002 was \$6,080 thousand.

- ③ ICBC leases an operation venue from Yung Shing Industries Co. (subsidiary of ICBC) with the lease agreement effective from December 1994 to November 2014. Rent is paid annually with a monthly rent of \$444 thousand. The rental expense incurred for the year 2002 was \$5,326 thousand. In addition, Yung Shing rented an office from ICBC with the rental period from October 2000 to September 2003. Rent is paid quarterly with a monthly rent of \$126 thousand. The rental income received by ICBC for the year 2002 was \$1,438 thousand.

Interest rates on the above-mentioned transactions are based on those prevailing in the market.

## Chung Kuo Insurance Co., Ltd. (CKI)

### 1. Names of the related parties and their relationship with CKI

Related party	Relationship with CKI
Hoan Insurance Agency Co., Ltd.	The director of CKI is also the director of the company.

### 2. Major transactions with the related party

The insurance coverage provided by CKI for Hoan Insurance Agency Co., Ltd.'s premiums received under custody was \$263,917 thousand in 2002. The resulting commission expense was \$63,177

thousand. As of December 31, 2002, premiums receivable and commissions payable arising from the above transaction were \$11,194 thousand and \$4,721 thousand, respectively.

## VI Pledged Assets

Assets	Dec. 31, 2002
	Book value
Bills purchased	\$23,566,467
Other current assets	3,182,194
Long-term investments	67,084,359
Fixed assets	1,091,586
Other assets	26,187
Total	\$94,950,793



## Commitments and Contingencies

### Chiao Tung Bank (CTB)

(1) CTB's commitments and contingencies as of December 31, 2002 were as follows:

	Dec. 31, 2002
Forward securities purchased	\$7,929,743
Forward securities sold	1,783,821
Trust assets	4,557,205
Clients' securities under custody	308,070,539
Guarantee effects	90,246
Travelers' checks consigned-in	288,382
Investments for clients	791,093
Collections for clients	213,047,797
Agency loans payable	12,528,677
Government bonds	132,121,000
Securities underwritten	-
Certified notes paid	108,884,162
Guarantees issued	48,663,705
Letters of credit	12,678,856
<b>Total</b>	<b>\$851,435,226</b>

(2) CTB's tax refund receivable for the six months ended December 31, 1999 is \$11,879 thousand short, compared to the income tax return filed by CTB, as NTA made adjustments for the withholding tax levied on the accrued coupon interest income from bonds sold under repurchase agreements. CTB has filed an appeal and has made provision for income tax expenses. The case was not yet finalized as of December 31, 2002.

### Barits International Securities Co., Ltd. (BIS)

(1) BIS signed several proxy delivery agreements with a number of securities companies. In accordance with these agreements, these securities companies agree to be BIS's first and second proxies. If BIS is unable to fulfill its obligations to the Taiwan Stock Exchange, the proxies must act upon the said obligations. BIS has reciprocated by agreeing to act as the first or second proxy for the above securities companies.

(2) BIS signed several lease agreements for its head office and branch offices. As of December 31, 2002, the annual minimum rents payable in the following years for these non-cancelable operating leases were as follows:

Year	Amount
2003	\$36,352
2004	33,460
2005	12,725
2006	2,777
2007 and onwards	2,789
<b>Total</b>	<b>\$88,103</b>

(3) As resolved by BIS's Board of Directors on October 14, 2002, BIS acquired all the operations and properties of Chung Hsing Securities Corp. (CHS), a subsidiary of the Company. The acquisition cost as resolved by the Board on October 31, 2002 was \$4,222,296 thousand and was to be paid in four installments which are detailed as follows:

- ① First installment: \$2,800,000 thousand to be paid within three business days commencing from the following day after the effective acquisition date.
- ② Second installment: \$522,296 thousand to be paid by July 31, 2003.
- ③ Third installment: \$450,000 thousand to be paid by June 30, 2004.
- ④ Fourth installment: \$450,000 thousand to be paid by June 30, 2005.

Interest is charged on the last three installments commencing from the following day after the effective acquisition date. The interest rate is based on the Post Office's floating board rate for one-year time deposits in respective year. Accrued interest on the unpaid installments must be paid five business days before the end of the respective year.

BIS signed the acquisition agreement with CHS on November 1, 2002 and obtained the approval from SFC, Ministry of Finance (Tai-Tsai-Zen (2) No.0910165658) on December 13, 2002. The effective acquisition date was set on January 30, 2003.

### Chung Hsing Bills Finance Corp. (CHBF)

Year	Dec. 31, 2002
Bills and bonds sold under repurchase agreements	\$191,179,861
Guarantees for commercial papers	161,023,600
Bills and bonds purchased under resell agreements	11,437,727
<b>Total</b>	<b>\$363,641,188</b>

## Barits Securities Co., Ltd (BS)

(1) Two of BS's former brokers conducted a fraudulent transaction in November 1994 and embezzled \$56,823 thousand from Lu-kang Credit Cooperative (LKCC) accordingly by taking advantage of LKCC's operational flaws when it was dealing with the settlement of the above transaction. LKCC claimed that they had to pay the \$56,823 thousand in advance for BS and thus, cancelled BS's \$60 million time deposit with LKCC without BS's consent and deducted \$56,823 thousand from the cancelled deposit. BS filed a lawsuit against LKCC for return of the \$56,823 thousand and applied for a retention of the properties of the said securities brokers' joint guarantors.

The \$56,823 thousand was recorded by BS under "other assets - other receivables". For the execution of the property retention, BS paid \$19,000 thousand time deposit to the court as a collateral in 1998, which was replaced by the government bonds with a cost of \$21,167 thousand and a face value of \$19,000 thousand in June 1999. The collateral was recorded as "other assets - guarantee deposits paid".

BS won the lawsuit in the second trial on February 24, 1997 and LKK was obliged to return the \$56,823 thousand, together with the associated interest and the legal costs incurred by BS for the first and second trials. LKCC made an appeal which was still under review as of December 31, 2002.

### (2) Operating leases

①Leasehold properties:BS's head office in Taipei and its branches.

②Lease period: From February 16, 1998 to December 15, 2007.

③Restricted clauses: None.

④Annual rents payable for the next five years are summarized as follows:

Year	Amount
2003	\$11,241
2004	8,744
2005	8,215
2006	8,267
2007	4,075
Total	\$40,542

## International Commercial Bank of China (ICBC)

(1) Bills and bonds purchased under resell agreements were totaled at \$4,323,505 thousand as of December 31, 2002. ICBC was required to resell the bills and bonds for \$4,328,044 thousand by January 29, 2003. In addition, the bonds sold under repurchase agreements were totaled at \$6,850,958 thousand as of December 31, 2002. ICBC was required to repurchase the bonds for \$6,856,488 thousand by January 24, 2003.

(2) ICBC signed several lease agreements for a number of its branch offices. Rents are based on the actual floor area of the rental property and are paid monthly, quarterly or semi-annually according to the respective lease agreements. All the lease agreements will expire by the end of year 2021 and are renewable. Deposits paid for these lease agreements amounted to \$134,735 thousand as of December 31, 2002 and were recorded as other assets. The annual rents payable for the next five years are as follows:

Year	Amount
2003	\$170,989
2004	100,369
2005	77,583
2006	50,466
2007	28,957

The total amount of the rents payable for the period from year 2008 to 2021 is estimated to be \$62,303 thousand with a present value of \$54,121 thousand, discounted by 1.4% per annum (the Post Office's interest rate on one-year time deposit).

(3) Contracts signed for renovation of branch offices and purchase of equipment were totaled at \$203,375 thousand. The accrued expenses on these contracts as of December 31, 2002 were \$96,255 thousand.

(4) ICBC undertook to acquire unpaid shares of \$48,750 thousand invested by enterprises.

## Chung Kuo Insurance Co., Ltd. (CKI)

(1) As of December 31, 2002, the unutilized portion of the letters of credit issued by CKI for reinsurance was \$7,348 thousand.

(2) For construction of its office building and the other construction project, CKI signed contracts with the construction companies for a total amount of \$446,918 thousand. As of December 31, 2002, the accrued construction expense was \$81,257 thousand.

(3) Taiwan Power Company (TPC) purchased a casualty insurance policy from CKI for its construction project of a power plant. In February 2002, TPC filed a lawsuit against CKI due to the disagreement with CKI's calculation of the adjustments in premium refund. The total amount for the insurance policy is \$148,757 thousand with a retained amount of \$75 thousand. CKI will be able to claim the premium refunded to TPC from the reinsurance company based on the amount of the premium refund ruled by the court. The case has undergone the preliminary trial but a verdict has not been reached.

(4) CKI and the other four general insurers jointly issued a fire insurance policy to Fu I Industrial Co., Ltd. Because of the damages caused by the catastrophic earthquake on September 21,

1999, Fu I made a claim from the insurers. However, the amount claimed by Fu I was significantly larger than that assessed by the insurers, which led to a dispute between the two sides. According to the ruling by the Arbitration Association of R.O.C. (AAROC), CKI and the other general insurers were required to pay Fu I \$1,154,201 thousand and the associated interest of 5% per annum incurred from September 2001 to the payment date. CKI was required to pay an amount of \$634,810 thousand based on CKI's proportionate share of the insurance policy. The estimated amount of compensation that should be recorded in CKI's book would be \$700 million should CKI take into account of the compensation amount ruled by AAROC, the associated interest and expenses incurred. CKI has made full provision for the \$700 million compensation and a retained claim of \$10,710 thousand for reinsurance.

## **VII Major Disaster Losses**

In July and September 2002, equipment, buildings and leasehold improvements of BIS's head office, Kaohsiung Branch, and San Chung Branch were destroyed by the flood caused by tropical cyclones. The book values of the damaged fixed assets and leasehold properties were \$25,345 thousand and \$1,274 thousand, respectively. With the compensation of \$7,472 thousand claimed from the insurance company, the loss recognized by BIS was \$19,147 thousand and was recorded as non-operating expense.

## **VIII Major Subsequent Events**

1. BIS's merger with BS was resolved by the Company's Board of Directors with the effective merger date being set on January 31, 2003. BIS is the surviving entity after the merger.
2. On January 22, 2003, ICBC sold operating facilities for securities brokerage to BIS for \$9,800 thousand. Gain on the sale was estimated to be \$223 thousand.

## **IX Others**

1. Disclosure of derivative financial instruments for trading purposes: None.
2. Disclosures of derivative financial instruments for non-trading purposes:

(1) Contract amounts:

Financial instrument	Currency	Dec. 31, 2002 Contract amount (Nominal amount)
Interest rate swap	NT\$	\$5,400,000

(2) Credit risk:

Financial instrument	Currency	Dec. 31, 2002
Interest rate swap	NT\$	\$14,923

The above credit risk amount is based on the contracts with positive fair value at the balance sheet date and represents the possible loss that will be incurred by the Company in the event that the counter-parties breach the contracts. The counter-parties of the Company are all financial institutions with good credit ratings and thus, credit risk is considered to be remote.

(3) Market risk:

Market risk refers to the risk arising from the fluctuations in interest rates.

Interest rate swaps are used to hedge fluctuations in interest rates. As gains or losses arising from the fluctuations in interest rates are mostly offset by the gains or losses on the hedge instruments, market risk is considered to be remote.

(4) The purpose and strategy of holding derivative financial instruments:

The above financial derivative contracts are entered into for risk hedging purposes. By entering into reverse transactions, the risk exposure is minimized.

(5) Fair value:

Financial instrument	Currency	Dec. 31, 2002
Interest rate swap	NT\$	\$8,859

(6) Net trading gains or losses and their disclosure in the income statement:

January 1, to December 31, 2002

	Currency	Net trading gains (losses)	Income statement disclosure
Interest rate swap	NT\$	\$2,122	Interest income (expense)



### 3. Fair Value of non-derivative financial instruments:

	Dec. 31, 2002	
	Carrying Value	Fair Value
<b>Assets</b>		
Cash	47,383,619	47,383,619
Due from banks and Central Bank	299,779,354	299,779,354
Bills purchased - net	252,951,708	252,951,708
Receivables - net	47,936,048	47,936,048
Loans and exchange bills negotiated and discounted - net	890,175,311	890,175,311
Overdue receivables - net	10,346,761	10,346,761
Long-term investments	49,722,590	49,722,590
<b>Liabilities</b>		
Short-term borrowings and commercial paper payable	13,248,708	13,248,708
Due to Central Bank and other banks	275,349,986	275,349,986
Payables	86,056,576	86,056,576
Deposits and remittances	864,439,617	864,439,617
Financial debentures - net	64,209,200	64,209,200
Borrowings from Central Bank and other banks	155,593,810	155,593,810
Corporate bonds payable	15,000,000	15,000,000

The assumptions and methodologies adopted by the Company to estimate the fair values of the financial instruments are summarized as follows:

- (1) Fair values of the short-term financial instruments are estimated based on their carrying values on the balance sheet. As maturity of these instruments is short in nature and their disposal prices approximate to the carrying values, estimation of the fair values based on the carrying values is deemed reasonable. This method is applied to cash, due from banks, due from Central Bank, receivables, short-term borrowings, commercial paper payable, due to Central Bank, due to other banks, payables, deposits and remittances.
- (2) Fair values of the short-term and long-term investments are based on the quoted market prices, if available. If the quoted market prices are not available, fair values are estimated using financial information or other information.
- (3) Fair values of the exchange bills negotiated and discounted, loans, overdue receivables and deposits are all interest bearing financial assets and liabilities, most of which are based on floating interest rates. As a result, their book values approximate to their fair values.
- (4) As corporate bonds payable, borrowings from Central Bank and other banks and financial debentures are financial liabilities with floating interest rates, their book values equal to the fair values.

### 4. Disclosure required by the Clause No.11 of the Standard for Financial Reporting by the Financial Holding Companies:

- (1) Capital adequacy ratio on a consolidated basis:

	Dec. 31, 2002
The Group's capital - Items deducted from capital	¥ 119.61%
The Group's statutory capital requirement	

- (2) The amounts and amortization of the revenues, costs, expenses, gains and losses arising from the transactions between the Company and its subsidiaries, joint promotion of businesses, and sharing of information, operating equipment or venues:

As of December 31, 2002, methods for amortization of the above-mentioned revenues, costs, expenses, gains and losses were not yet established.

Names of the subsidiaries	Dec. 31, 2002
Barits International Securities Co., Ltd.	204.06%
Barits Securities Co., Ltd.	286.40%

- (3) Limits on the statutory financial ratios of the Company's futures subsidiaries: Not applicable.

5. Eliminated transactions between the controlling company and its affiliated companies:

- (1) Pursuant to the rules stipulated in the Letter of (88) Tai-Tsai-Zen (6) No.01404 issued by SFC, MOF, publicly listed companies are required to comply with Paragraph No.36 of the Financial Accounting Standard No.7, Consolidated Financial Statements, when they are preparing the notes to the consolidated financial statements. In addition, they are required to disclose the information on the affiliated companies' accounts eliminated and the eliminated gains / losses on the transactions between affiliated companies.
- (2) Separate disclosures are required where the affiliated companies' total assets and operating revenues both exceed 10% of the controlling company's respective accounts.

**XI Segmental Financial Information**

Not applicable.

## III Financial Statements (Parent Company)

DIWAN, ERNST & YOUNG

English Translation of a Report Originally Issued in Chinese

### Report of Independent Auditors

The Board of Directors and Stockholders  
Mega Financial Holding Company

We have audited the accompanying balance sheet of Mega Financial Holding Company (the Company; formerly CTB Financial Holding Co., Ltd.) as of December 31, 2002, and the related statements of income, changes in stockholders' equity and cash flows for the financial period from February 4 (inception date) to December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mega Financial Holding Company as of December 31, 2002, and the results of its operations and its cash flows for the financial period from February 4 to December 31, 2002 in conformity with the guidelines for preparation of financial reports by financial holding companies and securities issuers and accounting principles generally accepted in the Republic of China on Taiwan.

We have also audited the consolidated financial statements of Mega Financial Holding Company and an unqualified opinion was expressed for the financial period from February 4 to December 31, 2002.

*Diwan, Ernst & Young*

February 14, 2003  
Taipei, Taiwan  
Republic of China

#### Notice to Readers

The accompanying financial statements are intended only to present the financial position and results of operations and cash flows in accordance with 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 on Taiwan.



**Mega Financial Holding Company  
(Formerly CTB Financial Holding Co., Ltd.)**

**Balance Sheet**

December 31, 2002

Assets	Notes	December 31, 2002	
		Amount	%
<b>Current Assets</b>			
Cash	IV-1&V	\$ 400,778	0.24
Receivables-net		11,185	0.01
Other current assets	II&IV-7	—	—
<b>Total Current Assets</b>		<b>411,963</b>	<b>0.25</b>
<b>Long-Term Investments</b>			
Long-term investments-net	II&IV-2	168,125,622	99.73
<b>Fixed Assets</b>			
Miscellaneous equipment	II&IV-3	2,137	—
Leasehold improvements		5,468	—
Less: accumulated depreciation		(207)	—
<b>Total Fixed Assets-Net</b>		<b>7,398</b>	<b>—</b>
<b>Other Assets</b>			
Guarantee deposits paid	V	1,764	—
Deferred bond issuance expense	II&V	34,305	0.02
Deferred pension cost	II	4,476	—
Deferred income tax assets-net	II&IV-7	—	—
Miscellaneous assets		10	—
<b>Total Other Assets</b>		<b>40,555</b>	<b>0.02</b>
<b>Total Assets</b>		<b>\$ 168,585,538</b>	<b>100.00</b>

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

Expressed in New Taiwan Thousand Dollars

Liabilities & Stockholders' Equity	Notes	December 31, 2002	
		Amount	%
<b>Current Liabilities</b>			
Short-term loans	IV-4&V	\$ 11,000,000	6.53
Accounts payable		41,345	0.02
<b>Total Current Liabilities</b>		<b>11,041,345</b>	<b>6.55</b>
<b>Long-Term Liabilities</b>			
Bonds payable	IV-5	15,000,000	8.90
Accrued pension liability	II&IV-6	6,122	—
<b>Total Long-Term Liabilities</b>		<b>15,006,122</b>	<b>8.90</b>
<b>Other Liabilities</b>			
Guarantee deposits received		1,351	—
<b>Total Other Liabilities</b>		<b>1,351</b>	<b>—</b>
<b>Total Liabilities</b>		<b>26,048,818</b>	<b>15.45</b>
<b>Stockholders' Equity</b>			
<b>Capital stock</b>			
Common Stock	IV-8	110,488,402	65.54
<b>Capital Surplus</b>			
Premium on capital stock	II&IV-9	49,924,209	29.62
Adjustments on long-term investments accounted for under equity method		1,132	—
<b>Retained Earnings</b>			
Legal reserve		5,077,446	3.01
Special reserve		354,967	0.21
Unappropriated retained earnings	II	6,239,231	3.70
<b>Equity Adjustments</b>			
Unrealized declines in market value of long-term stock investments		(66,241)	(0.04)
Cumulative adjustments on conversion		258,034	0.15
Treasury Stock	II&IV-10	(29,740,460)	(17.64)
<b>Total Stockholders' Equity</b>		<b>142,536,720</b>	<b>84.55</b>
Commitments and Contingencies	VII		
<b>Total Liabilities and Stockholders' Equity</b>		<b>\$ 168,585,538</b>	<b>100.00</b>

**Mega Financial Holding Company**  
**(Formerly CTB Financial Holding Co., Ltd.)**  
**Income Statement**

For the Period from February 4 (Inception Date) to December 31, 2002

Expressed in New Taiwan Thousand Dollars

	Notes	February 4 to December 31, 2002	
		Amount	%
<b>Operating Revenues</b>			
Income from long-term stock investments	II&IV-2	\$ 6,501,741	100.00
<b>Total Operating Revenues</b>		<b>\$ 6,501,741</b>	<b>100.00</b>
<b>Operating Expenses</b>			
Administrative and general expenses	V	(127,009)	(1.95)
Other operating expenses		(275)	(0.01)
<b>Total Operating Expenses</b>		<b>(127,284)</b>	<b>(1.96)</b>
<b>Operating Profit</b>		<b>6,374,457</b>	<b>98.04</b>
<b>Non-operating Income</b>			
Interest income	V	27,442	0.42
Miscellaneous income		2,289	0.04
<b>Total Non-operating income</b>		<b>29,731</b>	<b>0.46</b>
<b>Non-operating Expenses</b>			
Interest expense	V	(105,636)	(1.62)
<b>Total Non-operating expenses</b>		<b>(105,636)</b>	<b>(1.62)</b>
<b>Net Income before Tax</b>		<b>6,298,552</b>	<b>96.88</b>
Income Tax	II&IV-7	(477)	(0.01)
<b>Net Income</b>		<b>\$ 6,298,075</b>	<b>96.87</b>
<b>Basic Earnings Per Share: ( Expressed in New Taiwan Dollars) IV-11</b>			
Net Income before Tax		\$1.06	
Net Income		\$1.06	
Pro-forma disclosures are based upon the assumption that shares issued by the corporation and held by its subsidiaries are not treated as treasury stock:			
Net Income before Tax		\$ 6,286,350	
Net Income		\$ 6,285,873	
<b>Basic Earnings Per Share: ( Expressed in New Taiwan Dollars)</b>			
Net Income before Tax		\$ 1.05	
Net Income		\$ 1.05	

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



**Mega Financial Holding Company**  
**(Formerly CTB Financial Holding Co., Ltd.)**  
**Statement of Cash Flows**

For the Period from February 4 (Inception Date) to December 31, 2002

Expressed in New Taiwan Thousand Dollars

**February 4 to December 31, 2002**

<b>Cash Flows from Operating Activities:</b>	
Net Income	\$ 6,298,075
<b>Adjustments:</b>	
Gains from long-term stock investments-equity method	(6,501,741)
Cash dividends received from investee companies accounted for under equity method	3,029,462
Depreciation and amortization	493
Increase in receivables	(11,195)
Increase in accounts payable	41,345
Increase in accrued pension liabilities	1,646
Net cash provided by operating activities	2,858,085
<b>Cash Flows from Investing Activities:</b>	
Increase in purchase of fixed assets	(7,605)
Increase in guarantee deposits paid	(1,764)
Increase in deferred bond issuance expense	(34,593)
Increase in long-term stock investments	(50,000)
Net cash used by investing activities	(93,962)
<b>Cash Flows from Financing Activities:</b>	
Increase in guarantee deposits received	1,351
Increase in short-term loans	11,000,000
Increase in bonds payable	15,000,000
Treasury stocks purchased	(28,364,696)
Net cash used by financing activities	(2,363,345)
Increase in Cash	400,778
Cash balance at beginning of period	—
Cash balance at end of period	\$400,778
<b>Supplemental Disclosures of Cash Flow Information:</b>	
Cash paid for interest	\$78,595
Cash paid for income tax	\$1,923
<b>Investing and financing activities not affecting cash flows:</b>	
Institution by issuance of stock under stock exchange	\$ 107,572,794
Capital increase by paid-in surplus	\$ 2,915,608

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

**Mega Financial Holding Company**  
**(Formerly CTB Financial Holding Co, Ltd.)**  
**Statement of Changes in Stockholders' Equity**

For the Period from February 4 (Inception Date) to December 31, 2002

	Common Stock		Capital Surplus
	Shares	Amount	
Balance as of February 4, 2002	2,915,608	\$ 29,156,078	\$ 30,094,296
Adjustment of subsidiaries' income in prior year	—	—	(128,220)
Capital Increase by Paid-in Surplus	291,561	2,915,608	(2,915,608)
Issuance of common stock by stock exchange	7,841,671	78,416,716	—
Premium on common stock from consolidation	—	—	22,873,741
Adjustment of Long-term stock investments accounted for under equity method:			
Changes in capital surplus	—	—	1,132
Changes in cumulative adjustments on conversion	—	—	—
Losses on unrealized declines in market value of long-term equity investments	—	—	—
Net Income from February 4 to December 31, 2002	—	—	—
Income from long-term stock investments accounted for under equity method before share exchange	—	—	—
Treasury Stock Purchased	—	—	—
Treasury Stock held by subsidiaries	—	—	—
Balance as of December 31, 2002	11,048,840	\$ 110,488,402	\$ 49,925,341

*The accompanying notes are an integral part of these financial statements.*

Expressed in New Taiwan Thousand Dollars/Thousand Shares

Legal Surplus	Retained Earnings		Treasury Stock	Unrealized Declines in Market Value of Long-term Stock Investments	Cumulative Adjustments on Conversion	Total Stockholders' Equity
	Special Reserve	Unappropriated Earnings				
\$ —	\$ —	\$ —	\$ (1,283,552)	\$ —	\$ —	\$ 57,966,822
—	—	—	—	—	—	(128,220)
—	—	—	—	—	—	—
—	—	—	—	—	—	78,416,716
5,077,446	354,967	34,524	—	(33,645)	91,285	28,398,318
—	—	—	—	—	—	1,132
—	—	—	—	—	166,749	166,749
—	—	—	—	(32,596)	—	(32,596)
—	—	6,298,075	—	—	—	6,298,075
—	—	(93,368)	—	—	—	(93,368)
—	—	—	(28,364,696)	—	—	(28,364,696)
—	—	—	(92,212)	—	—	(92,212)
\$ 5,077,446	\$ 354,967	\$ 6,239,231	\$ (29,740,460)	\$ (66,241)	\$ 258,034	\$142,536,720



## *Group Information*

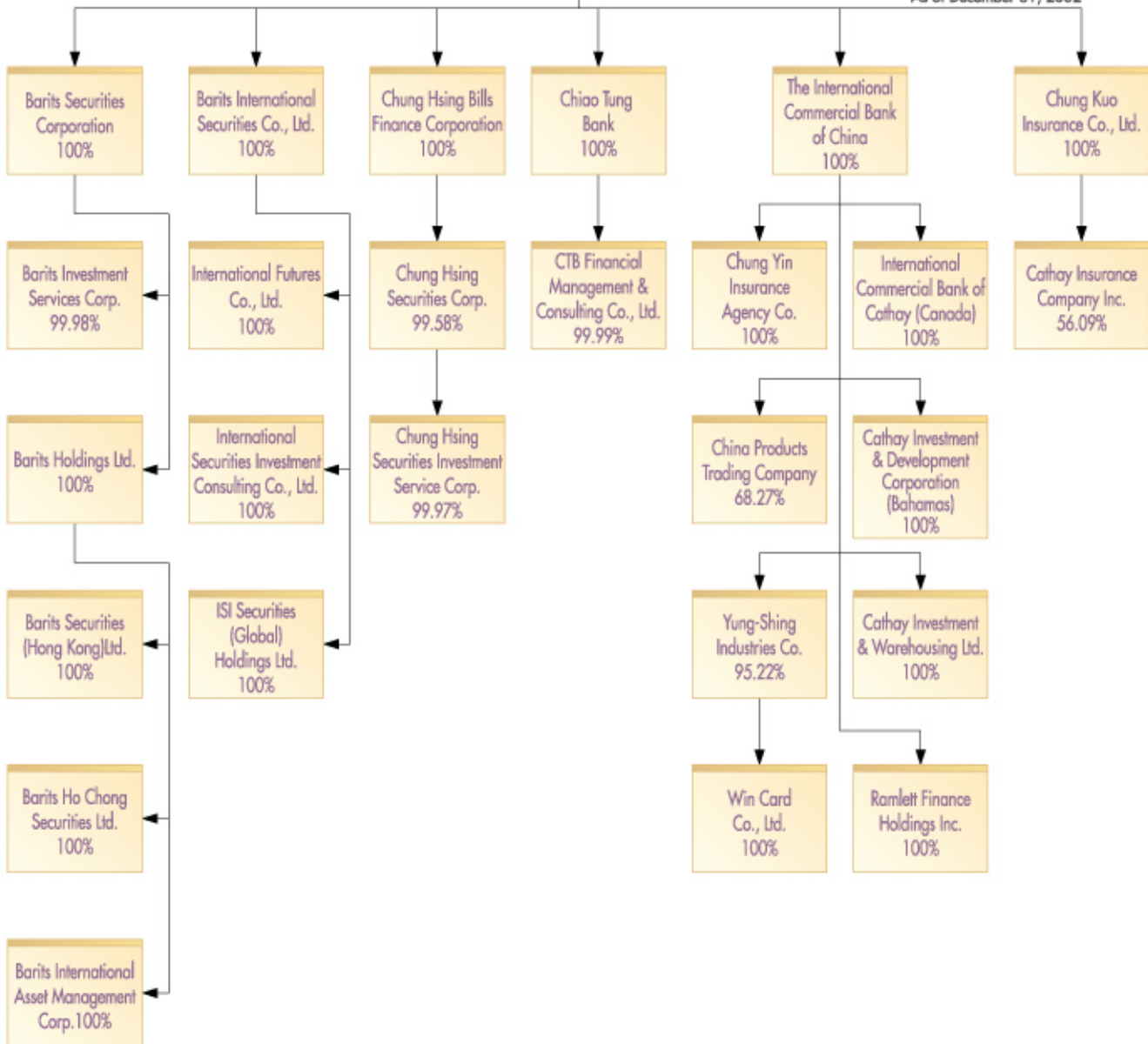


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# I Mega Financial Group

## Mega Financial Holding Company

As of December 31, 2002



## II Concise Company Profile

Dec. 31, 2002 Expressed in thousands

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Chiao Tung Bank	1907.03.15.	91 Heng Yang Road, Taipei, Taiwan	NTD27,148,878	Commercial banking & industrial banking business
The International Commercial Bank of China	1971.12.17	100 Chi-lin Road, Taipei, Taiwan	NTD37,261,000	Commercial banking business
Barits Securities Corporation	1989.07.03	10F, No.102, Sec. 2 Roosevelt Road, Taipei, Taiwan	NTD4,924,110	Brokerage, dealing and underwriting of securities
Barits International Securities Co., Ltd.	1989.10.19	B1, No.563, Sec. 4, Chung Hsiao E. Road, Taipei, Taiwan	NTD4,114,760	Brokerage, dealing and underwriting of securities
Chung Hsing Bills Finance Corporation	1976.05.03	3-7F, No.123, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD28,114,411	Brokerage, dealing, underwriting, of short-term debt instruments
Chung Kuo Insurance Co., Ltd.	1931.11.01	10-12F, No.100, Chi-lin Road, Taipei, Taiwan	NTD4,368,977	Non-life insurance
CTB Financial Management & Consulting Co., Ltd.	2002.01.16	5 Fl., No.91, Heng Yang Road, Taipei, Taiwan	NTD 10,000	Asset management and investment consulting
International Futures Co., Ltd.	1999.07.29	B1-1 No.563, Sec. 4, Chung Hsiao E. Road, Taipei, Taiwan	NTD327,600	Brokerage of future contracts
International Securities Investment Consulting Co., Ltd.	1999.02.01	4F, No.563, Sec. 4, Chung Hsiao E. Road, Taipei, Taiwan	NTD100,000	Securities investment advisory
ISI Securities (Global) Holdings Ltd.	1998.11.06	P.O.Box 309, Grand Cayman	US\$500	Overseas investment
Barits Investment Services Corp.	1997.12.10	10F-1 No.102, Sec. 2, Roosevelt Road, Taipei, Taiwan	NTD 320,000	Securities investment advisory
Barits Holdings Ltd.	1997.05.05	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD27,752	Investment business
Barits Securities (Hong Kong) Ltd.	1997.05.23	Room 3403-3407, 34F, Edinburgh Tower, The Landmark, No.15, Queen's Road Central, Hong Kong	HKD80,000	Investment consulting
Barits Ho Chong Securities Ltd.	1992.08.20 (Barits Holdings Ltd. invested the company in 1999)	Room 3403-3407, 34F, Edinburgh Tower, The Landmark, No.15, Queen's Road Central, Hong Kong	HKD30,000	Brokerage of securities
Barits International Asset Management Corp.	1998.01.16	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD10,000	Asset management
China Products Trading Company	1956.12.29	3F, NO.2, Sec.1, Chung Ching S. Road, Taipei, Taiwan	NTD 5,000	Harvesting, processing, transporting, and warehousing of agriculture products (The company stopped operation since 1966)



Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Yung-Shing Industries Co.	1950.12	3F, NO.2, Sec.1, Chung Ching S. Road, Taipei, Taiwan	NTD 100,000	International trading and agency service for electronic data processing, printing and packaging
Chung Yin Insurance Agency Co.	1996.11.05	6F, No.99, Sec. 3 Chung-yang Road, San-chung City, Taipei Hsien, Taiwan	NTD 2,000	Life insurance agent
Win Card Co., Ltd.	2000.10.11	4F, No.99, Sec. 3 Chung-yang Road, San-chung City, Taipei Hsien, Taiwan	NTD 50,000	Business consulting and management of past due accounts receivable
International Commercial Bank of Cathay (Canada)	1982.12.01	North York Madison Centre 4950 Yonge Street, Suite 1002 Toronto, Ontario, M2N 6K1, Canada	CAD 23,000	Commercial banking
Cathay Investment & Warehousing Ltd.	1982.11.01	Calle 16 Colon Free Zone Local No. 4 Edificio No 49 P.O. Box 4036 Colon Free Zone, Colon, Republic of Panama	USD 1,000	Warehousing of exported and imported merchandise
Cathay Investment & Development Corporation (Bahamas)	1969.07.15	Post Office Box 3937 Nassau, Bahamas	USD 5	International investment and development
Ramlett Finance Holdings Inc.	1982.01.13.	Calle 50 y Esquina Margarita A de Vallarino, Edificio ICBC, Panama	USD 20	Investment of real estate
Chung Hsing Securities Corp.	1988.08.26	4-5F, No.125, Sec. 2, Nan-king East Road, Taipei, Taiwan	NTD 4,164,000	Brokerage, dealing and underwriting of securities
Chung Hsing Securities Investment Service Corp.	1998.10.27	12F, No.125, Sec. 2, Nan-king East Road, Taipei, Taiwan	NTD 100,000	Securities investment advisory
Cathay Insurance Company Inc.	1960.04.06	10F, Tytana Plaza, Lorenzo Ruiz Binondo, Manila, Philippines	PHP 50,000	Non-life insurance

Footnote : Exchange rate : PHP1=NTD0.6531 ; USD1=NTS34.78 ; CAD1=NTS22.0657 • HKD1=NT\$4.4593

## III Operation Information

Dec. 31, 2002 Expressed in millions of NT\$, except EPS

Company	Paid-in Capital	Total Asset	Total Liabilities	Stockholders' Equity	Total Operating Revenue	Operating Income (Loss)	Net Income (After Tax)	Earnings Per Share (After Tax)
Chiao Tung Bank	27,148,878	589,837,106	534,906,138	54,930,968	28,829,540	7,197,597	4,083,839	1.54
The International Commercial Bank of China	37,261,000	970,226,772	908,138,212	62,088,560	36,395,238	3,857,874	3,572,746	0.96
Barits Securities Corporation	4,924,110	18,754,815	13,063,322	5,691,493	1,018,933	N.A.	148,285	0.30
Barits International Securities Co., Ltd.	4,114,760	10,356,511	7,244,851	3,111,660	1,054,870	N.A.	-185,564	-0.45
Chung Hsing Bills Finance Corporation	28,114,411	43,822,011	7,980,967	35,841,044	8,123,014	N.A.	3,252,493	1.16
Chung Kuo Insurance Co., Ltd.	4,368,977	16,431,935	9,933,583	6,498,352	10,642,688	135,255	119,148	0.27
CTB Financial Management & Consulting Co., Ltd.	10,000	31,848	6,999	24,849	29,320	19,647	14,849	15.49
International Futures Co., Ltd.	327,600	860,658	528,135	332,523	132,598	-6,986	4,739	0.14
International Securities Investment Consulting Co., Ltd.	100,000	95,392	1,344	94,048	6,514	-4,551	-6,523	-0.65
ISI Securities (Global) Holdings Ltd.	17,390	21,146	34.78	21,111	—	—	-174	0
Barits Investment Services Corp.	320,000	336,894	3,134	333,760	7,859	-15,550	-3,163	-0.10
Barits Holdings Ltd.	965,215	8,423,685	7,139,404	1,266,633	496,806	137,448	132,013	4.76
Barits Securities (Hong Kong) Ltd.	356,744	471,338	7,956	463,382	151,167	58,284	54,314	0.68
Barits Ho Chong Securities Ltd.	133,779	495,012	200,807	294,205	71,854	10,503	10,290	205.80
Barits International Asset Management Corp.	347,800	7,525,612	7,117,122	408,490	272,431	48,029	66,243	6.62
China Products Trading Company	5,000	51,273	3,143	48,130	0	0	24,853	248.53
Yung-Shing Industries Co.	100,000	1,444,694	926,493	518,201	208,418	8,469	12,922	12.92
Chung Yin Insurance Agency Co.	2,000	20,809	8,002	12,807	25,259	9,553	9,740	48.70
Win Card Co., Ltd.	50,000	146,996	92,653	54,343	224,827	2,385	4,002	8.59
International Commercial Bank of Cathay (Canada)	507,511	7,063,479	6,586,995	476,484	236,780	17,531	10,627	46.20
Cathay Investment & Warehousing Ltd.	34,780	100,348	56,759	43,589	15,840	-1,116	-2,885	-2,885.00
Cathay Investment & Development Corporation (Bahamas)	174	944,285	2,778	941,507	22,089	20,904	20,755	4,151.00
Ramlett Finance Holdings Inc.	696	67,022	76,175	-9,153	11,802	1,422	1,023	681.00
Chung Hsing Securities Corp.	4,164,000	4,239,264	73,353	4,165,911	539,794	N.A.	-65,332	-0.16
Chung Hsing Securities Investment Service Corp.	100,000	106,708	2,340	104,368	22,249	N.A.	3,367	0.34
Cathay Insurance Company Inc.	32,655	60,848	22,384	38,464	16,766	-2,333	-2,667	-5.33