



# **Mega Financial Holding Company**

(Formerly CTB Financial Holding Company)

## **Annual Report 2004**



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## Message to Shareholders

Thanks to global economic expansion and positive impacts of the government's new initiatives, Taiwan's economic growth reached its peak in the first half of 2004. However, with weakening global economic expansion, surging appreciation of the NT dollar, cross-strait tensions, typhoon damages as well as negative political and economic impacts of the disputed presidential election, Taiwan's economy was affected in the second half of 2004, though still maintained steady growth, posting an annual economic growth of 5.71%, a record high since the beginning of the 21st Century.



Shen-Chih Cheng  
Chairman

Economic recovery and the concerted efforts by all staff of Mega Financial Holding Company (the Company) contributed to our brilliant performance in 2004, with earnings before tax of NT\$21,383 million, a growth of 18.14% compared to 2003, and an EPS of NT\$2.22. With our sound financial structure and an established market presence in the domestic industry, the Company's long-term credit rating given by Taiwan Ratings Corp. has been upgraded from twAA- to twAA, the highest rating among financial holding companies in Taiwan. Additionally, the Company has also greatly enhanced its international visibility after rounds of overseas roadshows. Its foreign shareholdings ratio increased from 6% at the end of 2003 to 13% at the end of 2004, reflecting continued market confidence towards the Company.

The Company's business operations for the year 2004 and business plan for the year 2005 may be summarized as follows:

### I. Review of Business Operations in 2004

As of the end of 2004, the seven subsidiary companies in which the Company has controlling shares include Chiao Tung Bank Co., Ltd., Barits International Securities Co., Ltd., Chung Hsing Bills Finance Corporation, The International Commercial Bank of China, Chung Kuo Insurance Co., Ltd., Mega Investment Trust Corporation and Mega Assets Management Corporation, much the same as in the year 2003. Business performances of the seven subsidiaries are as follows:

#### **Chiao Tung Bank Co., Ltd. (CTB)**

- Lending: In 2004, total lending (including loans, guarantees and acceptances) amounted to NT\$498,174 million, an increase of 7.29% over the NT\$464,310 million recorded in 2003. In the syndicated market, CTB served as the lead bank in the arrangement of 44

syndicated loans, amounting to NT\$50,838 million, a significant increase over the 24 syndicated loans and a total of NT\$20,879 million arranged in 2003.

- Long-term equity investments: Total investments in 2004 amounted to NT\$24,193 million, an increase of 0.58% compared to NT\$24,053 million in 2003.
- Deposits: Total deposits in 2004 reached NT\$ 300,794 million with an increase of NT\$10,012 million or 3.44% over the NT\$290,782 million recorded in 2003. Total current deposits amounted to NT\$66,281 million, a significant growth of 29.66% over the previous year.
- Foreign exchange business: Total foreign exchange transactions undertaken in 2004 amounted to US\$67,620 million, a growth of US\$21,188 million or 45.63% over the US\$46,432 million recorded in 2003.
- Consumer banking and trust business: The total consumer loans amounted to NT\$45,810 million, a significant growth of 101.58% compared to the previous year. Non-discretionary trust assets managed by CTB in the year 2004 accounted for an average of NT\$7,993 million, a 42.15% increase over the year 2003.
- Non-performing loans: The non-performing loans outstanding at the end of 2004 amounted to NT\$9,642 million, representing a non-performing loans ratio of 2.23% or a decrease of 0.17% from the 2.40% recorded at the end of 2003.

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

- Securities brokerage: The total revenue from securities brokerage amounted to NT\$1,541 million, accounting for a market share of 2.77% (including institutional clients). The average amount of margin loans grew from NT\$5,629 million to NT\$10,878 million, an increase of 93%. In 2004, nine branch offices were set up, bringing the total number of branch offices of BIS to 44. BIS's market share grew from ranking 13th to 12th by the end of 2004.
- Securities underwriting: BIS has been providing consulting services to 23 companies for listing in the Taiwan Stock Exchange and 37 companies for listing in the GreTai Securities Market. In 2004, BIS lead managed 8 IPOs, 13 SPOs (not including underwriting of new issued shares). It has recommended 67 companies to register for trading as an emerging stock on the OTC market, representing a market share of 19.27%. Overall performance of the year represented a market leadership position carried over from the previous year.
- Securities dealing: The revenue from securities proprietary trading for 2004 amounted to NT\$900 million.
- Bond business: In 2004, BIS was appointed as lead manager for 10 corporate bond issues and 28 financial debenture issues with total underwriting amounts of NT\$12,325 million and NT\$20,500 million respectively. According to Bloomberg data, the total underwriting amount for bond business was ranked 3rd in the industry. The total operating revenue from the Bond Department amounted to NT\$374 million in 2004.
- Stock-registration services: A total of 82 companies have appointed BIS as their stock-registration agent in 2004. The total revenue amounted to NT\$30 million.

- New financial products: In the year 2004, BIS issued a total of 13 warrants, with total premium revenue of NT\$448.91 million, ranked 13th in the industry. Other derivative products generated NT\$1.63 million income. BIS also issued 16 structured products including 3 Principal Guaranteed Notes and 13 Equity Linked Notes.

### **Chung Hsing Bills Finance Corporation (CHBF)**

In 2004, CHBF focused on bills and bonds business expansion and credit risks management in the hope of maximizing its profits. Thanks to a sound trading strategy, CHBF generated a significant growth of net income over the previous year. Business performance of CHBF in 2004 may be summarized as follows:

- Initial purchases of short-term debt instruments in the primary market in 2004 amounted to NT\$1,391,398 million, demonstrating a market share of 24.32% and a market leader position.
- Transactions of short-term debt instruments in the secondary market in 2004 amounted to NT\$7,545,296 million, demonstrating a market share of 23.69% and a market leader position.
- Transactions of bonds in the secondary market in 2004 reached NT\$14,394,769 million, a market share of 18.09% and a demonstration of market leader position.
- Guaranteed issues of commercial paper outstanding at the end of 2004 totaled NT\$167,750 million, a market share of 33.69%.
- Non-performing loans: Non-performing loans at the end of 2004 amounted to NT\$2,304 million, representing a non-performing loans ratio of 1.35%.

### **The International Commercial Bank of China (ICBC)**

- Deposits: In 2004, total deposits reached NT\$662,031 million, an increase of 12.69% over NT\$587,478 million recorded in 2003.
- Lending: In 2004, total lending (loans, guarantees and acceptances) amounted to NT\$692,405 million, an increase of 10.34% over the NT\$627,539 million recorded in 2003.
- Non-performing loans: The non-performing loans outstanding at the end of 2004 amounted to NT\$4,684 million, representing a non-performing loans ratio of 0.77%.
- Foreign exchange business: Total foreign exchange business undertaken in 2004 amounted to US\$253,464 million, a growth of 38.16% over the US\$183,455 million recorded in 2003.
- Long-term investment business: Long-term investments (including investment in equity and other securities, in terms of average monthly balance) in 2004 amounted to NT\$17,751 million, representing an increase of 3.69% over the NT\$17,120 million of 2003.
- Trust business: In 2004, the average monthly balances of non-discretionary trust funds managed by ICBC accounted for NT\$129,642 million, a growth of 29.40% compared to the NT\$100,188 million recorded in 2003.
- Consumer banking business: At the end of 2004, consumer loans outstanding (including credit card loans

outstanding) amounted to NT\$138,223 million, an increase of 40.35% over the NT\$98,488 million of 2003.

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

- Direct written business: Total direct written premium income of 2004 amounted to NT\$6,197 million, an increase of NT\$694 million or 12.61% compared to the NT\$5,503 million of 2003.
- Inward reinsurance business: Reinsurance premium income of 2004 amounted to NT\$1,012 million, a decrease of NT\$124 million or 10.94% compared to the NT\$1,136 million of 2003.

#### **Mega Investment Trust Corporation**

- Total assets under management by the end of 2004 reached NT\$43,808 million, a growth of 12% compared to the previous year.
- The total operating revenue of 2004 amounted to NT\$218 million, representing a growth of 27.23% over the NT\$172 million of 2003.

#### **Mega Asset Management Corporation (MAMC)**

- MAMC was setup in December 2003. During the first half of 2004, the company focused on establishing internal rules and regulations, recruitment and business projects. In the second half of the year, the company started its business activities and won the bid for four NPL portfolios of NT\$16,968 million, exceeding the budgeted amount by 3.39 folds.
- The subsidiary disposed of non-performing loans transferred in 2004 with net annual recovery of NT\$253 million, representing net operating profit of NT\$202 million.

## **II. Business Plan for 2005**

### **A. Major Operating Policies:**

- Forge the integration among subsidiaries and seek appropriate merger opportunities in order to exceed a market share of 10%
- Continue to strengthen cross-selling channels and provide "one-stop shopping" financial services
- Enlarge the Group's financial domain and enhance its competitiveness
- Establish the risk measurement database to strengthen the Group's risk management
- Strengthen the Group's capital management to enhance financial performance and transparency
- Continue to establish a common IT platform, increase efficiency of each type of business and its supervision
- Integrate the personnel rules and regulations within the Group, establish a performance-based reward system, and enhance the functions of HR EIS to facilitate business integration and optimal allocation of human resources

## B. Business Objectives

In line with the government policy, the Company will pursue the following business objectives:

- Assist the subsidiaries to maintain dominance in the corporate banking and foreign exchange business and to exceed market shares of 10% in all major businesses
- Merge with financial institutions that have strong performance in consumer banking, and enhance performances in consumer banking and wealth management business
- Merge with life insurance companies and other financial institutions whose businesses are complementary to the Company to provide diversified products
- Enhance operating performance and pursue our long-term objective of a ROE greater than 20% in order to maximize shareholders' interests
- Increase scale and size of each subsidiary to become a top three in their respective industries

The Company is always proud of its strong performance in corporate banking and foreign exchange businesses. The Company's market shares in terms of both asset scale and corporate lending are approaching 10%, which is one of the main targets of the financial reform in Taiwan, and also an indication of the Company's leading position in the country. In the middle of the year 2004, the Company increased its integration efforts among subsidiaries in the hope to lay solid foundations and expand business scope for the Company. I truly believe that our staff at all levels have the capability and confidence to achieve the goal of making the Mega Financial Holding Company a leader among regional financial institutions.



Shen-Chih Cheng  
Chairman



# Company Overview

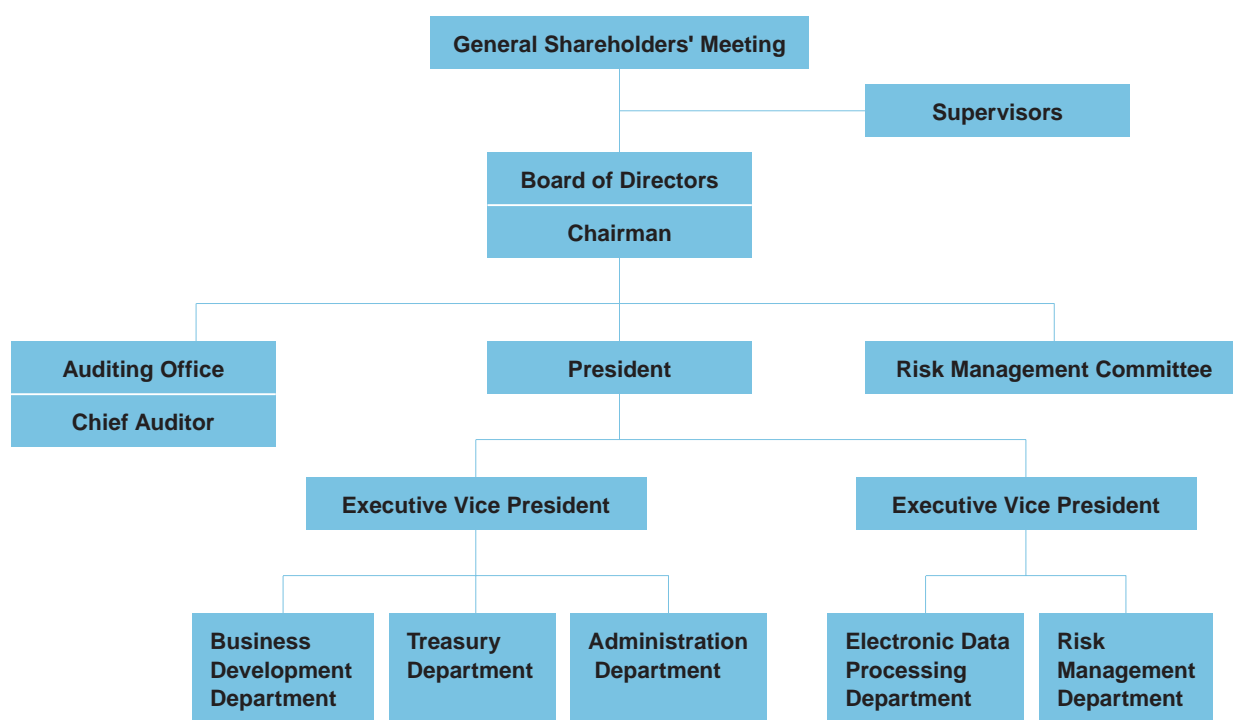
## I. Profile of the Company

Mega Financial Holding Company (the Company, formerly known as CTB Financial Holding Company) was formed by Chiao Tung Bank Co., Ltd. (CTB) and International Securities Co., Ltd. (IS) through the exchange of shares on February 4, 2002 and has since been listed and traded on the Taiwan Stock Exchange. Chung Hsing Bills Finance Corporation (CHBF) and Barits Securities Corp. (BS) later also joined the Company through an exchange of shares. On January 31, 2003, the two subsidiaries, IS and BS, were further combined with the sub-subsidiary, Chung Hsing Securities Corp., to become Barits International Securities Co., Ltd. (BIS), in order to consolidate the Company's securities businesses and further its competitiveness.

To extend the Company's business domain in financial services and its economic scale, and to improve overall operating performance, the Company acquired a 100% equity stake in The International Commercial Bank of China (ICBC) and Chung Kuo Insurance Co., Ltd. (CKI) through a further share swap and changed the Company's name to "Mega Financial Holding Company" on December 31, 2002. Additionally, to achieve resource sharing, the Central Securities Investment Trust Corporation, originally an investee of BIS, was upgraded to become the Company's direct subsidiary through cash purchase of controlling shares (93.96% shareholdings as of April 30, 2005) on May 29, 2003, and its name was changed into Mega Investment Trust Corp. in July 2003. In response to the government's initiative to lower the financial industry's non-performing loans (NPL) ratios and to promote the specialization of financial institutions, the Company set up Mega Asset Management Corporation as its 7th subsidiary in December 2003.

The Company's subsidiary ICBC increased its shareholding ratio of its investee, International Investment Trust Co., Ltd., from 14% to 47% as of April 2005. To comply with government regulations, the Company also plans to combine its two securities investment trust corporations with the aim of increasing economic scale of asset management. Also, in order to integrate the Group's distribution channels for banking assurance, the Company has decided to upgrade Chung Yin Insurance Agency Company, originally a wholly-owned subsidiary of ICBC, to the Company's direct subsidiary, and has obtained approval from the Competent Authority as of January 11, 2005. In summary, the investment decisions of the Company in 2004 will make great contributions to the Group's cross-selling channels and economic scales.

## II. Organization Chart



## III. Board of Directors & Supervisors

As of April 30, 2005

Name	Position	Age	Note
Shen-Chih Cheng	Chairman	53	
Tzong-Yeong Lin	Director	53	Representative of the Ministry of Finance of the ROC
Duei Tsai	Director	57	Representative of the Ministry of Finance of the ROC
Yi-Fu Lin	Director	62	Representative of The Development Fund, Executive Yuan of the ROC
Chin-Tsair Tsay	Director	63	Representative of the Ministry of Finance of the ROC
Teng-Cheng Liu	Director	54	Representative of the Ministry of Finance of the ROC
Joseph Jye-Cherng Lyu	Director	48	Representative of Bank of Taiwan
Samuel J.S. Hsu	Director	50	Representative of the Chunghwa Post Co., Ltd.
Wen-Wen Hsui Cheng	Director	75	Representative of The First Investment Co., Ltd.
Robert H.C. Tsao	Director	57	Representative of the United Microelectronics Corp.
Pei-Chun Tsai	Director	25	Representative of Shun Tai Investments Corp.
Lo-Shan Wang	Director	75	Representative of Chang-Lo Investment Co., Ltd.
Hung-Wen Chien	Director	52	
Sheng-Yen Liu	Director	65	
Pi-Liang Liu	Supervisor	64	Representative of the Ministry of Finance of the ROC
Kenneth S. Lin	Supervisor	49	Representative of the Ministry of Finance of the ROC
Neng-Yuan Yu	Supervisor	64	Representative of the Ministry of Finance of the ROC
Chia-Tsung Hung	Supervisor	44	
Lindy Chern	Supervisor	53	

#### IV. Executive Officers

Name	Age	Position
Tzong-Yeong Lin	53	President
Joseph J.P. Shieh	44	Executive Vice President
Simon C. Dzeng	47	Executive Vice President
Chung-Cheng Kao	64	Chief Auditor
Yu-Lin Chou	40	Chief Secretary of the Board
Jui-Yun Lin	47	Senior Vice President & Head of Treasury Department
Yung-Ming Chen	55	Senior Vice President & Head of Administration Department
Ching-Tsan Wai	52	Senior Vice President & Head of Business Development Department
Ray Chao	44	Senior Vice President & Head of Electronic Data Processing Department

#### V. Ten Major Shareholders

April 12, 2005

Name of Shareholder	Number of Common Shares	Percentage of Total Issued Shares
Ministry of Finance of the ROC	1,104,070,205	9.71%
The Development Fund, Executive Yuan of the ROC	675,918,450	5.95%
Bank of Taiwan	277,170,670	2.44%
Bureau of Labor Insurance of the ROC	222,787,433	1.96%
Cathay Life Insurance Co., Ltd.	219,125,430	1.93%
Chunghwa Post Co., Ltd.	164,770,574	1.45%
Kuo Hua Life Insurance Co., Ltd.	146,034,550	1.28%
Capital Income Builder, Inc.	122,438,000	1.08%
OZ Master Fund, Ltd.	101,807,122	0.90%
United Microelectronics Corp.	95,576,810	0.84%
Total	3,129,699,244	27.54%

#### VI. Capital, Shares and Corporate Bonds

April 30, 2005

	Number of Shares or Dollar Amount
Paid-in capital	NT\$ 113,657,296,610
Common shares	11,365,729,661
Treasury shares	654,244,804*
Outstanding shares	10,716,564,817
Preferred shares	0
Corporate bonds issued	NT\$2,100,000,000 bond due December 2005
	NT\$12,900,000,000 bond due December 2007
	US\$690,000,000 ECB due September 2005
	US\$200,000,000 ECB due August 2005

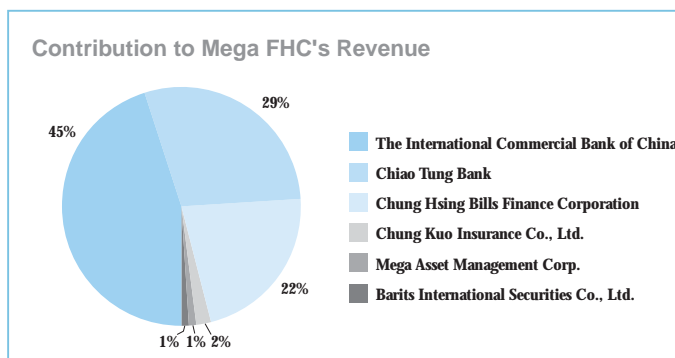
\*Note: Including 5,079,960 shares owned by subsidiary Chung Kuo Insurance Co., Ltd.

# Operating Report

## I. Business Overview

### Mega Financial Holding Company

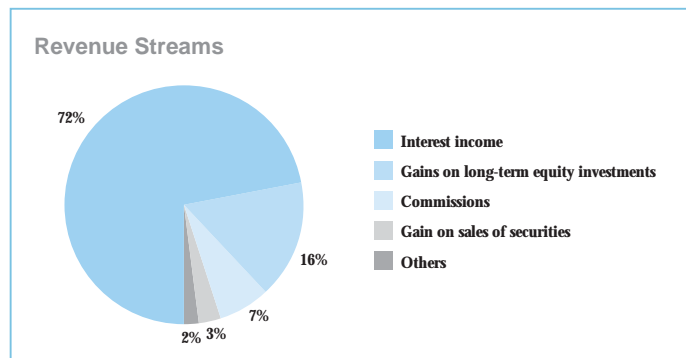
The Company's revenues mainly come from the following seven subsidiaries: Chiao Tung Bank Co., Ltd., Barits International Securities Co., Ltd., Chung Hsing Bills Finance Corporation, The International Commercial Bank of China, Chung Kuo Insurance Co., Ltd., Mega Investment Trust Corporation and Mega Assets Management Corporation. The 2004 investment income of the Company from the seven subsidiaries amounted to NT\$21,940 million, a growth of 16.56% compared to the previous year.



### Chiao Tung Bank Co., Ltd. (CTB)

- **Lending:** In 2004, the total loans, guarantees and acceptances amounted to NT\$498,174 million, of which medium and long term development credits accounted for NT\$370,280 million or 74.33% of the total lending amount. CTB served as the lead bank in the arrangement of 44 syndicated loans amounting to NT\$50,838 million, a significant increase over the 24 syndicated loans and a total of NT\$20,879 million arranged in 2003.
- **Long-term equity investments:** As of the end of 2004, the CTB had made strategic equity investment, venture capital investment and general investment in 195 companies, with funds amounting to NT\$24,976 million, a 7.43% growth compared with the year 2003. As of the end of 2004, CTB's strategic equity investments reached NT\$17,480 million, consisting of 142 companies and accounting for 70% of the total long-term equity investment, while venture capital investments and general investments made by CTB amounted to NT\$7,496 million, consisting of 36 companies and 17 companies respectively and accounting for 30% of the total equity investments.
- **Deposits:** Total deposits in 2004 reached NT\$300,794 million, an increase of NT\$10,012 million or 3.44% over the NT\$290,782 million recorded in 2003. Total current deposits amounted to NT\$66,281 million, a significant growth of 29.66% over the previous year.
- **Foreign exchange business:** For 2004, CTB's import and export related operations as well as foreign exchange remittance business increased by 64.8%, 13.07% and 45.20% respectively as compared with the year 2003. The volume of its foreign exchange business undertaken during 2004 amounted to US\$67,620 million, a growth of 45.63% from the previous year. In addition, the financial derivatives business undertaken by CTB during the year reached US\$6,829 million, an increase of US\$5,587 million or 449.84% over the US\$1,242 million recorded in 2003.
- **Trust business:** In 2004, the non-discretionary trust assets managed by CTB averaged NT\$7,993 million, an increase of 42.15% compared to the year 2003.

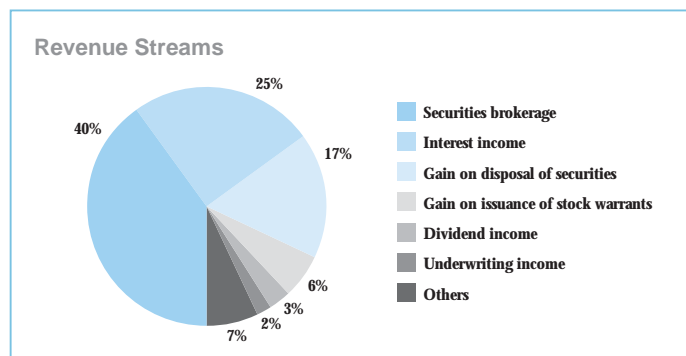
- Consumer banking business: At the end of 2004, the total consumer loans amounted to NT\$45,810 million, a significant growth of 101.58% compared to the previous year. The 2004 interest income on consumer loans reached NT\$1,340 million, a growth of 65.4% or NT\$530 million over the NT\$810 million recorded in 2003.



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

- Securities dealing: Due to a lack of visibility towards the impacts of political factors on the economy, the stock market in Taiwan failed to attract investors in 2004, resulting in low profitability across the industry. The revenue from securities dealings for 2004 amounted to NT\$9 million.
- Securities brokerage: In 2004, the total revenue from the securities brokerage business amounted to NT\$1,541 million, representing a market share of 2.77% (including institutional clients) or ranked 12th in the industry. BIS set up nine additional branch offices in 2004. At the end of 2004, total branch offices of BIS increased to 45.
- Securities underwriting: BIS has been providing consulting services to 23 companies for listing in the Taiwan Stock Exchange and 37 companies for listing in the GreTai Securities Market with market shares of 13% and 9% respectively. In 2004, BIS lead managed 8 IPOs, 13 SPOs (not including underwriting of new issued shares). It has recommended 67 companies to register for trading as an emerging stock on the OTC market, representing a market share of 19.27%. Overall performance of the year represented a market leadership position carried over from the previous year.
- Bond business: In 2004, the company was the lead manager for 10 corporate bond issues and 28 financial bond issues with total underwriting amounts of NT\$12,325 million and NT\$20,500 million respectively. Total underwriting amount was ranked 3rd in the industry, according to Bloomberg data. The total operating revenue from the Bond Department amounted to NT\$374 million for 2004.
- Stock-registration services: A total 82 companies have appointed BIS as their stock-registration agent in 2004. The total revenue amounted to NT\$30 million.

- New financial products: In the year 2004, BIS issued a total of 13 warrants with a total premium revenue of NT\$448.91 million, ranked 13th in the industry. Other derivative products generated NT\$1.63 million income. The company also issued 16 structured products including 3 Principal Guaranteed Notes and 13 Equity Linked Notes.



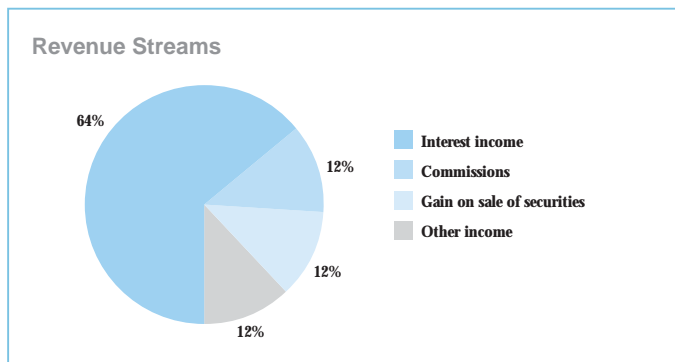
### Chung Hsing Bills Finance Corporation (CHBF)

- Guaranteed issues of commercial paper outstanding at the end of 2004 accounted for NT\$167,750 million, a

market share of 33.69%.

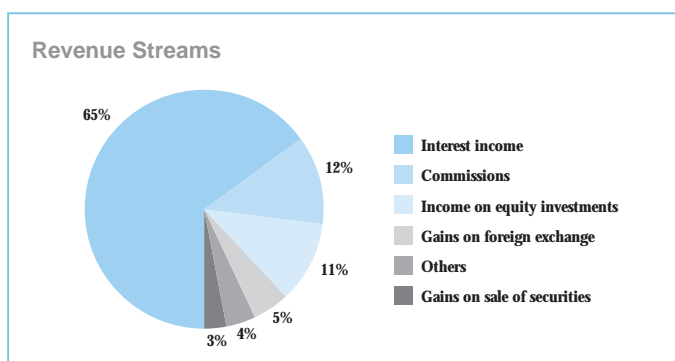
- CHBF's initial purchases of short-term debt instruments in the primary market in 2004 amounted to NT\$1,391,398 million, demonstrating a market share of 24.32%.
- CHBF's transactions of short-term debt instruments in the secondary market in 2004 amounted to NT\$7,545,296 million, demonstrating a market share of 23.69%.
- CHBF's transactions of bonds in the secondary market in 2004 reached NT\$14,394,769 million, a market share of 18.09%.

All businesses above demonstrated a market leader position.



### The International Commercial Bank of China (ICBC)

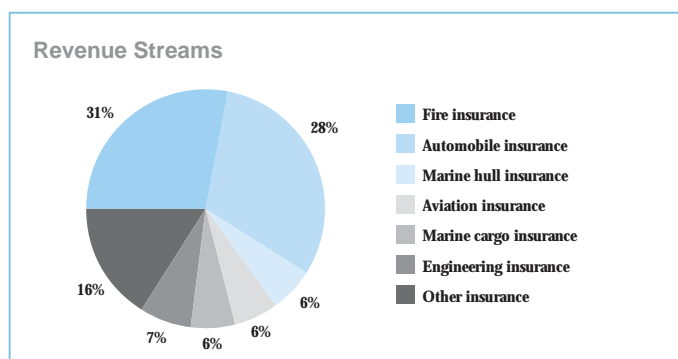
- Deposits: In 2004, total deposits reached NT\$662,031 million, an increase of NT\$587,478 million or 12.69% compared to the year 2003.
- Lending: In 2004, total loans, guarantees and acceptances amounted to NT\$692,405 million, an increase of NT\$627,539 million or 10.34% compared to the year 2003.
- Foreign exchange business: Total foreign exchange business undertaken in 2004 amounted to US\$253,464 million, a growth of 38.16% over the US\$183,455 million recorded in 2003.
- Long-term equity investments: In 2004, the average monthly balance of long-term investments (including equity investments and securities investments) amounted to NT\$17,751 million, a growth of 3.69% over the NT\$17,120 million recorded in 2003.
- Trust business: The average monthly balance of the non-discretionary trust funds managed by ICBC in 2004 amounted to NT\$129,642 million, a growth of 29.40% over the NT\$100,188 million of 2003.
- Consumer banking business: As of December 31, 2004, consumer loans outstanding (including credit card loans outstanding) amounted to NT\$138,223 million, an increase of 40.35% over the NT\$98,488 million of 2003.



### Chung Kuo Insurance Co., Ltd.

- Direct written business: Total gross direct written premium income for the year 2004 reached NT\$6,197 million, an increase of NT\$694 million or 12.61% over the NT\$5,503 million recorded in 2003.
  - Fire insurance premium income reached NT\$1,751 million, accounting for 28.25% of the total premium.
  - Marine cargo insurance premium income reached NT\$370 million, accounting for 5.97% of the total premium.

- Marine hull insurance premium income reached NT\$389 million, accounting for 6.28% of the total premium.
- Automobile insurance premium income reached NT\$1,931 million, accounting for 31.16% of the total premium.
- Aviation insurance premium income reached NT\$359 million, accounting for 5.80% of the total premium.
- Engineering insurance premium income reached NT\$424 million, accounting for 6.85% of the total premium.
- Personal accident insurance premium income reached NT\$78 million, accounting for 1.26% of the total premium.
- Miscellaneous insurance premium income reached NT\$894 million, accounting for 14.43% of the total premium.



- Inward reinsurance business: Reinsurance premium income amounted to NT\$1,012 million, a decline of NT\$124 million or 10.94% compared to the NT\$1,136 million of 2003.
  - Domestic inward reinsurance premium totaled NT\$883 million, accounting for 87.22% of the total reinsurance premium.
  - Foreign inward reinsurance premium totaled NT\$129 million, accounting for 12.78% of the total reinsurance premium.

### **Mega Investment Trust Corporation**

As of the end of 2004, total assets under management amounted to NT\$43,808 million, a growth of 12% from 2003.

### **Mega Asset Management Corporation**

Mega Asset Management Corporation was setup in December 2003, and won bids for four NPL portfolios of NT\$16,968 million in 2004. The company disposed of non-performing loans transferred in 2004 with net recovery of NT\$253 million, accounting for 97.83% of the annual revenue.

## **II. Market Conditions and Business Strategies**

### **Banking Business**

#### **A. Market Conditions**

- In the past, the banking sector relied heavily on interest spread to generate profits. In order to extend their business scope beyond the traditional deposits and loans business, banks began developing new financial products and providing financial planning services in hopes of profiting from financial management and transaction fees. The number and creativity of those new financial products will be one of the critical factors in determining the success or failure of the banking business.

- It is expected that the wealth management market will play an increasingly important role in the domestic banking industry. Because most of those at the top of the income pyramid, in Taiwan, have long been clients of large-scale foreign banks with global distribution channels, potential middle-class clients have become the new focus for expanding the wealth management business for domestic banks. The products provided are usually limited to general financial products as opposed to custom-made financial planning. Therefore, domestic banks must work to provide the best combination of diversified products and services in meeting diverse customer needs.
- Interest revenue remains a major source of operating revenue for domestic banks. However, shrinking interest spreads have already shown its negative effect on the interest revenue of banks. In order to mitigate the impact of shrinking interest spreads, the domestic banks are making every effort to increase fee-based income. It is expected that revenues generated from fees and commissions will further increase in the future.

## **B. Business Strategies**

- Make a full thrust into the wealth management market and develop new financial products to increase fee-based incomes.
- Expand distribution channels to raise market shares; integrate operating infrastructures to cut costs and improve operating performance.
- Strengthen cross-selling channels and provide "one-stop shopping" financial services to leverage synergies across the entire conglomerate.
- Provide combined services of banking, insurance, and securities and trust investments to create a niche market for the Company in meeting diverse customer needs.
- Enforce effective risk management practices, compliant with The New Basel Capital Accord (Basel II) requirements, across all businesses.

## **Securities Business**

### **A. Market Conditions**

- A growing economy and rising income standards have contributed to the booming of the domestic securities market. This has resulted in increased numbers of listed and OTC companies, enlarged capital markets, and further diversification of financial products. Investors are demanding wider arrays of investment options and securities companies are broadening their business scopes to keep pace.
- Direct financing has become more popular in recent years. More and more enterprises are raising funds through capital markets instead of using lending services provided by banks. Attitudes towards financial planning are also changing amongst individual investors in Taiwan. Customer demands of diversified investments are gradually replacing conventional savings. Finally, the government's deregulation of foreign investment in the Taiwanese stock market has revitalized the issuance and circulation of securities and enhanced profitability for securities industry.

### **B. Business Strategies**

- Consider merger or establishment of more branches to increase market share.



- Carry out coordinated marketing projects through cooperation with subsidiaries of the Group to achieve desired cross-selling synergy.
- Provide customers with comprehensive and in-depth financial planning services through cooperation between the Group's investment banking and wealth management business groups.
- Focus on innovation, research and development as well as promotion of new financial products to deliver more diverse products to customers.

## **Bills Finance Business**

### **A. Market Conditions**

- Given the abundant supply of liquidity in recent years, domestic financial institutions have been actively engaging loan businesses, using money market interest discounts as an incentive to attract loans. Sluggish growths in the IT industry have contributed to weaker fund demands and have had negative effects on bills guarantee and issuance businesses. Total guaranteed issues of commercial papers outstanding for all bills finance companies have continued to drop. However, the domestic economy saw a recovery in 2004, and corporations are now more willing to issue commercial papers. This contributed to a rebound rarely seen in recent years of the total guaranteed issues of commercial papers outstanding for all bills finance companies.
- Owing to banks vigorously promoting the loan business and corporations raising funds through syndication, enterprises have become reluctant to issue commercial papers. However, many banks took advantage of the overly abundant liquidity in the market and issued a significant amount of low-interest rate certificates of deposit, resulting in a surge in outstanding negotiable certificates of deposit.
- Low interest rates in the past few years have made fixed-income instruments such as bonds more competitive in the market. Bonds could be hedged after the launch of the interest rate futures and bond futures in the domestic market in early 2004. The above factors all contributed to the upward trend of the total amount of transactions in the bond market.

### **B. Business Strategies**

- Enhance interest rate risk management and continue to employ hedging strategies to ensure profitability of the bond business.
- Emphasize lending and bill transaction businesses to create operational profitability from the core businesses.
- Enhance cooperation with banking subsidiaries of the Group. Participate in syndications led by banking subsidiaries by underwriting commercial papers guaranteed by the banking subsidiaries.

## **Non-life Insurance Business**

### **A. Market Conditions**

With the expanding business scope granted by the amended Insurance Law and growing consumer awareness, non-life insurers are continuously developing new types of products to meet consumer needs. The product supplies of non-life insurers are becoming more and more diverse.

## **B. Business Strategies**

- Expand marketing channels and increase sources of business through cross selling and business support from subsidiaries of the Group.
- Adjust corporate structure and improve operating procedures to allow rapid response to the market and customer needs, thus raising customer satisfaction.
- Increase speed of new products development and more precise segmentation of the market in order to generate quality core products.
- Enhance actuarial functions to provide precise calculations of reserves and timely adjustments of changes of premium rates.
- Make timely adjustments to the Group's investment portfolio, leverage the Group's professional investments advisors to increase returns.

## **Securities Investment Trust Business**

### **A. Market Conditions**

- On November 1, 2004, a new Securities Investment Trust and Consultancy Act was implemented in Taiwan. Once relevant regulations go into effect, investment trust and consulting enterprises will be able to conduct, in Taiwan, the sales of offshore funds through public and private subscriptions and through agency or consultancy services. This will definitely bring about many business opportunities for the investment trust industry.
- At the same time, the above-mentioned Act allows securities houses and related enterprises including securities brokers, futures trust enterprises, futures advisory enterprises, and managed futures enterprises to provide securities investment trust and consulting services. These changes have resulted in serious impacts on the investment trust industry. Enhancing investment performance of funds, highlighting important product characteristics, and actively engaging mutually beneficial cross-industry cooperation have become the major focus for the investment trust industry.
- Aligning with the government's policy to consolidate and internationalize financial institutions, financial holding companies commenced mergers and consolidations efforts in Taiwan. This also included consolidation of their investment trust subsidiaries. Additionally, investment trust companies are leveraging distribution channels provided by other subsidiaries of the Group to promote funds sales and gradually enlarge their total asset under management and subsequently provide merger and acquisition opportunities to consolidate small and medium investment trust companies.

### **B. Business Strategies**

- Integrate with the research resources of the Group to improve fund performances and build customer confidence.
- Strengthen new product development and research to enhance overall market competitiveness.
- Upgrade customer service and operating quality to establish a consistent and professional corporate image.

## **Asset Management Business**

### **A. Market Conditions**

- In 2004, total bids won in the non-performing loan (NPL) market amounted to approximately NT\$140 billion, a drop of NT\$60 billion from the previous year. It is widely expected that once the economic recovery grows stronger and financial holding companies have established their asset management companies to deal with their NPL in 2005, the remaining NPLs in the market will not exceed NT\$100 billion.
- A shrinking NPL market has prompted many foreign asset management companies to consider undertaking business transformations or withdrawing from the domestic market. The possible transfer of NPL portfolios among asset management companies may create a new round of business transactions. As a result, the problem of overly dispersed NPLs may be mitigated with the maturation of the environment for transactions in the secondary market.

### **B. Business Strategies**

- Expand scope of business, start with current total asset as a foundation, and grow to include real estate investment, land development, and purchase of specific NPLs.
- Invest in overseas NPL market through strategic cooperation with foreign asset management companies.

## **III. Risk Management**

### **Organization Structure**

As the highest authority and the policy-making body for the Company's risk management, the Board of Directors defines the duties and responsibilities concerning risk management and takes ultimate responsibility for the Group's risk management system and its effective operation. The Risk Management Committee, which reports to the Board, takes charge of formulating the policy and guidelines of risk management for the Group and evaluating various risks within the Group. The Risk Management Department, which reports to the President of the Company, is responsible for collecting, measuring, analyzing, monitoring, controlling, and reporting all risk information within the Group. Finally, the Auditing Office of the Board takes charge of evaluating the effectiveness of internal control systems and the efficiency of the Group's operations as well as making recommendations as it deems appropriate.

### **Risk Management Policy**

The risk management policy for the Company and its subsidiaries aims to build a mechanism for identifying, monitoring and controlling risks emerging from various businesses and ensuring all operational risks are reduced to tolerable level in order to create maximum profits and returns on shareholder's equity. Also, seeking to establish a risk management mechanism that conforms to international standards, the Company is evaluating, with the assistance of outside consultants, its current risk management operation to ensure compliance with Basel II and international best practices. Internal training sessions will also be held to develop risk management consciousness and foster such culture in the Group.

## **Methodologies for Risk Assessment and Control**

### **Credit risk**

In addition to seeking to abide by relevant Banking Law regulations and related internal rules, the subsidiaries of the Company should also view risk diversification as an important principle for developing lending and investing businesses. Ceilings for lending and investing are set for investments and loans corresponding to their different industries, business groups or countries to avoid risk concentration. Prior to any lending or investing transactions, a thorough enquiry and inspection of the other party or object should be conducted, and only transactions offered by those with credit rating above prescribed minimums shall be underwritten. Regular follow-up re-inspections are required and mechanisms must be in place to inform all business departments of any real-time credit risk concerns that arise from various industries or companies and for appropriate actions to be taken.

### **Market risk**

To ensure profitability and to reduce operating risks, all foreign exchange and interest rate transactions will seek to square or hedge positions. Stop-loss limits will be enforced for all positions. Regular evaluation of unrealized gains or losses of all positions should be calculated, and reports shall be submitted to competent supervisors and the Board of Directors. Regarding positions of bills and bonds, the subsidiaries should conduct regular analysis of interest rate sensitivity. Risk management objectives should also be established for bill and bond businesses.

The securities subsidiary of the Company should also quantify market risks of all transactions. Ceilings for transaction amounts and losses for each business unit can be calculated using capital adequacy ratios. After the asset allocation committees review and approve the ceiling amounts, real-time online monitoring will begin. Positions exceeding or reaching ceiling amounts should be dealt with through a stop-loss mechanism or exception handling mechanism.

### **Operational risk**

The strategies of operational risk management include providing more internal trainings for clerks and monitoring of operational procedures. Employees at all levels in the company should conduct their operations in accordance with relevant internal control systems and regulations and perform self-audits on a regular basis. Any occurrences of negligence or mistakes shall be rectified immediately with follow-ups on such remedial actions. In addition, the development of any new financial products and systems and the signing of any contracts should involve professional personnel from the auditing office or the legal affairs office.

### **Liquidity risk**

The subsidiaries should provide asset/liability maturity gap analysis reports and liquidity ratio reports on a regular basis and submit reports to the asset/liability management committee (or funding committee) and the Board of Managing Directors.

# Medium-to-long-term Business Strategies

In pursuit of everlasting operation of the Group, the Company has formulated the "Medium-to-long-term Business Strategies" in order to establish competitiveness of core businesses, encourage innovative research and development, and integrate related businesses of subsidiaries to boost development and bolster information sharing. Each subsidiary also develops its own action plans, in accordance with group development strategies, as the guidelines when promoting related businesses.

The Company's "Medium-to-long-term Business Strategies" include visions of the Group, operating objectives, and medium-to-long-term strategies. They are described as follows:

## **Vision- Being the best financial service partner of clients**

Increase the proportion of the Group's personal banking business that is 16% at present to 20% in mid-term and 30%~40% in long-term. In addition, gradually adjust the business proportion of the Group's corporate and investment banking from 84% at present to 80% in mid-term and 60%~70% in long-term. Moreover, proceed with organizational adjustments in order to respond to market challenges. That is, transform the current branch-based organization into a customer-oriented one through the establishment of business units. This way, the Company could develop operating advantages and become the market leader with the aim of being ranked among the top three in terms of market share and profitability for core businesses.

## **Objectives**

### **Business Objectives:**

- Maintain position as the top lead manager in the syndicated loans market with a market share greater than 20%.
- Preserve the leadership in corporate and investment banking business with a 10% market share in lending volume.
- Maintain advantages of offshore banking business.
- Develop a wealth management business to raise the business proportion of consumer banking to 20%.
- Strengthen the relationship with small and medium enterprises while raising the service proportion to 20%~25%.

### **Financial Objectives:**

- ROE: 12-15% within three years  
15-18% within five years
- Capital Adequacy Ratio: above 105%
- Double Leverage: below 120%
- Debt / Equity: below 25%
- Current Ratio: above 200%
- Cost/Income Ratio: below 40%
- Bank Subsidiaries - NPL Ratio: below 2.5%
- Bank Subsidiaries - Coverage Ratio: above 40%

## Medium-to-long-term Strategies

### • Fortify advantages of corporate banking and foreign exchange businesses

- Develop five major business divisions: investment banking, syndicated loans, small and medium enterprises financial service, financial consultancy, and asset securitization
- Establish customer relationship management system
- Maintain foreign exchange business advantages
- Launch into the mainland Chinese market

### • Develop consumer banking and wealth management businesses

- Develop credit cards and mortgage loans businesses
- Centralize product R&D, enforce single brand for products across all channels
- Develop wealth management business
- Increase the percentage of commissions and handling fees income to 25%

### • Enhance the Group's synergy through cross selling

- Corporate banking business: Increase the business of securities underwriting and property insurance by cross selling through corporate banking units of the Group. Offer consolidated quotations on syndication loans by the two subsidiary banks.
- Consumer banking business: Through cross-selling efforts, achieve 15% or higher revenue percentages of consumer banking products.

### • Reduce costs and improve operating performance

- Adjust human resource structure
- Reduce administrative expenses
- Optimize the allocation of assets and liabilities
- Adjust personnel and resources of front-middle-back working platforms

### • Integrate risk management system

#### • Mid Term:

- Develop the Group and subsidiaries' risk management organization, risk governance policy and systems, to strengthen risk management practices and culture.
- Formulate plans for the development of quantitative systems and the associated infrastructure to support the Group's business.
- Abide by the Competent Authority's policies and develop risk management mechanisms adhering to international best practices.

#### • Long Term:

- Combine risk management and capital management; implement risk-adjusted performance evaluation mechanisms across the Group.
- Consolidate risk management systems of the Group; identify and control risks with the objective of minimizing loss and maximizing profit.

# Financial Reports

## I. Financial Highlights - Mega Financial Holding Co., Ltd. and Subsidiaries

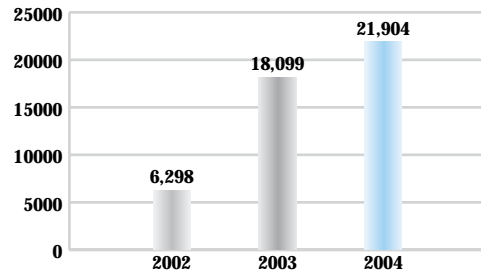
In millions of dollars, except per share amount

	2004		2003
	US\$	NT\$	NT\$
<b>Financial Condition</b>			
Paid-in capital	3,561	113,657	113,972
Shareholders' equity	5,213	166,368	156,533
Total assets	66,451	2,120,905	1,763,306
<b>Profit and Loss</b>			
Total revenue	2,785	88,878	83,518
Operating profit	715	22,819	19,884
Net income	686	21,904	18,099
<b>Per Common Share</b>			
Shareholders' equity per share	-	16.59	15.97
Earnings per share	-	2.22	1.84
Dividends declared per share			
Stock dividend	-	-	0.40
Cash dividend	-	1.5356	0.40
<b>Financial ratios</b>			
Capital adequacy ratio	-	108.42%	114.25%
Return on assets	-	0.93%*	1.06%
Return on equity	-	13.57%	12.10%
Net income to operation revenues	-	24.65%	21.67%
Double leverage ratio	-	116.68%	119.80%

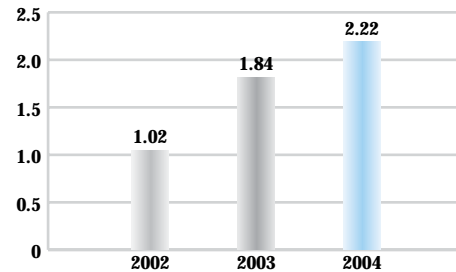
\*Note: The Company's return on assets declined in 2004 since its assets grew significantly as a result of change of accounting principle on Repo transactions by Chung Hsing Bills Finance Corp.

### Net Income (NTS million)

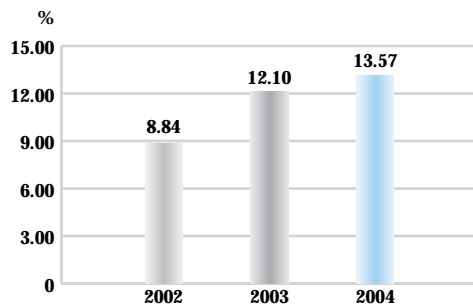
In millions of NT dollars



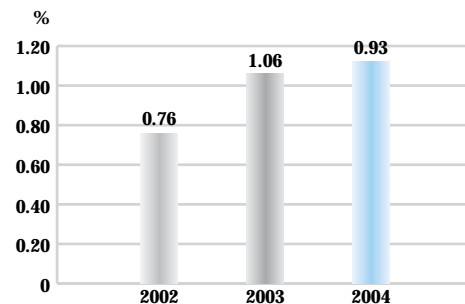
### Earnings Per Share (NTS)



### Return on Equity (%)



### Return on Assets (%)



## II. Credit Ratings

Company	Credit Rating Agency	Long-Term	Outlook	Short-Term	Financial Strength Ratings	Date of Issuance
Mega Financial Holding Company	Taiwan Ratings Corp.	twAA	Stable	twA-1		Dec. 22, 2004
	Moody's	Baa1				Sep. 2004
Chiao Tung Bank	Taiwan Ratings Corp.	twAA+	Stable	twA-1		Dec. 22, 2004
	Moody's	A3		P-2	D-	Aug. 2004
	S & P	A-	Stable	A-2		Nov. 30, 2004
The International Commercial Bank of China	Moody's	A2		P-1	C-	Aug. 2004
	S & P	A-	Stable	A-2		Apr. 8, 2004
Chung Hsing Bills Finance Corporation	Taiwan Ratings Corp.	twAA	Stable	twA-1		Dec. 22, 2004
Barits International Securities Co., Ltd.	Taiwan Ratings Corp.	twAA-	Stable	twA-1		Dec. 22, 2004
Chung Kuo Insurance Co., Ltd.	Taiwan Ratings Corp.	twAA-	Stable			Oct. 27, 2004
	S & P	BBB+	Stable			Oct. 27, 2004



### III. Consolidated Financial Statements and Notes

English Translation of a Report Originally Issued in Chinese

#### **Report of Independent Auditors**

The Board of Directors and Stockholders  
Mega Financial Holding Co., Ltd.  
(Formerly known as CTB Financial Holding Co., Ltd.)

We have audited the accompanying consolidated balance sheets of Mega Financial Holding Co., Ltd. (the "Company") and its subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. 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 audits.

We conducted our audits in accordance with the "Regulations for Audit and Certification of Financial Statements of Financial Institutions 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mega Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2003 and 2004, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the "Guidelines for Preparation of Financial Reports by Financial Holding Companies", "Guidelines for Preparation of Financial Reports by Public Listed Banks", "Guidelines for Preparation of Financial Reports by Public Listed Bills Finance Companies", "Guidelines for Preparation of Financial Reports by Securities Firms", "Guidelines for Preparation of Financial Reports by Futures Commission Merchants", "Guidelines for Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China on Taiwan.

As stated in Note III to the accompanying consolidated financial statements, bills and bonds purchased/sold by the Company's subsidiary, Chung Hsing Bills Finance Corporation, under resell/repurchase agreements were previously accounted for as trading activities. In line with the introduction of the "Guidelines for Preparation of Financial Reports by Public Listed Bills Finance Companies", the above transactions are accounted for as financing activities, effective January 1, 2004.

As stated in Note III to the accompanying consolidated financial statements, the financial statements of International Commercial Bank of Cathay (Canada), a subsidiary of International Commercial Bank of China (the Company's subsidiary), are incorporated in the consolidated financial statements of the Company and its subsidiaries pursuant to the "Guidelines for Preparation of Financial Reports by Public Listed Banks", beginning the fiscal year 2004. As the consolidated entities for 2004 differ from those for 2003, the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2003 have been restated to be comparable with the 2004 consolidated financial statements.



March 10, 2005  
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 on Taiwan 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 CO., LTD. AND SUBSIDIARIES

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

## CONSOLIDATED BALANCE SHEETS

December 31, 2003 and 2004

Expressed in Thousands of Dollars

ASSETS	Notes	Dec. 31, 2003	Dec. 31, 2004	
		(Restated)	NT\$	US\$
Cash and cash equivalents	II & IV-1	\$54,150,859	\$64,688,233	\$2,026,764
Due from the Central Bank and other banks	IV-2	218,482,582	213,294,345	6,682,782
Securities purchased, net	II & IV-3	363,801,282	497,011,851	15,572,010
Receivables, net	II, IV-4 & V	70,592,825	116,049,779	3,635,986
Bills, discounts and loans, net	II, IV-5 & V	947,482,314	1,031,438,120	32,316,262
Long-term equity investments	II & IV-6	36,973,456	38,108,349	1,193,983
Other long-term investments	IV-7	23,397,006	109,768,354	3,439,182
Property and equipment	II & IV-8			
Land (including revaluation increment)		12,445,140	13,157,411	412,238
Land improvements (including revaluation increment)		3,267	3,267	102
Buildings and structures (including revaluation increment)		12,297,932	12,514,265	392,088
Machinery		1,746,295	1,755,480	55,001
Computers		2,101,014	2,214,042	69,369
Transportation equipment		315,785	301,582	9,449
Miscellaneous equipment and leasehold improvements		1,530,418	1,598,227	50,075
Less: Accumulated depreciation		(7,264,747)	(7,648,243)	(239,629)
Construction in progress and machinery on order		106,917	111,684	3,499
<b>Total Property and Equipment, Net</b>		<b>23,282,021</b>	<b>24,007,715</b>	<b>752,192</b>
Other assets	II	25,143,787	26,538,480	831,484
<b>TOTAL ASSETS</b>		<b>\$1,763,306,132</b>	<b>\$2,120,905,226</b>	<b>\$66,450,645</b>

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

(Please refer to Diwan, Ernst & Young independent auditors' report dated March 10, 2005)

Expressed in Thousands of Dollars

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	Dec. 31, 2003 (Restated)	Dec. 31, 2004	
		NT\$	NT\$	US\$
<b>Liabilities</b>				
Short-term debts	IV-9	\$17,582,689	\$23,399,191	\$733,126
Bills and bonds sold under repurchase agreements	IV-10	34,772,884	250,636,709	7,852,765
Due to the Central Bank and other banks	IV-11 & V	229,804,909	244,097,749	7,647,891
Payables	IV-12 & V	60,958,815	101,702,273	3,186,461
Deposits and remittances	IV-13 & V	968,364,452	1,033,515,216	32,381,340
Funds borrowed from the Central Bank and other banks	IV-14	144,475,721	136,297,888	4,270,386
Bank debentures payable, net	IV-15	74,300,344	85,438,020	2,676,881
Corporate bonds payable, net	II & IV-16	43,444,820	50,107,476	1,569,931
Accrued pension liability	II & IV-17	1,640,079	1,645,837	51,566
Other liabilities	II	31,428,837	27,696,816	867,776
<b>Total Liabilities</b>		<b>1,606,773,550</b>	<b>1,954,537,175</b>	<b>61,238,123</b>
<b>Stockholders' Equity</b>				
<b>Capital stock</b>				
Common stock	IV-18	113,971,716	113,657,296	3,561,027
<b>Capital surplus</b>				
Additional paid-in capital	II	46,573,328	46,402,120	1,453,837
Capital surplus - treasury stock		1,954	2,353	74
Adjustments arising from equity-accounted long-term investments		1,047	2,340	73
<b>Total capital surplus</b>		<b>46,576,329</b>	<b>46,406,813</b>	<b>1,453,984</b>
<b>Retained earnings</b>				
Legal reserve	IV-19	5,697,916	7,521,240	235,650
Special reserve		405,703	381,624	11,957
Unappropriated retained earnings		18,920,504	23,636,939	740,575
<b>Total retained earnings</b>		<b>25,024,123</b>	<b>31,539,803</b>	<b>988,182</b>
<b>Equity adjustments</b>				
Unrealized loss on the decline in market value of long-term equity investments		(18,750)	(4,855)	(152)
Cumulative translation adjustments		606,770	12,543	393
Net loss not recognized as pension cost	II	(9,340)	(14,500)	(454)
<b>Total equity adjustments</b>		<b>578,680</b>	<b>(6,812)</b>	<b>(213)</b>
<b>Treasury stock</b>	II & IV-20	<b>(29,618,266)</b>	<b>(25,229,049)</b>	<b>(790,458)</b>
<b>Total Stockholders' Equity</b>		<b>156,532,582</b>	<b>166,368,051</b>	<b>5,212,522</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$1,763,306,132</b>	<b>\$2,120,905,226</b>	<b>\$66,450,645</b>

# MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

## CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2003 and 2004

Expressed in Thousands of Dollars, Except Per Share Amounts

	Notes	Year Ended	Year Ended	
		Dec. 31, 2003 (Restated)	Dec. 31, 2004	
		NT\$	NT\$	US\$
<b>Operating Revenues</b>	II			
Stock management income		\$6,912	\$9,274	\$291
Interest income		43,135,939	49,271,192	1,543,729
Premiums income		6,590,183	7,143,182	223,805
Reinsurance commissions income		457,552	436,722	13,683
Reinsurance payments refund		327,660	1,580,041	49,505
Recovered premiums and reserves		1,650,125	1,681,751	52,691
Recovered special reserve		164,736	297,501	9,321
Recovered indeterminate claim reserve		30,072	35,720	1,119
Fees income		7,945,083	9,120,423	285,754
Underwriting income		299,258	205,223	6,430
Gain on issuance of stock warrants		1,870,690	230,774	7,230
Gain on options contracts		-	1,325	42
Futures commission income		60,116	61,076	1,914
Gain on futures contracts		1,870	27,387	858
Gain on sale of securities		1,199,929	677,584	21,230
Warehousing and transportation income		3,521	2,269	71
Gain on trading of securities		14,257,008	13,134,074	411,507
Investment income accounted for under equity method		1,931,151	640,198	20,058
Gain on real estate investments		13,442	45,667	1,431
Foreign exchange gain		1,541,048	1,954,805	61,246
Gain on investments in trusts		46,844	137,353	4,303
Other operating revenues		1,984,893	2,184,620	68,447
<b>Total Operating Revenues</b>		<b>83,518,032</b>	<b>88,878,161</b>	<b>2,784,665</b>
<b>Operating Expenses</b>	II & IV-21			
Interest expense		(19,197,863)	(21,997,452)	(689,208)
Insurance expense		(3,858,406)	(3,920,020)	(122,819)
Commissions expense		(743,998)	(885,073)	(27,730)
Insurance claims		(1,799,691)	(3,445,999)	(107,968)
Provision for unearned premium reserve		(1,689,404)	(1,922,005)	(60,219)
Provision for special reserve		(325,097)	(262,731)	(8,232)
Disbursements for stabilization fund		(9,686)	(10,980)	(344)
Provision for claim reserve		(35,843)	(41,332)	(1,295)
Service charges		(644,758)	(729,621)	(22,860)
Expenses on issuance of stock warrants		(1,361,551)	(3,402)	(107)
Loss on futures contracts		(53,151)	(173,923)	(5,449)
Securities brokerage fees		(19,062)	-	-
Loss on trading of securities		(1,482,832)	(3,301,457)	(103,439)
Investment loss accounted for under equity method		-	(2,458)	(77)
Loss on real estate investments		(8,946)	(19,537)	(612)
Provisions expense		(13,946,484)	(10,466,194)	(327,919)

Expressed in Thousands of Dollars, Except Per Share Amounts

	Notes	Year Ended Dec. 31, 2003 (Restated)	Year Ended Dec. 31, 2004	
		NT\$	NT\$	US\$
Business and administrative expenses		(17,026,521)	(18,085,025)	(566,627)
Other operating expenses		(1,430,783)	(791,711)	(24,805)
<b>Total Operating Expenses</b>		<b>(63,634,076)</b>	<b>(66,058,920)</b>	<b>(2,069,710)</b>
<b>Operating Profit</b>		<b>19,883,956</b>	<b>22,819,241</b>	<b>714,955</b>
<b>Non-operating Income</b>		<b>1,729,039</b>	<b>2,160,783</b>	<b>67,700</b>
<b>Non-operating Expenses</b>		<b>(1,030,754)</b>	<b>(1,280,487)</b>	<b>(40,119)</b>
<b>Income before Income Tax from Continuing Operations</b>		<b>20,582,241</b>	<b>23,699,537</b>	<b>742,536</b>
<b>Income Tax Expense</b>	II and IV-22	<b>(2,483,165)</b>	<b>(1,795,406)</b>	<b>(56,252)</b>
<b>Consolidated Net Income</b>		<b>18,099,076</b>	<b>21,904,131</b>	<b>686,284</b>
<b>Basic Earnings per Share</b> (in dollars)	IV-23			
Income before income tax from continuing operations		\$2.09	\$2.41	\$0.0755
Consolidated net income		\$1.84	\$2.22	\$0.0696
<b>Diluted Earnings per Share</b> (in dollars)				
Income before income tax from continuing operations		\$2.03	\$2.13	\$0.0667
Consolidated net income		\$1.79	\$1.97	\$0.0617
<b>Pro forma information based on the assumption that shares of the Company held by its subsidiaries are not treated as treasury stock:</b>				
Income before income tax from continuing operations		\$20,608,274	\$23,711,351	\$742,907
Consolidated net income		\$18,125,109	\$21,915,945	\$686,654
Basic earnings per share (in dollars)				
Income before income tax from continuing operations		\$2.08	\$2.40	\$0.0752
Consolidated net income		\$1.83	\$2.22	\$0.0696
Diluted earnings per share (in dollars)				
Income before income tax from continuing operations		\$2.02	\$2.13	\$0.0667
Consolidated net income		\$1.78	\$1.97	\$0.0617

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

(Please refer to Diwan, Ernst & Young independent auditors' report dated March 10, 2005)

# MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2003 and 2004

	Common Stock		Capital Surplus
	No. of Shares	Amount	
<b>Balance as of January 1, 2003 (restated)</b>	11,048,840	\$110,488,402	\$49,925,341
Appropriation of 2002 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	(2,742,903)
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Capitalization of retained earnings	378,331	3,783,314	-
Provision of special reserve for valuation loss on treasury stock held by subsidiaries	-	-	-
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	(166,189)
Changes in cumulative translation adjustments	-	-	-
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2003	-	-	-
Disposal of the Company's stock by its subsidiaries	-	-	(245)
Purchase of treasury stock	-	-	-
Retirement of treasury stock by subsidiaries	(30,000)	(300,000)	(441,629)
Cash dividends distributed to subsidiaries	-	-	1,954
<b>Balance as of December 31, 2003 (restated)</b>	<u>11,397,171</u>	<u>\$113,971,716</u>	<u>\$46,576,329</u>
Appropriation of 2003 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Retirement of treasury stock	(31,442)	(314,420)	(128,484)
Purchase of treasury stock	-	-	-
Conversion of euro convertible bonds	-	-	79,057
Treasury stock reissued to employees	-	-	(78,658)
Reissuance of treasury stock held by subsidiaries	-	-	(42,724)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	1,293
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2004	-	-	-
<b>Balance as of December 31, 2004</b>	<u>11,365,729</u>	<u>\$113,657,296</u>	<u>\$46,406,813</u>

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

(Please refer to Diwan, Ernst & Young independent auditors' report dated March 10, 2005)

Expressed in Thousands of New Taiwan Dollars / Thousand Shares

Legal Reserve	Retained Earnings		Treasury Stock	Unrealized Loss on the Decline in Market Value of Long-term Equity Investments	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Total Stockholders' Equity
	Special Reserve	Unappropriated Retained Earnings					
\$5,077,446	\$354,967	\$6,239,231	\$(29,740,460)	\$(66,241)	\$258,034	\$-	\$142,536,720
620,470	-	(620,470)	-	-	-	-	-
-	-	(1,040,411)	-	-	-	-	(3,783,314)
-	-	(48,400)	-	-	-	-	(48,400)
-	-	(7,807)	-	-	-	-	(7,807)
-	-	(3,783,314)	-	-	-	-	-
-	50,736	(50,736)	-	-	-	-	-
-	-	134,158	-	-	-	-	(32,031)
-	-	-	-	-	348,736	-	348,736
-	-	-	-	47,491	-	-	47,491
-	-	-	-	-	-	(9,340)	(9,340)
-	-	18,099,076	-	-	-	-	18,099,076
-	-	(823)	-	-	-	-	(1,068)
-	-	-	(619,435)	-	-	-	(619,435)
-	-	-	741,629	-	-	-	-
-	-	-	-	-	-	-	1,954
<u>\$5,697,916</u>	<u>\$405,703</u>	<u>\$18,920,504</u>	<u>\$(29,618,266)</u>	<u>\$(18,750)</u>	<u>\$606,770</u>	<u>\$(9,340)</u>	<u>\$156,532,582</u>
1,823,324	-	(1,823,324)	-	-	-	-	-
-	-	(15,000,338)	-	-	-	-	(15,000,338)
-	-	(151,763)	-	-	-	-	(151,763)
-	-	(24,282)	-	-	-	-	(24,282)
-	-	(176,531)	619,435	-	-	-	-
-	-	-	(2,431,355)	-	-	-	(2,431,355)
-	-	-	3,294,514	-	-	-	3,373,571
-	-	(35,537)	2,364,700	-	-	-	2,250,505
-	-	-	541,923	-	-	-	499,199
-	(24,079)	24,079	-	-	-	-	-
-	-	-	-	-	-	-	1,293
-	-	-	-	13,895	-	-	13,895
-	-	-	-	-	(594,227)	-	(594,227)
-	-	-	-	-	-	(5,160)	(5,160)
-	-	21,904,131	-	-	-	-	21,904,131
<u>\$7,521,240</u>	<u>\$381,624</u>	<u>\$23,636,939</u>	<u>\$(25,229,049)</u>	<u>\$(4,855)</u>	<u>\$12,543</u>	<u>\$(14,500)</u>	<u>\$166,368,051</u>

## MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

### STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Year Ended December 31, 2004

	Common Stock		Capital Surplus
	No. of Shares	Amount	
<b>Balance as of January 1, 2004</b>	11,397,171	\$3,570,878	\$1,459,295
Appropriation of 2003 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Retirement of treasury stock	(31,442)	(9,851)	(4,026)
Purchase of treasury stock	-	-	-
Conversion of euro convertible bonds	-	-	2,477
Treasury stock reissued to employees	-	-	(2,464)
Reissuance of treasury stock held by subsidiaries	-	-	(1,339)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	41
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2004	-	-	-
<b>Balance as of December 31, 2004</b>	<b>11,365,729</b>	<b>\$3,561,027</b>	<b>\$1,453,984</b>

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



Expressed in Thousands of US Dollars / Thousand Shares

Legal Reserve	Retained Earnings		Treasury Stock	Unrealized Loss on the Decline in Market Value of Long-term Equity Investments	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Total Stockholders' Equity
	Special Reserve	Unappropriated Retained Earnings					
\$178,523	\$12,711	\$592,803	\$(927,978)	\$(587)	\$19,011	\$(293)	\$4,904,363
57,127	-	(57,127)	-	-	-	-	-
-	-	(469,979)	-	-	-	-	(469,979)
-	-	(4,755)	-	-	-	-	(4,755)
-	-	(761)	-	-	-	-	(761)
-	-	(5,531)	19,408	-	-	-	-
-	-	-	(76,177)	-	-	-	(76,177)
-	-	-	103,221	-	-	-	105,698
-	-	(1,113)	74,089	-	-	-	70,512
-	-	-	16,979	-	-	-	15,640
-	(754)	754	-	-	-	-	-
-	-	-	-	-	-	-	41
-	-	-	-	435	-	-	435
-	-	-	-	-	(18,618)	-	(18,618)
-	-	-	-	-	-	(161)	(161)
-	-	686,284	-	-	-	-	686,284
\$235,650	\$11,957	\$740,575	\$(790,458)	\$(152)	\$393	\$(454)	\$5,212,522

# MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2003 and 2004

Expressed in Thousands of Dollars

	Year Ended Dec. 31, 2003 (Restated)	Year Ended Dec. 31, 2004	
	NT\$	NT\$	US\$
<b>Cash Flows from Operating Activities</b>			
Consolidated net income	\$18,099,076	\$21,904,131	\$686,284
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and provisions expense	10,771,208	8,791,049	275,435
Gain on disposal of assets, net	(1,922,993)	(4,226,957)	(132,436)
Investment income accounted for under equity method	(413,042)	(637,740)	(19,981)
Cash dividends received from equity-accounted investees	30,285	160,868	5,040
Allowance for bad debts, net	1,553,864	2,053,995	64,354
Increase in securities purchased for trading purposes	(84,150,693)	(221,208,614)	(6,930,746)
Increase in receivables	(25,949,735)	(26,639,502)	(834,649)
Increase in liability on bonds sold under repurchase agreements	331,866	206,347,167	6,465,118
Increase in payables	9,878,004	13,877,142	434,788
Decrease in deferred income tax assets/liabilities, net	621,139	555,589	17,407
Increase in accrued pension liability	23,583	11,471	359
Net change in forward exchange receivable/payable for trading purposes	2,430,056	384,445	12,045
<b>Net cash provided by (used in) operating activities</b>	<b>(68,697,382)</b>	<b>1,373,044</b>	<b>43,018</b>
<b>Cash Flows from Investing Activities</b>			
Decrease (increase) in due from the Central Bank and other banks	(5,303,162)	4,580,970	143,528
Increase in bills, discounts and loans	(55,091,570)	(88,661,891)	(2,777,889)
Decrease (increase) in long-term investments, net	(7,762,413)	2,434,809	76,286
Acquisition of property and equipment	(2,918,289)	(2,614,152)	(81,905)
Proceeds from disposal of property and equipment	954,322	2,755,501	86,333
Increase in goodwill	(20,563)	-	-
Decrease in other assets	1,522,167	61,252	1,919
Increase in securities purchased for non-trading purposes	(2,000,000)	-	-
Decrease (increase) in net forward exchange receivable for non-trading purposes	(4,282,578)	342,490	10,731
<b>Net cash used in investing activities</b>	<b>(74,902,086)</b>	<b>(81,101,021)</b>	<b>(2,540,997)</b>
<b>Cash Flows from Financing Activities</b>			
Decrease in short-term debts	2,394,451	4,275,113	133,945
Increase in due to the Central Bank and other banks	4,378,553	15,427,592	483,366
Increase in deposits and remittances	49,629,621	65,438,135	2,050,260
Decrease in funds borrowed from the Central Bank and other banks	(11,118,088)	(8,177,833)	(256,222)
Increase in bank debentures payable	10,111,143	11,117,677	348,331
Increase in long-term liabilities	28,894,820	9,597,708	300,708
Increase in other liabilities	583,294	7,221,244	226,251
Increase in net forward exchange payable for non-trading purposes	1,714,325	-	-
Distribution of cash dividends and bonus	(3,737,175)	(14,312,653)	(448,434)
Purchase of treasury stock	(636,625)	(2,431,355)	(76,177)
Proceeds from sale of treasury stock	16,123	2,741,905	85,907

Expressed in Thousands of Dollars

	Year Ended Dec. 31, 2003 (Restated)	Year Ended Dec. 31, 2004	
	NT\$	NT\$	US\$
<b>Net cash provided by financing activities</b>	82,230,442	90,897,533	2,847,935
<b>Effect of Exchange Rate Changes</b>	286,707	(632,182)	(19,807)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(61,082,319)	10,537,374	330,149
<b>Cash and Cash Equivalents, Beginning of Year</b>	115,233,178	54,150,859	1,696,615
<b>Cash and Cash Equivalents, End of Year</b>	\$54,150,859	\$64,688,233	\$2,026,764
<b>Supplemental Information:</b>			
Interest paid	\$21,964,357	\$21,965,832	\$688,217
Income tax paid	\$2,684,794	\$860,386	\$26,957
<b>Investing and Financing Activities not Affecting Cash Flows:</b>			
Capitalization of retained earnings	\$3,783,314	\$-	\$-
Conversion of corporate bonds	\$-	\$(3,373,570)	\$(105,698)
Reissuance of treasury stock held by subsidiaries to employees	\$-	\$499,199	\$15,641

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

(Please refer to Diwan, Ernst & Young independent auditors' report dated March 10, 2005)

**MEGA FINANCIAL HOLDING CO., LTD.**  
(Formerly CTB FINANCIAL HOLDING CO., LTD.)  
**AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**  
**December 31, 2003 and 2004**

(Expressed in 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. ORGANIZATION AND OPERATIONS**

Mega Financial Holding Co., Ltd. (the "Company") was formed by Chiao Tung Bank Co., Ltd. ("CTB") and Barits International Securities Co., Ltd. ("BIS"; formerly known as International Securities Co., Ltd.) on February 4, 2002 pursuant to the Financial Holding Company Act and other related Company Laws. CTB and BIS were simultaneously acquired by the Company through a share swap. On August 22, 2002, Chung Hsing Bills Finance Corporation ("CHBF") and Barits Securities Co., Ltd ("BS") were acquired by the Company through a second share swap. On December 31, 2002, the Company acquired a 100% equity stake both in The International Commercial Bank of China ("ICBC"), an investee of the Company originally accounted for under the equity method with a 28% equity interest, and Chung Kuo Insurance Co., Ltd. ("CKI") through a further share swap and changed its name from CTB Financial Holding Co., Ltd. to Mega Financial Holding Co., Ltd. The Company's shares have been publicly 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. Background of the Company's subsidiaries is summarized below.

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 development programs. CTB's shares were publicly traded on the Taiwan Stock Exchange since September 1996 and the bank completed its privatization process in September 1999. On February 4, 2002, CTB became a wholly-owned subsidiary of the Company through share swap pursuant to the Financial Holding Company Act and was therefore delisted from the Taiwan Stock Exchange. As an industrial 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. BIS (formerly known as International Securities Co., Ltd.) was incorporated on October 19, 1989, and became a wholly-owned subsidiary of the Company on February 4, 2002 through share swap. On October 31, 2002, BIS' Board of Directors passed a resolution to merge with BS. On November 28, 2002, the merger was formally approved by the Securities and Futures Commission ("SFC") with the effective merger date set on January 31, 2003. BIS is the surviving company after the merger. On January 30, 2003, BIS further acquired all operations and properties of Chung Hsing Securities Corporation. 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. Barits Holding Limited ("BHL"), registered in British Virgin Islands, is 100% owned by BIS with an investment amount of NT\$896,070 thousand. BHL is mainly involved in asset management and venture capital activities.
3. CHBF, established on May 3, 1976, became a wholly-owned subsidiary of the Company through share swap 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, provision of guarantees for short-term notes and bills, arrangement of inter-bank call loans, corporate financial consulting and proprietary trading of government bonds and corporate bonds.
4. International Commercial Bank of China ("ICBC"), formerly known as 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. On December 31, 2002, ICBC became a wholly-owned subsidiary of the Company through share swap and was delisted from the Taiwan Stock Exchange accordingly. ICBC's major activities include foreign exchange and related operations, trade finance and guarantees, trust related business and other commercial banking business related to international trade.

International Commercial Bank of Cathay (Canada) (ICBC Canada), a wholly-owned subsidiary of ICBC, was established in Canada with a capital base of NT\$634,207 thousand (US\$19,871 thousand). ICBC Canada is mainly engaged in accepting deposits, extension of credits, negotiation of import/export bills, collections and foreign exchange related businesses.

5. Initially established by Bank of China (predecessor of ICBC) in November 1931, CKI merged with the Central Trust of China's Non-life Insurance Department in February 1972 and became a direct investee company of the Ministry of Finance (MOF). CKI completed its privatization process on May 5, 1994 and became a wholly-owned subsidiary of the Company through share swap on December 31, 2002. CKI is primarily engaged in general insurance business.

6. The total number of employees for the Company and its subsidiaries amounted to 6,817 and 7,277 on December 31, 2003 and 2004, respectively.

## II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are prepared in conformity with the "Guidelines for Preparation of Financial Reports by Financial Holding Companies", "Guidelines for Preparation of Financial Reports by Public Listed Banks", "Guidelines for Preparation of Financial Reports by Public Listed Bills Finance Companies", "Guidelines for Preparation of Financial Reports by Securities Firms", "Guidelines for Preparation of Financial Reports by Futures Commission Merchants", "Guidelines for Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China on Taiwan. The significant accounting policies adopted are summarized below.

### 1. Foreign currency transactions and translation of foreign branches' financial statements

The accompanying consolidated financial statements are stated in New Taiwan dollars. Translation of New Taiwan dollar amounts into U.S. dollars as of December 31, 2004 are included in the financial statements solely for the convenience of the readers, using the closing rate of Bank of Taiwan on December 31, 2004 of NT\$31.917 to US\$1. These translations should not be construed as a representation that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other exchange rate.

### 2. Basis for preparation of consolidated financial statements

(1) Annual and interim consolidated financial statements are prepared as required by the governing authorities. Apart from the bank, insurance and securities subsidiaries, the Company is required to consolidate accounts of the investee companies of which the Company directly or indirectly holds more than 50% of the common stocks and whose individual total assets or total operating revenues account for more than 10% of the Company's respective unconsolidated amounts. Where the combined total assets or total operating revenues of all the subsidiaries which do not meet the above-mentioned consolidation requirements exceed 30% of the Company's respective unconsolidated amounts, accounts of the subsidiaries with individual total assets or total operating revenues exceeding 3% of the Company's respective unconsolidated amounts should also be included in the consolidated financial statements.

(2) The shares of CTB and BIS held by the Company are accounted for in accordance with the rule stipulated by the Accounting Research and Development Foundation of the Republic of China (ARDF), which is summarized below:

Capital expenditure incurred by the Company to acquire equity interest in a financial institution through share swap is stated at the book value of the respective financial institution's assets less the book value of its liabilities. The par value of the new shares issued is recorded as common stock, and the amount in excess of the par value is recorded as capital surplus.

As ICBC was the Company's affiliate before joining the Company through share swap, its shares held by the Company are accounted for in accordance with the ARDF's rule, which is summarized below:

The Company's equity investment in a financial institution is stated at the book value of the respective financial institution's net assets. When the book value of the financial institution's net assets exceeds the par value of the Company's issued shares, the excess is recorded as capital surplus. Conversely, when the net assets' book value is less than the par value of the Company's issued shares, the difference is accounted for by issuing new shares at discount.

(3) CHBF, BS and CKI were acquired by the Company through share swap. The business combination of the three subsidiaries was accounted for by the pooling-of-interests method in accordance with the rule stipulated in the ARDF's Letter (90) Chi-Mi-Tze No. 079.

(4) The merger of BIS and BS, in which BIS was the surviving entity, was accounted for in accordance with the rule stipulated in the ARDF's Letter (91) Chi-Mi-Tze No.244. Under the rule, the book value of BIS' long-term investments in BS was treated as the cost of the new shares issued for acquisition of BIS.

(5) All significant inter-company transactions and the respective balances have been eliminated from the consolidated financial statements.

(6) Subsidiaries that are included in the 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
International Commercial Bank of China (ICBC)	100.00
Chung Kuo Insurance Co., Ltd.	100.00
Barits Holding Limited (subsidiary of BIS)	100.00
International Commercial Bank of Cathay (Canada) (Subsidiary of ICBC)	100.00

The financial statements of International Commercial Bank of Cathay (Canada) are incorporated in the consolidated financial statements of the Company and its subsidiaries, beginning the fiscal year 2004. As the consolidated entities for 2004 differ from those for 2003, the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2003 have been restated to be comparable with the 2004 consolidated financial statements.

(7) Mega Investment Trust Co., Ltd., Mega Asset Management Co., Ltd., CTB Financial Management & Consulting Co., Ltd., Barits International Futures Co., Ltd., International Securities Investment Consulting Co., Ltd., Barits Global Asset Management Ltd., Cathay Investment & Development Corporation (Bahamas), Barits International Investment Services Corporation, Yung Shing Industries Co. and Cathay Insurance Company, Inc. are the investees of the Company or the Company's subsidiaries in which the Company or the Company's subsidiaries hold more than 50% of the equity stake. As the individual total assets and total operating revenues of these investees account for less than 10% of the Company's respective unconsolidated amounts, and the combined total assets and total operating revenues of these investees account for less than 30% of the Company's respective unconsolidated amounts, accounts of these investees are not required to be consolidated into those of the Company.

### **3. Classification of current and non-current assets and liabilities**

Current assets consist of cash and cash equivalents, short-term investments and other assets which are expected to be converted into cash, sold, or consumed within one year from the balance sheet date. Current liabilities consist of payables, loans and other liabilities which, in the normal course of business, are to be paid back by current assets or other current liabilities within one year from the balance sheet date.

### **4. Cash and cash equivalents**

Cash and cash equivalents include cash, unrestricted bank deposits, and short-term investments in highly liquid instruments, which can be readily converted into cash without significant penalty and of which the values will not be significantly affected by fluctuation in interest rates. The above-mentioned short-term investments include treasury bills, negotiable certificates of deposit, commercial papers and banker's acceptances with maturity of three months or less.

### **5. Securities purchased**

Securities purchased, including certificates of time deposit, commercial papers, bonds, securities held for operations, listed stocks, mutual funds, and bills and bonds purchased under resell agreements, are initially stated at cost and restated at the lower of cost or market value at year-end. That is, the average closing price at year-end is compared with the cost. If the market price at year-end is not available, the most recent market price is used in the comparison. Upon disposal of the securities, costs of the stocks and mutual funds are determined by the weighted-average method whereas costs of the other securities are determined by the specific identification method.

Pursuant to the rules stipulated in the Letter (91) Tai-Tsai-Tseng (2) No.000599 issued by the Securities and Futures Commission (SFC) of MOF, emerging stocks held by securities firms are required to be recorded at cost as "securities held for proprietary trading" and are valued by the cost method. Article 14 of the "Guidelines for Preparation of Financial Reports by Securities Firms" which requires securities held for operations by the securities firms to be valued by the lower of cost or market value method is not applicable.

### **6. Bills and bonds sold or purchased under repurchase or resell agreements**

Bills and bonds sold under repurchase agreements for financing purposes are credited to "bills and bonds sold under repurchase agreements", and the difference between the selling price and repurchase price is charged to interest expense. Bills purchased under resell agreements for financing purposes are debited to "bills and bonds purchased under resell agreements" under "securities purchased", and the difference between the purchase price and resell price is credited to interest income.

### **7. TAIEX Index Options and equity options**

Transactions of TAIEX Index Options and equity options are stated at the premiums on the option contracts. The Company's position in the option contracts is marked to market monthly and the variation in the option position is recorded under "options bought", "liability on options written" and "unrealized gain (loss) on option contracts".

Upon exercise of the options, the difference between the spot price and the strike price is credited or charged to current income. On the balance sheet date, the difference between the closing price of the outstanding option contracts and their cost is also credited or charged to current income.

### **8. Margin deposits for futures trading – own capital**

Margin deposits are guarantee deposits paid for futures and options trading using the Company's own capital. The Company's position in the futures contracts is marked to market daily and the variation in the margin deposits is recorded under "margin deposits for futures trading – own capital" and "unrealized gain (loss) on futures contracts".

Upon settlement of the futures contracts or exercise of the option contracts, the difference between the spot price and the contracted price is credited or charged to current income. On the balance sheet date, the difference between the closing price of the outstanding contracts and the average price is also credited or charged to current income.

## 9. Non-accrual loans

The loans and other credit facilities that are not repaid at maturity are reclassified to non-accrual loans with the amount of accrued interest.

## 10. Allowances for doubtful accounts

- (1) Allowances for doubtful accounts are provided based on the balances of bills, discounts, loans, receivables and non-accrual loans on the balance sheet date and their collectibility.
- (2) Pursuant to the "Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past-Due/Non-Performing Loans and Bad Debts" promulgated by the MOF, the recoverability of the loans extended is assessed based on the financial condition of the borrowers, credit history, the borrowers' ability to pay interest and principal in a timely manner and the appraised values of the collaterals.
- (3) Allowances for doubtful loans are provided according to the regulations stated in (2) above as follows: 1% for the loans that are likely to recover, 50% for the loans that are difficult to recover, and 100% for the uncollectible loans
- (4) Balances of uncollectible accounts are written off upon the approval by the Board of Directors.

## 11. Margin trading of securities

- (1) Margin loans extended to stock investors are recorded as "marginal receivables" and the stocks purchased by the borrowers are held by BIS as collaterals. The collaterals are recorded in the memorandum account and are returned to the borrowers when the loans are repaid.
- (2) Guarantee deposits received from stock investors on short sales are recorded as "margin deposits on short sales". The proceeds from short sales (less the securities transaction tax and service charges) are held by BIS as guarantee deposits which are recorded as "payables on proceeds from short sales". The stocks lent to the customers are recorded in the memorandum account. When the stocks are returned to BIS, the margin deposits and proceeds from the short sales are returned to the customers accordingly.
- (3) Loans borrowed by BIS from other securities lenders when BIS has insufficient fund to conduct margin trading are recorded as "margin loans from other securities lenders". When BIS has insufficient stocks to conduct short selling, the guarantee deposits paid for the stocks borrowed from other securities lenders are recorded as "deposits paid to other securities lenders". The proceeds from short sales are then paid to the securities lenders as additional guarantees and are recorded as "refinancing guarantees receivable".

## 12. Long-term equity investments

- (1) Long-term equity investments are stated at historical cost. The equity method is applied to investee companies of which the Company holds more than 20% of the voting shares or over which the Company can exercise significant influence.
- (2) The cost method is applied where the Company holds less than 20% of the voting shares and cannot exercise significant influence over the investees. When the book value of the investments in listed stocks exceeds the market value, an allowance for losses on the decline in market value is provided and is recorded as a contra account under long-term equity investments, whereas the unrealized loss on decline in market value of these investments is accounted for as a deduction from the stockholders' equity. When the decline in investment value of non-listed stocks is permanent and the probability of a recovery in market value is remote, the book value is written down and an investment loss is recognized accordingly.
- (3) Upon disposal of equity investments, the cost is determined by the weighted-average method.

## 13. Capital expenditure and revenue expenditure

Expenditures incurred on the acquisition of property and equipment are capitalized. Leasehold improvements, expenditures on bond issuance and other deferred charges are amortized and charged to expenses over the prescribed periods. All other expenditures are charged to income as incurred.

## 14. Leases

All leases are treated as operating leases. Leasehold improvements are stated at cost and amortized over the lease period on a reasonable and systematic basis.

## 15. Valuation and depreciation of property and equipment

Except for land, property and equipment are depreciated on a straight-line basis according to their value after revaluation increment. Gains (losses) on disposal of property and equipment are recorded in the period incurred as non-operating income (expenses).

## 16. Rental assets

Properties leased out as operating leases are recorded as "rental assets" at cost. 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.

#### **17. Intangible assets**

Excess of the price paid for acquisition of a company over the book value of its identifiable assets is accounted for as "intangible assets – goodwill" which is amortized on a straight-line basis over five years.

#### **18. Liability on issuance of stock warrants/repurchase of stock warrants issued**

Issuance of stock warrants and its subsequent valuation are accounted for by the fair value method and are recorded as "liability on issuance of stock warrants". For the warrants issued by BIS that use the derivative products issued by BIS as the hedge instruments, if the unrealized gain arising from the increase in the market value of the hedge instruments exceeds the loss arising from the variation in the warrants' value upon valuation on the balance sheet date, the excess amount is deferred. Conversely, if the loss arising from the variation in the warrants' value exceeds the unrealized gain arising from the increase in the market value of the hedge instruments, the excess amount is recognized as current loss. For the warrants that are issued under repurchase agreements, the repurchase amount is recorded under "repurchase of stock warrants issued" which is a contra account of "liability on issuance of stock warrants". At expiration of the warrants, the amount of the unexercised warrants is reversed after being revalued by the fair value method. A gain on the unexercised expired stock warrants is recognized accordingly.

#### **19. Convertible bond asset swaps**

The underlying assets of the convertible bond asset swaps are the convertible bonds underwritten by BIS or those held by BIS for proprietary trading. As the asset swap transactions are off-balance-sheet activities, they are recorded by memorandum entries on the contract date. Premiums paid for the options bought are classified as assets and the balance of the premiums upon exercise of the options are treated as the cost of the convertible bonds acquired. Premiums received on the options written are classified as liabilities, and the options are marked to market on the balance sheet date. The resultant gain (loss) is credited or charged to current income.

#### **20. Exchangeable bank debentures**

The costs incurred by the Company's bank subsidiaries on the issuance of exchangeable bank debentures are recorded as deferred expenses which are amortized over two years. When the holders of the exchangeable bank debentures exercise their exchange rights, the asset and liability accounts related to the exchangeable bank debentures are written off and gains (losses) are recognized accordingly.

#### **21. Structured financial instruments**

The structured financial instruments issued by BIS include equity-linked notes (ELN) and principal-guaranteed notes (PGN).

The equity-linked notes (ELN) issued by BIS comprise fixed income securities and options. The fixed income securities are classified as liabilities whereas the options are classified as assets. The amount received from the counterparty on the contract date is the present value of the contract principal amount discounted by the estimated discount rate less the balance of the option premiums. The interest expense implied in the fixed income securities is amortized by the interest method or the straight-line method during the contract period and is recorded as gain (loss) on ELN. The options are valued by the fair value method on the balance sheet date. Where there is an increase in the fair value of the option, the resultant gain is recognized in the current period. Where there is a decrease in the fair value of the option, recognition of the loss is deferred if the unrealized gain on the individual hedged position exceeds the decrease in the fair value. On the other hand, the loss is charged to the current income if the decrease in the fair value exceeds the unrealized gain on the individual hedged position. When the individual hedged position is disposed of, the loss that is deferred shall be charged to the current income based on the percentage of realization. The fair value of the options equals the market price of the financial instruments with identical terms or the value calculated by the option pricing model.

The principal-guaranteed notes (PGN) issued by BIS comprise fixed income securities and options. They are both classified as liabilities and are listed separately in the financial statements. The present value of the fixed income securities is the product of the contract notional amount and the principal-guaranteed rate (contract notional amount X principal-guaranteed rate), discounted by the estimated interest rate. The interest expense implied in the fixed income securities is amortized by the interest method or the straight-line method during the contract period and is recorded as gain (loss) on PGN. The options are valued by the fair value method. That is, the value of the options equals the contract notional amount less the value of the fixed income securities. Where there is an increase in the fair value of the option, recognition of the loss is deferred when the unrealized gain on the individual hedged position exceeds the increase in the fair value. On the other hand, the loss is charged to the current income when the increase in the fair value exceeds the unrealized gain on the individual hedged position. When the individual hedged position is disposed of, the loss that is deferred shall be charged to the current income based on the percentage of realization. Where there is a decrease in the fair value of the option, the resultant gain is credited to the current income. The fair value of the options equals the market price of the financial instruments with identical terms or the value calculated by the option pricing model.

Acquisition of the fixed income securities is initially stated at cost and restated by the lower of cost or market value method on the



valuation date. These securities are required to be kept by the custodians as specified in the contract. Interest income on these securities is recognized on an accrual basis during the contract period. The discount/premium on acquisition of these securities is amortized on a systematic basis.

## **22. Corporate bonds payable**

- (1) Conversion of euro convertible bonds (ECB) is accounted for by the book value method. That is, the unamortized premium, issuance cost and the face value of the bonds are netted at the date of conversion, and the resulting net amount is reversed accordingly. Where the above net amount exceeds the par value of the issued stock, the excess amount is recorded as capital surplus. Issuance of the ECBs is recorded at the spot exchange rate at the date of issuance. On the balance sheet date, adjustments are made based on the spot exchange rate on that date. The resulting difference is recorded as current gain (loss). Upon conversion of the ECBs, the difference between the spot exchange rate on the conversion date and the contracted exchange rate is recorded as capital surplus, while the difference between the spot exchange rate on the conversion date and that on the most recent balance sheet date is recorded as current gain (loss).
- (2) The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date in accordance with the interest method. If the interest method and straight-line method do not result in material difference, the straight-line method is also acceptable. Premium or discount on convertible corporate bonds with redemption options is required to be amortized over the period from the date of issuance to the expiry date of the redemption right.

## **23. Reserves for liabilities and losses**

Reserves for liabilities and losses are mainly provided for guarantee liabilities and trading losses. Reserve for guarantee liabilities is estimated at 1% of the ending balance of guarantee accounts but the amount of such reserve cannot exceed the total guarantee commissions received for the current year. Pursuant to the Rules Governing the Administration of Securities Firms (RGASF), 10% of the excess of gains on proprietary trading of securities over its losses must be set aside as reserve for trading losses on a monthly basis until the cumulative balance of such reserve reaches NT\$200 million (US\$6.27 million). Such reserve can only be used to offset the excess of securities trading losses over gains. As required by the SFC, securities firms are also required to set aside an amount equal to 0.0028% of the monthly brokerage trading volume as reserve for default losses until the balance of such reserve reaches NT\$200 million (US\$6.27 million). Such reserve can only be used to offset default losses or other losses as approved by the SFC.

## **24. Insurance reserves**

The insurance reserves set aside pursuant to the "Regulations on Setting Reserves for Insurance Industry" (RSRII) promulgated by the Department of Insurance on December 24, 2002 are set forth below.

### **(1) Unearned premium reserve**

Other than certain insurance types on which the unearned premium reserve is set aside based on the rules other than the RSRII, the unearned premium reserve on the others is set aside based on the 1/365 method in accordance with Article 5 of the RSRII and reviewed by the actuaries. The above reserving method was approved by the Department of Insurance in June 2003.

### **(2) Special reserve**

The special reserve is set aside in accordance with the Insurance Law and other related regulations. The provision amount reviewed by the actuaries and the amount of the reserve reversed are charged and credited to current income respectively according to the insurance category.

### **(3) Claim reserve**

The claim reserve is provided in accordance with the Insurance Law and other related regulations. For the retained business, the claim reserve for losses incurred but not reported is set aside on a policy-by-policy basis. The provision amount is debited to "insurance claims" or "reinsurance claims" and credited to "claim reserve". In the following year when the claim reserve is released, adjustment is made to the provision based on the actual amount of the claims, and the released amount is debited to "claim reserve" and credited to "insurance claims" or "reinsurance claims". For losses not incurred and not reported, the claim reserve is set aside based on the retained earned premiums and the prescribed provision rate. The provision amount is debited to "provision for claim reserve" and credited to "claim reserve". In the following year when the claim reserve is released, adjustment is also made to the provision based on the actual amount of the claims, and the released amount is debited to "claim reserve" and credited to "recovered claim reserve."

## **25. Pensions**

Pensions are accounted for in accordance with the Statement of Financial Accounting Standards (SFAS) No.18, "Accounting for Pensions". Minimum accrued pension liability and net pension cost are recognized based on actuarial calculations. Prior service costs and pension gain (loss) are amortized on a straight-line basis over the average remaining service years of the employees.

## **26. Income taxes**

- (1) Inter-period and intra-period income taxes are allocated in accordance with the SFAS No.22, "Accounting 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, loss carryforwards and income tax credits are recognized as deferred income tax assets, and a valuation allowance is provided based on the expected realizability of the deferred income tax assets.
- (2) Income tax credits are accounted for in accordance with the SFAS No.12, "Accounting for Income Tax Credits". Recognition of income tax credits arising from acquisitions of equipment and technology is deferred, whereas those arising from research and development, staff training and equity investments are recognized in the current period. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense for the year when the tax is levied.
- (3) 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 treated as an adjustment to the income tax expense for the year when the income tax is assessed by NTA.
- (4) Pursuant to Article 49 of the Financial Holding Company Act and the relevant provisions of the Income Tax Law, the tax returns of the Company's domestic subsidiaries can be filed jointly with the Company if the Company holds more than 90% of the outstanding shares of these subsidiaries and the holding period exceeds twelve months. Under the joint tax return scheme, only the subsidiaries' returns on corporate income tax and the 10% tax surcharge on surplus retained earnings can be filed jointly with the Company. Other tax matters shall be handled separately by the Company and its domestic subsidiaries.

## **27. Capital surplus**

- (1) Pursuant to the Company Law, capital surplus arising from share issue premium and donations can be capitalized with the stockholders' resolution. However, according to the SFC regulations, capital surplus arising from share issue premium generated by cash injection is allowed to be capitalized only once a year and is subject to a specified limit. In addition, capitalization is prohibited in the year when the cash is injected.
- (2) As per the rule stipulated by SFC, capital surplus arising from share swap between financial institutions can be appropriated as cash dividends and capitalized in the year of the share swap according to Section 4 of Article 47 of the Financial Holding Company Act, if the capital surplus arises from the unappropriated earnings generated prior to share swap. In addition, the capitalization amount is not subject to the limit stipulated in Article 8 of the Securities and Exchange Law.

## **28. Special reserve**

If there are any negative stockholders' equity items recorded by the Company, such as unrealized losses on declines in market value of long-term equity 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 less the amount of special reserve set aside in (1).

According to the regulation stipulated by SFC, 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 shares held by its subsidiaries over their market value, and the reserve cannot be appropriated. If the market value recovers in the future, the special reserve can be reversed by the recovered amount in proportion to the percentage of shareholding.

## **29. Treasury stock**

- (1) Costs incurred on the stock buyback are debited to "treasury stock". The book value of the treasury stock is computed based on the weighted-average book value of the common stock and preferred stock bought back, and is computed separately for different reasons of the buyback. When treasury stock is retired, "treasury stock" is credited, and "capital surplus – share issue premium" and "common stock" are debited according to the ratio of retiring treasury stock to total issued stock. Where the book value of the retiring treasury stock exceeds the sum of its par value and share issue premium, the difference is debited to capital surplus arising from treasury stock of the same kind. If the capital surplus is insufficient to cover the difference, retained earnings are debited for the remaining amount. Where the book value of the retiring treasury stock is less than the sum of its par value and share issue premium, the difference is credited to the capital surplus arising from treasury stock of the same kind. When the securities holders exercise the right of conversion by returning the treasury stock, it should be recorded at the book value of the securities converted, and the book value of the securities converted is considered as the disposal price of the treasury stock.
- (2) Under the SFC's regulation, a financial institution's shares, which are originally bought back in accordance with Section 1 of Article 28-2 of the Securities and Exchange Law and are subsequently transformed into the Company's shares in accordance with Article 31 of the Financial Holding Company Act because the respective financial institution becomes the Company's

subsidiary, are still treated as treasury stock of the respective financial institution and are recorded as a negative item under stockholders' equity. Those shares should also be accounted for as the Company's treasury stock. When a financial institution holds the shares of another financial institution, which is incorporated into a financial holding company through share swap, and the former consequently becomes the stockholder of the respective financial holding company, the original accounting treatment for those shares should be maintained. As per the SFC's regulation, the Company's shares held by its subsidiaries are treated as treasury stock of the Company.

- (3) Shares of the Company held by its subsidiaries are required to be stated in the financial statements as treasury stock of the Company for the accounting periods ending on and after December 31, 2002.

### **30. Foreign currency transactions**

Foreign currency transactions are recorded in the respective functional currencies. Profit and loss items denominated in foreign currencies are converted into New Taiwan dollars at the spot exchange rate prevailing on the transaction date. The foreign currency denominated assets and liabilities arising from transactions other than currency forwards are translated into New Taiwan dollars at month end at the spot exchange rate prevailing on that date. The resultant translation differences are accounted for as follows:

- (1) The translation differences arising from foreign currency denominated long-term equity investments accounted for by the equity method are recorded as cumulative translation adjustments under stockholders' equity.
- (2) The translation differences arising from foreign currency denominated long-term equity investments accounted for by the cost method are recorded as cumulative translation adjustments under stockholders' equity if the initial investment cost exceeds the translated amount. Where the translated amount exceeds the initial investment cost, no adjustments are made.
- (3) The translation differences arising from other foreign currency denominated assets and liabilities are credited or charged to income for the current month.

### **31. Derivative financial instruments**

#### **(1) Currency forwards**

Foreign currency denominated assets and liabilities arising from the currency forward contracts undertaken for purposes other than trading are recorded at the contracted forward rates on the contract starting dates. Upon settlement, gains (losses) on the forward contracts are credited or charged to current income. On the balance sheet dates, gains (losses) on the outstanding forward contracts arising from the differences between the forward rates prevailing over the respective remaining contract periods and the contracted forward rates are credited or charged to current income. Balances of the receivables and payables arising from the forward contracts are netted at year-end, and the net amount is recorded as an asset or liability.

#### **(2) Interest rate swaps**

As no principals are exchanged upon settlement of interest rate swaps, the transactions are recorded in the memorandum account on the contract starting dates. For interest rate swap contracts undertaken for purposes other than trading, 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 hedged items.

#### **(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 rate and forward rate on the contract starting dates and are recorded accordingly.

#### **(4) Cross-currency swaps**

Cross-currency swap contracts used for non-trading purposes are recorded in the memorandum account at the notional principal amounts on the contract starting dates. Difference between the interest received and paid upon each settlement is recorded as an adjustment to income or expense of the hedged items.

#### **(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 memorandum account at the notional principal amounts or the contract amounts on the contract starting dates. Losses on FRAs are assessed at the end of each month and recognized as interest expense. For FRAs used for trading purposes, difference between the interest received and paid is recorded as an adjustment to the interest expense. For FRAs undertaken for hedging purposes, the difference is amortized against deferred interest income (expense) over the contract period. The memorandum account is reversed upon settlement of the contract.

#### **(6) Futures**

Futures are traded according to the regulation set by the Taiwan Futures Exchange. Only the notional principal amount or contract amount is recorded in the memorandum account on the contract starting date. Deposits and brokerage commissions paid are debited to "refundable deposits" and "service charges", respectively. Loss on the futures contracts is assessed at the

end of each month and is recognized as “unrealized loss on derivative financial instruments” and “loss on trading of securities – valuation of futures contracts” for the contracts entered into for trading and hedging purposes, respectively. At expiration of the contracts, the memorandum account is reversed and the commissions paid are charged to “realized gain (loss) on derivative financial instruments” and “gain (loss) on trading of securities held for long term” for the contracts entered into for trading and hedging purposes, respectively.

(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 asset at a specified price on or before the expiration date. The notional principal amount or the contract amount is recorded in the memorandum account on the contract starting date. Premiums paid for options bought are recorded as “premiums for options bought”, whereas those received for options written are recorded as “premiums for options written”. Loss on the option contracts is assessed at the end of each month. For the contracts entered into for trading purposes, the loss is recognized as “unrealized loss on derivative financial instruments”. For those entered into for hedging purposes, the loss is recognized as “foreign exchange loss – valuation of options” for currency options and “loss on trading of securities – valuation of options” for interest rate options. At the beginning of the following month, the journal entries made at the end of the previous month are reversed. At expiration or settlement of the option contracts, the memorandum account is reversed. For the options written for trading purposes, the difference between the premiums received when the options are written and the premiums paid upon settlement of the contracts is recorded as “realized gain on derivative financial instruments” when the premiums received exceed the premiums paid. Conversely, the difference is recorded as “realized loss on derivative financial instruments”. For the option contracts entered into for hedging purposes, the difference is recorded as “realized foreign exchange gain (loss)” for currency options and “gain (loss) on trading of securities held for long term” for interest rate options.

(8) Non-delivery forwards (NDF)

As the principal amounts are not exchanged upon settlement of the NDFs, the notional principal amounts are recorded in the memorandum account. Upon settlement of the contracts or the balance sheet dates, gains (losses) arising from the differences between the contracted forward rates and the spot rates prevailing on the settlement dates are credited or charged to current income.

(9) Financial asset securitization

The corporate loan assets of ICBC have been entrusted to trustees or transferred to special purpose companies (SPC) under the Financial Asset Securitization Act, and special purpose trusts were established for the purpose of the asset securitization. In accordance with the asset securitization plan, beneficial securities were issued by the trustees or SPCs on the basis of the above loan assets to raise funds which were delivered to ICBC. In addition, ICBC’s beneficial interests in the above loan assets were transferred to the purchasers of the beneficial securities and its controlling power in the loan agreements was lost accordingly. Other than the subordinated beneficial securities which were retained by ICBC due to credit enhancement and were reclassified to “investments – beneficial securities”, the remaining loans were eliminated from ICBC’s balance sheet, and gains (losses) were recognized accordingly.

In computing the gains (losses) on the above loans disposed of under the asset securitization plan, the carrying value of these loans is based on the fair values of these loans and retained interests on the transfer date. As no market prices are quoted for these loans and retained interests, which can be used as the fair values, their fair values are estimated to be equal to the present values of their projected future cash flows by taking into account the probabilities of occurrence of losses and early repayments of these loans and other related risks.

The interest income on the subordinated beneficial securities held by ICBC is recognized upon its receipt from the trustees.

### 32. Recognition of interest income, service fees and financial income

(1) Bank subsidiaries

Interest income from loans is recorded on an accrual basis. Interest income from non-accrual loans is not recognized until such loans are collected. Service fees are recognized on an accrual basis.

(2) Securities subsidiaries

Interest income and expenses arising from securities margin trading, bonds sold under repurchase agreements and those purchased under resell agreements, and interest-bearing securities are recorded under the respective accounts in the income statement. Financial income or expenses derived from activities other than those mentioned above are recorded as non-operating income or expenses.

### 33. Collaterals assumed

Collaterals assumed are initially stated at the prices paid for the collaterals and are restated at the lower of cost or net realizable value on the balance sheet date.

### 34. 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 potential losses have been incurred, disclosure of the contingent losses in the notes to the financial statements is required.

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

The premiums income derived from underwriting business is recognized in the year when the respective policies are issued. The associated expenses such as commissions, agency cost and service charges are recognized accordingly. Income and expenses derived from received and ceded reinsurance business are recorded on the date on which the bills are received. The associated expenses and income such as reinsurance commission expenses/income and reinsurance service charges/fee income are also recorded accordingly. In line with the matching principle, the unearned premium reserve, special reserve and claim reserve set aside for received and ceded reinsurance business are incorporated into the respective reserves set aside for underwriting business.

## III. CHANGES IN ACCOUNTING PRINCIPLES

1. Bills and bonds purchased/sold by CHBF under resell/repurchase agreements were previously accounted for as trading activities. In line with the introduction of the "Guidelines for Preparation of Financial Reports by Public Listed Bills Finance Companies", the above transactions are accounted for as financing activities, beginning January 1, 2004. Given the long holding period, enormous quantity and numerous transactions of these bills and bonds, the cumulative effect of the change in the accounting principle cannot be reasonably computed. However, the change in the accounting principle resulted in an increase of NT\$2,635,492 thousand (US\$82,573 thousand) in the Company's 2004 consolidated net income and an increase in earnings per share by NT\$0.27 (US\$0.0085).
2. The financial statements of International Commercial Bank of Cathay (Canada), a subsidiary of ICBC, are incorporated in the consolidated financial statements of the Company and its subsidiaries pursuant to the "Guidelines for Preparation of Financial Reports by Public Listed Banks", beginning the fiscal year 2004. As the consolidated entities for 2004 differ from those for 2003, the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2003 have been restated to be comparable with the 2004 consolidated financial statements. The above change in the consolidated entities has no effect on the Company's 2003 and 2004 consolidated net income.

## IV. DETAILS OF SIGNIFICANT ACCOUNTS

### 1. Cash and cash equivalents

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Cash on hand	\$9,279,336	\$9,631,298		\$301,761
Bank deposits	7,054,383	9,760,414		305,806
Petty cash	24,404	508,813		15,942
Checks for clearance	7,405,996	5,787,781		181,338
Foreign currency on hand	358,793	331,928		10,400
Cash equivalents	7,988	1,015,678		31,822
Due from banks	30,019,959	37,652,321		1,179,695
Total	\$54,150,859	\$64,688,233		\$2,026,764

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

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Banks' overdrafts	\$-	\$794		\$25
Call loans to banks	158,603,676	155,486,282		4,871,582
Due from the Central Bank	59,897,997	57,819,651		1,811,563
Less: Allowance for bad debts	(19,091)	(12,382)		(388)
Total	\$218,482,582	\$213,294,345		\$6,682,782

As of December 31, 2003 and 2004, the deposit reserves placed in the Central Bank amounted to NT\$25,603,564 thousand and NT\$27,734,002 thousand (US\$868,941 thousand), respectively. The deposit reserves are determined monthly based on the average daily balances of the customers' deposits over the month and the prescribed rates. The deposit reserve A and the foreign currency reserve bear no interest and can be withdrawn without restrictions, whereas deposit reserve B is subject to certain withdrawal restrictions.

### 3. Securities purchased

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Certificates of time deposit	\$177,805,895	\$197,020,905	\$197,020,905	\$6,172,914
Marketable securities	120,369,949	121,047,465	121,047,465	3,792,570
Bankers' acceptances	40,841	281,476	281,476	8,819
Commercial papers	18,244,693	95,190,519	95,190,519	2,982,440
Treasury bills	54,967	6,236,459	6,236,459	195,396
Options	-	104,585	104,585	3,277
Government bonds	3,698,008	8,561,137	8,561,137	268,231
Trust funds and trust receipts	1,722,275	1,937,008	1,937,008	60,689
Bank debentures	1,100,000	8,339,673	8,339,673	261,293
Corporate bonds	-	2,323,131	2,323,131	72,787
Securities held for operations	34,425,483	48,849,616	48,849,616	1,530,520
Bills and bonds purchased under resell agreements	6,446,394	8,187,140	8,187,140	256,513
Total	363,908,505	\$498,079,114	\$498,079,114	15,605,449
Less: Allowance for loss on decline in market value	(107,223)	(1,067,263)	(1,067,263)	(33,439)
Securities purchased, net	\$363,801,282	\$497,011,851	\$497,011,851	\$15,572,010

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

### 4. Receivables

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Notes receivable	\$768,084	\$655,017	\$655,017	\$20,522
Accounts receivable	29,544,937	42,381,774	42,381,774	1,327,875
Tax refund receivable	363,307	1,469,737	1,469,737	46,049
Accrued income	547,968	790,170	790,170	24,757
Interest receivable	7,272,501	8,871,737	8,871,737	277,963
Acceptances receivable	9,068,135	9,870,822	9,870,822	309,265
Premiums receivable	304,306	638,468	638,468	20,004
Indemnity refundable on reinsurance ceded	306,401	174,794	174,794	5,477
Receivables from banks	132,147	106,058	106,058	3,323
Marginal receivables	9,100,931	10,526,932	10,526,932	329,822
Deposits paid to other securities lenders	-	288	288	9
Refinancing guarantees receivable	3,224	8,418	8,418	264
Accrued margin deposits for futures	90,783	332,672	332,672	10,423
Forward exchange receivable - foreign currencies	71,015,612	97,343,607	97,343,607	3,049,898
Payables on forward exchange purchased	(61,494,239)	(60,853,057)	(60,853,057)	(1,906,603)
Receivables on reinsurance operations	157,470	131,833	131,833	4,130
Other receivables	4,484,014	5,495,911	5,495,911	172,194
Total	71,665,581	117,945,181	117,945,181	3,695,372
Less: Allowance for bad debts	(1,072,756)	(1,895,402)	(1,895,402)	(59,386)
Receivables, net	\$70,592,825	\$116,049,779	\$116,049,779	\$3,635,986

### 5. Bills, discounts and loans

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Exchange bills and import and export bills negotiated	\$14,591,693	\$15,408,784	\$15,408,784	\$482,777
Bills and notes discounted	282,491	155,411	155,411	4,869
Short-term loans	174,505,543	178,726,235	178,726,235	5,599,719
Short-term secured loans	57,757,134	73,287,743	73,287,743	2,296,198
Overdrafts	868,561	448,538	448,538	14,053
Secured overdrafts	935,578	1,054,475	1,054,475	33,038
Medium-term loans	202,388,110	202,354,995	202,354,995	6,340,038
Medium-term secured loans	159,129,929	170,140,450	170,140,450	5,330,716
Long-term loans	92,021,148	105,035,785	105,035,785	3,290,904
Long-term secured loans	235,842,510	280,436,821	280,436,821	8,786,440
Non-accrual loans	20,643,223	16,485,480	16,485,480	516,511
Total	958,965,920	1,043,534,717	1,043,534,717	32,695,263
Less: Allowance for bad debts - bills, discounts, loans and overdrafts	(5,828,081)	(7,736,958)	(7,736,958)	(242,408)
Less: Allowance for bad debts - non-accrual loans	(5,655,525)	(4,359,639)	(4,359,639)	(136,593)
Bills, discounts and loans, net	\$947,482,314	\$1,031,438,120	\$1,031,438,120	\$32,316,262



## 6. Long-term equity investments

Investee Company	December 31, 2003 (Restated)		December 31, 2004		
	NT\$	Percentage of Shareholding	NT\$	US\$	Percentage of Shareholding
<b>Equity method:</b>					
Mega International Securities Investment Trust Corporation	\$423,676	93.90%	\$466,454	\$14,615	93.95%
Mega Asset Management Co., Ltd.	1,998,532	100.00%	2,086,886	65,385	100.00%
CTB Financial Management & Consulting Co., Ltd.	34,752	100.00%	39,675	1,243	100.00%
Barits International Futures Co., Ltd.	418,658	100.00%	431,072	13,506	100.00%
Barits Global Asset Management Ltd.	29,609	100.00%	-	-	-
Cathay Investment & Development Corporation (Bahamas)	950,093	100.00%	907,987	28,448	100.00%
Barits International Investment Services Corporation	331,168	99.98%	331,329	10,381	100.00%
Yung Shing Industries Co.	540,190	95.22%	447,995	14,036	95.22%
Cathay Insurance Company, Inc.	12,906	56.09%	8,439	264	56.09%
CTB I Venture Capital Co., Ltd.	399,274	40.00%	396,475	12,422	40.00%
Euroc II Venture Capital Corporation	193,552	25.00%	203,741	6,384	25.00%
Grand Cathay Venture Capital Co., Ltd.	533,396	25.00%	572,309	17,931	25.00%
Grand Cathy II Venture Capital Corp.	176,825	25.00%	185,547	5,813	25.00%
International Trade Building Corp.	337,328	25.00%	-	-	-
Taiwan Finance Holding Corporation	1,207,832	24.55%	1,352,499	42,376	24.55%
Quartz Frequency Technology Ltd.	2,077	23.02%	744	23	23.02%
Everstrong Iron & Foundry & Mfg. Corporation	20,305	22.22%	21,320	668	22.22%
United Investments Corporation	170,024	22.60%	175,285	5,492	22.60%
China Real Estate Management Co., Ltd.	105,524	20.00%	80,458	2,521	20.00%
Others	191,253	-	138,164	4,329	-
Subtotal	8,076,974		7,846,379	245,837	
<b>Cost method:</b>					
Listed companies	4,729,942		5,186,579	162,502	
Less: Allowance for loss on decline in market value	(7,781)		(515,676)	(16,157)	
Listed companies, net	4,722,161		4,670,903	146,345	
Non-listed companies, net	24,174,321		25,591,067	801,801	
Subtotal	28,896,482		30,261,970	948,146	
Total	\$36,973,456		\$38,108,349	\$1,193,983	

- (1) For the above investees in which the Company holds more than 50% of equity interest, neither the total assets and operating revenues of each individual investee exceed 10% of the Company's respective unconsolidated amounts nor the combined total assets or operating revenues of all these investees exceed 30% of the Company's respective unconsolidated amounts. Therefore, accounts of these investees are not included in the consolidated financial statements.
- (2) Barits International Futures Co., Ltd was formerly known as International Futures Co., Ltd.
- (3) Barits Global Asset Management Ltd. was formerly known as ISI Securities (Global) Holdings Ltd.
- (4) Mega Investment Trust Co., Ltd. was formerly known as Central Securities Investment Trust Co., Ltd.
- (5) Please refer to Note VI for details of the above investments pledged as collaterals.

## 7. Other long-term investments

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
Long-term investments in bonds	\$20,224,495	\$109,539,016	\$3,431,996	
Long-term investments in trusts	231,951	-	-	
Real estate investments	1,845,845	171,284	5,367	
Long-term receivables	1,094,715	58,054	1,819	
Total	\$23,397,006	\$109,768,354	\$3,439,182	

- (1) Long-term investments in bonds

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
European bank debentures	\$1,341,765	\$1,095,388	\$34,320	
US government bonds	4,631,301	3,309,008	103,675	
Singapore government bonds	426,305	430,600	13,491	
Domestic government bonds	8,615,399	97,937,641	3,068,510	
Thailand bonds	865,023	1,011,728	31,699	
Bank debentures	-	1,569,469	49,174	
Beneficial securities	10,562	1,105,586	34,639	
Corporate bonds	2,419,819	-	-	
Others	1,914,321	3,079,596	96,488	
Total	\$20,224,495	\$109,539,016	\$3,431,996	

## (2) Long-term investments in trusts

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
ED & F Man Fund Corp. (AHL P Ltd., principal protection fund)	\$163,955	\$-	\$-	
ED & F Man Fund Corp. (MIN-IP 360 Ltd., principal protection fund)	67,996	-	-	
Total	\$231,951	\$-	\$-	

## (3) Real estate investments

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
Costs				
Land	\$1,155,518	\$47,765	\$1,497	
Buildings and equipment	724,651	188,315	5,900	
Revaluation increment	344	487	15	
Construction in progress	31,389	-	-	
Subtotal	1,911,902	236,567	7,412	
Less: Accumulated depreciation	(66,057)	(65,283)	(2,045)	
Real estate investments, net	\$1,845,845	\$171,284	\$5,367	

(a) Investments in buildings and equipment were revalued on June 30, 1975.

(b) Please refer to Note IV-8, property and equipment, for details of the insurance coverage for real estate investments.

(c) None of the above real estate investments has been pledged as collaterals.

(d) As of December 31, 2004, rents receivable for the next two years were as follows:

Period	Amount	
	NT\$	US\$
Year ended December 31, 2005	\$23,529	\$737
Year ended December 31, 2006	18,510	580
Total	\$42,039	\$1,317

## (4) Long-term receivables

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
Chung Hsing Securities Corporation	\$1,094,715	\$58,054	\$1,819	

BIS acquired all the operations and properties of Chung Hsing Securities Corporation (CHS) for a consideration of NT\$4,222,296 thousand on January 30, 2003. As of December 31, 2004, CHS was still under the process of liquidation. The investment amount receivable from CHS in proportion to the Company's percentage of shareholding is listed under "long-term receivables".

## 8. Property and equipment

(In Thousands of NT Dollars)

	December 31, 2003 (Restated)			
	Cost	Revaluation Increment	Accumulated Depreciation	Balance
Land	\$10,341,240	\$2,103,900	\$-	\$12,445,140
Land improvements	2,849	418	3,196	71
Buildings and structures	12,250,344	47,588	3,497,356	8,800,576
Machinery	1,746,295	-	900,308	845,987
Computers	2,101,014	-	1,550,882	550,132
Transportation equipment	315,785	-	210,304	105,481
Miscellaneous equipment	1,229,899	-	916,956	312,943
Leasehold improvements	300,519	-	185,745	114,774
Subtotal	28,287,945	2,151,906	7,264,747	23,175,104
Prepayments for equipment	18,133	-	-	18,133
Machinery on order	88,784	-	-	88,784
Total	\$28,394,862	\$2,151,906	\$7,264,747	\$23,282,021



(In Thousands of NT Dollars)

	December 31, 2004			
	Cost	Revaluation Increment	Accumulated Depreciation	Balance
Land	\$11,142,270	\$2,015,141	\$-	\$13,157,411
Land improvements	2,849	418	3,224	43
Buildings and structures	12,466,820	47,445	3,771,997	8,742,268
Machinery	1,755,480	-	874,876	880,604
Computers	2,214,042	-	1,654,828	559,214
Transportation equipment	301,582	-	200,201	101,381
Miscellaneous equipment	1,266,911	-	962,226	304,685
Leasehold improvements	331,316	-	180,891	150,425
Subtotal	29,481,270	2,063,004	7,648,243	23,896,031
Prepayments for equipment	29,693	-	-	29,693
Machinery on order	81,991	-	-	81,991
Total	\$29,592,954	\$2,063,004	\$7,648,243	\$24,007,715

(In Thousands of US Dollars)

	December 31, 2004			
	Cost	Revaluation Increment	Accumulated Depreciation	Balance
Land	\$349,102	\$63,136	\$-	\$412,238
Land improvements	89	13	101	1
Buildings and structures	390,601	1,487	118,181	273,907
Machinery	55,001	-	27,411	27,590
Computers	69,369	-	51,848	17,521
Transportation equipment	9,449	-	6,272	3,177
Miscellaneous equipment	39,694	-	30,148	9,546
Leasehold improvements	10,381	-	5,668	4,713
Subtotal	923,686	64,636	239,629	748,693
Prepayments for equipment	930	-	-	930
Machinery on order	2,569	-	-	2,569
Total	\$927,185	\$64,636	\$239,629	\$752,192

- (1) As required by the government regulations, the land and other property and equipment of the Company's subsidiaries were revalued in 1975, 1991 and 1995. As of December 31, 2003 and 2004, the revaluation increments for land and other property and equipment amounted to NT\$2,151,906 thousand and NT\$2,063,004 thousand (US\$64,637 thousand), respectively, and were recorded under property and equipment. Reserve for land revaluation increment tax amounted to NT\$1,105,138 thousand and NT\$1,062,479 thousand (US\$33,289 thousand) as of December 31, 2003 and 2004, respectively, and was recorded under "other liabilities".
- (2) As of December 31, 2003 and 2004, the insurance coverage for the property and equipment and real estate investments was NT\$12,371,611 thousand and NT\$13,603,541 thousand (US\$426,216 thousand), respectively.
- (3) Please refer to Note VI for details of the property and equipment pledged as collaterals.

## 9. Short-term debts

	December 31, 2003 (Restated)	December 31, 2004	
	NT\$	NT\$	US\$
Bank overdrafts	\$-	\$918,000	\$28,762
Short-term loans	8,427,792	5,723,395	179,321
Commercial paper payable, net	8,849,529	16,448,876	515,364
Liability on issuance of stock warrants, net	305,368	65,962	2,067
Liability on options written	-	242,958	7,612
Total	\$17,582,689	\$23,399,191	\$733,126

- (1) As at December 31, 2003 and 2004, the interest rates ranged from 1.2% to 2.67% and 1.18% to 3.9% for short-term loans, and 0.67% to 1.05% and 0.73% to 1.288% for commercial paper payable, respectively.
- (2) Please refer to Note VI for details of the assets pledged by the Company and its subsidiaries for loans.

#### 10. Bills and bonds sold under repurchase agreements

	December 31, 2003 (Restated)	December 31, 2004	
	NT\$	NT\$	US\$
Treasury bills	\$-	\$6,248,148	\$195,762
Government bonds	24,836,115	123,353,756	3,864,829
Bank debentures	-	7,610,046	238,432
Corporate bonds	9,309,474	13,645,512	427,531
Commercial paper	-	83,296,433	2,609,783
Negotiable certificates of deposits	-	13,035,976	408,434
Others	627,295	3,446,838	107,994
<b>Total</b>	<b>\$34,772,884</b>	<b>\$250,636,709</b>	<b>\$7,852,765</b>

#### 11. Due to the Central Bank and other banks

	December 31, 2003 (Restated)	December 31, 2004	
	NT\$	NT\$	US\$
Due to the Central Bank	\$157,822,997	\$154,398,803	\$4,837,510
Due to other banks	14,989,019	17,708,417	554,827
Overdrafts on banks	4,994,457	3,236,764	101,412
Call loans from banks	51,998,436	68,753,765	2,154,142
<b>Total</b>	<b>\$229,804,909</b>	<b>\$244,097,749</b>	<b>\$7,647,891</b>

#### 12. Payables

	December 31, 2003 (Restated)	December 31, 2004	
	NT\$	NT\$	US\$
Notes payable	\$753	\$2,018,001	\$63,226
Accounts payable	14,373,849	15,993,061	501,083
Collections for others	1,355,543	1,014,787	31,795
Accrued expenses	3,564,953	3,510,106	109,976
Taxes payable	1,819,632	2,880,859	90,261
Interest payable	3,864,207	4,431,959	138,859
Acceptances	9,279,255	10,366,173	324,785
Commissions payable	68,976	66,151	2,073
Dividends payable	6,092,831	7,547,486	236,472
Insurance claims payable	196,544	49,563	1,553
Due from other insurers	132,387	268,355	8,408
Margin loans from other securities lenders	13,402	5,538	174
Margin deposits on short sales	562,916	995,119	31,178
Payables on proceeds from short sales	664,177	1,151,998	36,094
Forward exchange payable	-	462,450	14,489
Forward exchange payable - foreign currencies	65,396,939	92,033,752	2,883,534
Receivables on forward exchange sold	(56,012,740)	(55,139,440)	(1,727,589)
Other payables	9,162,052	13,429,957	420,778
Payables on reinsurance operations	320,502	273,019	8,554
Accounts under custody	102,637	343,379	10,758
<b>Total</b>	<b>\$60,958,815</b>	<b>\$101,702,273</b>	<b>\$3,186,461</b>

#### 13. Deposits and remittances

	December 31, 2003 (Restated)	December 31, 2004	
	NT\$	NT\$	US\$
Checking account deposits	\$27,096,622	\$40,247,665	\$1,261,010
Demand deposits	197,583,353	203,878,519	6,387,772
Time deposits	434,883,233	428,900,385	13,437,992
Savings deposits	303,875,604	353,844,092	11,086,383
Remittances	4,925,640	6,644,555	208,183
<b>Total</b>	<b>\$968,364,452</b>	<b>\$1,033,515,216</b>	<b>\$32,381,340</b>

#### 14. Funds borrowed from the Central Bank and other banks

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Funds borrowed from the Central Bank	\$95,253,779	\$91,631,972		\$2,870,946
Funds borrowed from other banks	49,221,942	44,665,916		1,399,440
Total	\$144,475,721	\$136,297,888		\$4,270,386

#### 15. Bank debentures payable

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Bank debentures	\$74,300,344	\$85,438,020		\$2,676,881
Less: Discounts	-	-		-
Bank debentures payable, net	\$74,300,344	\$85,438,020		\$2,676,881

- (1) In January 2004, ICBC obtained the approval from the MOF to issue a series of bank debentures totaling NT\$20 billion (US\$627 million). Five batches of general bank debentures totaling NT\$3,900 million (US\$122 million) were issued in 2004 with the issuing periods ranging from 5 to 7 years, the interest payable semi-annually, and the principal to be repaid in lump sum at maturity. In addition, the coupon rates for the first six months from the issue date ranged from 2.254% to 3.8% per annum, and the subsequent coupon rates are adjusted based on the formula specified in the contract. The sixth and seventh batches were issued as subordinated bank debentures, totaling NT\$7,200 million (US\$226 million), for a period of five years and seven months, and five years and six months, respectively, with the principal to be repaid in lump sum at maturity. The interest on the sixth and seventh batches is fixed at 2.7% and 2.85% per annum, respectively, and is payable annually.
- (2) On December 10, 2001, ICBC issued five-year subordinated bank debentures totaling NT\$6.7 billion with the principal to be repaid at maturity. Interest on the subordinated bank debentures is fixed at 2.99% per annum, payable annually.
- (3) On May 27, 2003, ICBC issued zero coupon exchangeable notes of US\$218,373 thousand exchangeable for 144,760 common shares of Cathay Financial Holding Co., Ltd. (Cathay). These notes were 100% issued at their face value of US\$1,000 per note for a period of 5 years. The yield rate at redemption and maturity is compounded at 1% per annum. These notes are exchangeable, at the option of the note holders, at any time on or after June 26, 2003 and on or prior to April 28, 2008 for common shares of Cathay at an exchange price stipulated in the offering memorandum. Unless previously redeemed, repurchased, cancelled or exchanged, these notes will be redeemed at maturity at a price based on the yield rate at maturity.

#### 16. Corporate bonds payable

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Domestic unsecured corporate bonds	\$20,000,000	\$25,000,000		\$783,282
Euro convertible bonds (ECB)	23,444,820	25,107,476		786,649
Corporate bonds payable, net	\$43,444,820	\$50,107,476		\$1,569,931

- (1) The Company issued its first domestic unsecured corporate bonds in December 2002 with a total amount of NT\$15 billion and the principal to be repaid at maturity. Please refer to Appendix 2 for details of the terms on the corporate bonds.
- (2) In June 2003, CHBF issued its first unsecured corporate bonds totaling NT\$5 billion with the principal to be repaid at maturity. Details are as follows:

Bonds	Trustee	Issue Period	Interest Rate	Principal Amount	December 31, 2003	December 31, 2004	Method of Interest Payment	Method of Principal Repayment
First unsecured corporate bonds	Bank SinoPac	Jun 17, 2003 ~ Jun 30, 2008	1.48%	NT\$5,000,000	NT\$5,000,000	NT\$5,000,000 US\$156,656	Simple interest payable semi-annually	Principal to be repaid in lump sum at maturity

- (3) In April and May 2004, BIS issued its first domestic unsecured corporate bonds for the 2004 fiscal year with a total amount of NT\$5 billion (US\$156,656 thousand) for a period of 3 years with the principal to be repaid at maturity. Please refer to Appendix 3 for details of the terms on the corporate bonds.
- (4) In September 2003 and February 2004, the Company issued ECBs of US\$690,000 thousand and US\$200,000 thousand, respectively, exchangeable for the treasury stock of the Company that was transformed from the common shares of ICBC. Please refer to Appendices 4 and 5 for details of the terms on the issuance and conversion of the ECBs.

## 17. Pensions

(1) Reconciliation of the funded status of the plan to the carrying amount of accrued pension liability is as follow:

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Benefit obligations				
Vested benefit obligation (VBO)	\$(2,312,349)	\$(2,975,722)		\$(93,233)
Non-vested benefit obligation	(3,503,959)	(3,434,815)		(107,617)
Accumulated benefit obligation (ABO)	(5,816,308)	(6,410,537)		(200,850)
Effects of future salary increments	(1,552,498)	(1,703,457)		(53,372)
Projected benefit obligation (PBO)	(7,368,806)	(8,113,994)		(254,222)
Fair value of plan assets	5,927,233	6,385,466		200,065
Fund status	(1,441,573)	(1,728,528)		(54,157)
Unrecognized net transition obligation	326,067	299,071		9,370
Unrecognized prior service costs	69,283	64,078		2,008
Unrecognized loss (gain) on plan assets	(531,957)	(221,914)		(6,953)
Additional accrued pension liability	(61,899)	(58,544)		(1,834)
Accrued pension liability	\$(1,640,079)	\$(1,645,837)		\$(51,566)

(2) Pension costs consist of the following:

	Year Ended December 31, 2003 (Restated)		Year Ended December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Service cost	\$540,452	\$564,614		\$17,690
Interest cost	246,308	217,539		6,816
Projected return on plan assets	(97,138)	(86,354)		(2,706)
Net amortization and deferral	(122,610)	(67,818)		(2,125)
Net pension costs	\$567,012	\$627,981		\$19,675

(3) Actuarial assumptions

	December 31, 2003 (Restated)	December 31, 2004
Discount rate	3.00%-3.50%	3.00%-3.50%
Increase in future salary level	2.00%-3.00%	1.75%-2.75%
Projected long-term rate of return on plan assets	2.50%-3.50%	3.00%-3.50%

## 18. Capital stock

The amount of the Company's paid-in capital as at its inception date, February 4, 2002, was NT\$29,156,078 thousand. A resolution was passed in the year 2002 stockholders' meeting to increase capital through capitalization of capital surplus by NT\$2,915,608 thousand and to incorporate CHBF, BS, ICBC and CKI under the Company's umbrella through share swap by issuing new shares of NT\$78,416,716 thousand. A further capital increase was resolved in the year 2003 stockholders' meeting by capitalizing retained earnings of NT\$3,783,314 thousand. In December 2003, the Company's treasury stock of NT\$300 million held by CTB was retired. In addition, to maintain the Company's creditability and the stockholders' rights, the Company retired NT\$314,420 thousand (US\$9,851 thousand) of treasury stock in March 2004. As of December 31, 2003 and 2004, the Company's authorized capital was NT\$120 billion (US\$3.76 billion) with the paid-in capital amounting to NT\$113,971,176 thousand and NT\$113,657,296 thousand (US\$3,561,027 thousand), respectively, which was divided into 11,397,171 thousand and 11,365,729 thousand shares of common stock, respectively, with a par value of NT\$10 per share.

## 19. Appropriation of earnings and dividend policy

(1) Dividends are distributed not only in accordance with the Company's Articles of Incorporation which regulate the appropriation of retained earnings but also the business development needs of the Company. This principle is applied for the stability of the Company's operations and business financing requirements. 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 can be retained according to the Company's financing requirements. Any remaining income will be distributed in the following order based on the resolution of the stockholders.

(a) Dividends

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

(b) Remuneration to directors and supervisors

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

(c) Bonus to employees

Bonus to employees ranges from 0.02% to 0.16% of the total distributed amount and can be distributed in the form of cash or stocks based on the stockholders' resolution. Employees of the affiliated companies may be entitled to the Company's stock bonus at the Board's discretion.

(2) Appropriation of the 2002 earnings was resolved by the Board and the stockholders on April 21, 2003 and June 6, 2003, respectively. Appropriation of the 2003 earnings was resolved by the Board and the stockholders on April 20, 2004 and June 11, 2004, respectively. Details of the earnings appropriation are set forth below.

	Appropriated Amount			Dividend per Share (in dollars)		
	2002		2003	2002		2003
	NT\$	NT\$	US\$	NT\$	NT\$	US\$
Cash dividends	\$1,040,411	\$15,000,338	\$469,980	\$0.11	\$1.5356	\$0.04811
Stock dividends	3,783,314	-	-	0.40	-	-
Remuneration to directors and supervisors	48,400	151,763	4,755			
Cash bonus to employees	7,807	24,282	761			

(3) The capital surplus arising from the subsidiaries' surplus retained earnings generated prior to the share swap is allowed to be appropriated as cash dividends or capitalized in the year of the share swap. Appropriation of the capital surplus as proposed by the Board on April 21, 2003 and resolved by the stockholders on June 6, 2003 is as follows:

	Appropriated Amount	Dividend per Share (in dollars)
Cash dividends	NT\$2,742,903	NT\$0.29

(4) As calculated by the following formula, the after-tax basic earnings per share for 2003 decreased from NT\$1.84 to NT\$1.82 after distributing NT\$24,282 thousand and NT\$151,763 thousand as employees' bonus and remuneration of directors and supervisors, respectively, from the 2003 earnings.

After-tax net income for 2003 – Cash bonus to employees – Stock dividends to employees – Remuneration to directors and supervisors

Weighted-average number of shares outstanding during 2003

$$= (18,099,076 - 24,282 - 151,763) / 9,827,475 = 1.82$$

(5) Information relating to the appropriation of the Company's 2004 earnings is available from the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

## 20. Treasury stock

Reasons for stock buyback (in thousand shares)	Balance, Jan 1, 2003 (Restated)	Increase (Decrease)	Balance, Dec 31, 2003 (Restated)	Increase (Decrease)	Balance, Dec 31, 2004
<u>Shares of the Company held by itself</u>					
Shares bought back to be reissued to employees	132,010	-	132,010	(21,987)	110,023
Shares bought back for maintaining the Company's creditability and stockholders' rights	-	31,442	31,442	(31,442)	-
Shares of ICBC originally held by the Company and treated as treasury stock due to swap of 100% shares	1,398,545	-	1,398,545	(177,213)	1,221,332
<u>Shares of the Company held by its subsidiaries</u>					
Shares of the Company held by CTB	60,000	(30,000)	30,000	(30,000)	-
Shares of the Company held by CKI	4,885	195	5,080	-	5,080
<b>Total</b>	<b>1,595,440</b>	<b>1,637</b>	<b>1,597,077</b>	<b>(260,642)</b>	<b>1,336,435</b>

Reasons for stock buyback (in thousand dollars)	Balance, Jan 1, 2003 (Restated)		Increase (Decrease)		Balance, Dec 31, 2003 (Restated)		Increase (Decrease)		Balance, Dec 31, 2004	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
<u>Shares of the Company held by itself</u>										
Shares bought back to be reissued to employees	\$2,364,701	\$74,089	\$-	\$-	\$2,364,701	\$74,089	\$66,655	\$2,088	\$2,431,356	\$76,178
Shares bought back for maintaining the Company's creditability and stockholders' rights	-	-	619,435	19,408	619,435	19,408	(619,435)	(19,408)	-	-
Shares of ICBC originally held by the Company and treated as treasury stock due to swap of 100% shares	25,999,995	814,613	-	-	25,999,995	814,613	(3,294,514)	(103,221)	22,705,481	711,391
<u>Shares of the Company held by its subsidiaries</u>										
Shares of the Company held by CTB	1,283,552	40,215	(741,629)	(23,236)	541,923	16,979	(541,923)	(16,979)	-	-
Shares of the Company held by CKI	92,212	2,889	-	-	92,212	2,889	-	-	92,212	2,889
<b>Total</b>	<b>\$29,740,460</b>	<b>\$931,806</b>	<b>\$(122,194)</b>	<b>\$(3,828)</b>	<b>\$29,618,266</b>	<b>\$927,978</b>	<b>\$(4,389,217)</b>	<b>\$(137,520)</b>	<b>\$25,229,049</b>	<b>\$790,458</b>

- (1) For the purpose of reissuing the Company's shares to its employees, the Company bought back a total of 132,010 thousand shares of its issued stock in July, November and December 2002 and 110,023 thousand shares of its issued stock in April and May 2004 in accordance with Section 1 of Article 28-2 of the Securities and Exchange Law. The above treasury stock is required to be reissued to the Company's employees within three years from the date on which the treasury stock was purchased. The shares which are not reissued to the employees before the end of the three-year period are treated as the unissued shares of the Company and should be retired accordingly. The 132,010 thousand shares bought back in 2002 were all reissued to the Company's employees in September 2004. As of December 31, 2004, the treasury stock held by the Company amounted to NT\$2,431,356 thousand (US\$76,177 thousand), representing 110,023 thousand shares.
- (2) To maintain its creditability and stockholders' rights, the Company bought back its issued shares in accordance with Section 1 of Article 28-2 of the Securities and Exchange Law during the period from October 4, 2003 to December 3, 2003 for a price ranging from NT\$16 to NT\$20 per share. As of December 31, 2003, shares bought back by the Company amounted to NT\$619,435 thousand, representing 31,442 thousand shares. Under Section 4 of Article 28-2 of the Securities and Exchange Law, the above treasury stock is required to be retired within six months from the date on which the shares are bought back. The above-mentioned shares were all retired on March 22, 2004.
- (3) 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 plus share issue premium and realized capital surplus. The ceiling on the shares allowed to be bought back by the Company as of December 31, 2004 was 1,136,573 thousand shares or NT\$77,560,299 thousand (US\$2,430,062 thousand). As of December 31, 2004, the Company's treasury stock amounted to 110,023 thousand shares or NT\$2,431,356 thousand (US\$76,177 thousand).
- (4) 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 swap of 100% shares, the 1,043,734 thousand shares acquired on November 7, 2002 were transformed into the Company's treasury stock which represented 1,398,544 thousand shares of the Company's stock. The original acquisition cost of the above treasury stock was NT\$25,999,995 thousand with a book value of NT\$18.59 (US\$0.58) and market value of NT\$21.28 (US\$0.67) per share as at December 31, 2004. The euro convertible bonds (ECB) issued by the Company in September 2003 and February 2004 are exchangeable for the above treasury stock. Please refer to Note IV-7 for details. As of December 31, 2004, the number of shares converted from the ECBs amounted to 177,213 thousand with 1,221,332 thousand shares remained unconverted.
- (5) In October 2000 and October 2001, CTB respectively bought back 30 million shares of treasury stock in compliance with Section 1 of Article 28-2 of the Securities and Exchange Law, and is obliged to reissue these shares to its employees no later than October 2003 and October 2004, respectively. As CTB became a wholly-owned subsidiary of the Company on February 4, 2002 through share swap, the above treasury stock was transformed into the Company's shares which are also treated as treasury stock of the Company.
- As CTB did not reissue the 30 million shares bought back in 2000 to its employees within three years, those shares were treated as CTB's unissued shares and were required to be retired under Section 4 of Article 28-2 of the Securities and Exchange Law. Therefore, CTB decreased its capital stock by NT\$300 million by retiring the aforementioned 30 million shares on December 18, 2003. As resolved by CTB's Board of Directors on February 17, 2004, the remaining 30 million shares bought back in 2001 were all reissued to its employees as of December 31, 2004.
- (6) CKI previously acquired shares of CTB as short-term investments. As CTB joined the Company as a wholly-owned subsidiary through share swap, these CTB's shares were transformed into the Company's shares. In addition, CKI was incorporated into the Company through share swap on December 31, 2002. Accordingly, these CTB's shares held by CKI are treated as treasury stock of the Company, which is required to be disposed of before November 2005. The aforementioned treasury stock is entitled to appropriation of the Company's earnings. The stock dividends and cash dividends distributed to CKI by the Company in 2003 based on the number of the treasury stock held by CKI were 195 thousand shares and NT\$1,954 thousand, respectively, and the cash dividends distributed to CKI in 2004 were NT\$7,801 thousand (US\$244 thousand). As of December 31, 2004, the number of the treasury stock held by CKI amounted to 5,080 thousand shares with an acquisition cost of NT\$92,212 thousand (US\$2,889 thousand) and a book value and market value of NT\$18.15 (US\$0.57) and NT\$21.28 (US\$0.67) per share, respectively.
- (7) Treasury stock of the Company is prohibited from being pledged as collateral and is not entitled to dividends and voting rights.
- (8) The number of the Company's shares held by its subsidiaries was totaled at 5,080 thousand as of December 31, 2004. Under the Financial Holding Company Act, when a financial institution is incorporated into a financial holding company and consequently holds the shares of the respective financial holding company because of share swap, the financial institution can reissue all these shares to the employees of the financial holding company or its subsidiaries within three years after joining the financial holding company. Alternatively, these shares can be used for share swap, traded on the Stock Exchange or sold through securities brokers. The shares, which are not reissued to the employees or sold before the end of the three-year period, are treated as the unissued shares of the financial holding company and should be retired accordingly.



## 21. Expenses relating to employment, depreciation and amortization

Expenses relating to employment, depreciation and amortization summarized by function for the years ended December 31, 2003 and 2004 are as follows:

	Year Ended December 31, 2003 (Restated)			Year Ended December 31, 2004			
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total	
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
Employment	\$-	\$9,991,236	\$9,991,236	\$-	\$10,467,542	\$10,467,542	\$327,961
Salaries and wages	-	8,567,012	8,567,012	-	8,953,084	8,953,084	280,511
Labor and health insurance	-	492,798	492,798	-	530,767	530,767	16,630
Pension	-	585,017	585,017	-	636,857	636,857	19,954
Others	-	346,409	346,409	-	346,834	346,834	10,867
Depreciation	-	984,758	984,758	-	1,014,403	1,014,403	31,783
Amortization	-	400,633	400,633	-	501,205	501,205	15,703

## 22. Income taxes

The income taxes of the Company and its subsidiaries are computed in accordance with the SFAS No.22, "Accounting for Income Taxes" on an individual basis. However, their annual returns on corporate income tax and the 10% tax surcharge on surplus retained earnings are filed jointly under Article 49 of the Financial Holding Company Act and the relevant provisions of the Income Tax Law. The receipts (disbursements) arising from the joint tax return scheme are recorded as "other receivables (payables)", and adjustments are made on a reasonable, systematic, and consistent basis to the current year's deferred income tax assets (liabilities) or income tax refund receivable (income tax payable) based on the above amount of receipts (disbursements). The amount recorded under "other receivables (payables)" is eliminated from the consolidated financial statements.

(1) The income taxes comprise the following:

Item	Year Ended December 31, 2003 (Restated)		Year Ended December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Income tax payable – current period	\$1,474,839		\$1,295,755	\$40,598
10% tax on unappropriated retained earnings	367,114		385,368	12,074
Separate tax expenses	293,885		134,089	4,201
Income tax expense incurred by foreign branches	567,113		1,021,366	32,001
Deferred income tax benefit	(429,946)		(59,067)	(1,851)
Adjustments of prior years' income tax	172,279		(453,213)	(14,200)
Withholding taxes on interest income	37,881		3,606	113
from bonds pertaining to former purchasers				
Effect of joint filing of income tax returns	-		(532,498)	(16,684)
Total	\$2,483,165		\$1,795,406	\$56,252

(2) Imputation tax credit

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Account balance of imputation tax credit	\$74,819		\$34,744	\$1,089

	Year Ended December 31, 2003 (Restated)	Year Ended December 31, 2004
Estimated (actual) tax credit rate for individual stockholders	1.32% (actual)	0.14% (estimated)

The tax credit rate for individual stockholders is computed as follows:

Stockholders' account balance of imputation tax credit as of the dividend distribution date

Cumulative unappropriated retained earnings recorded in the book (including capital surplus arising from the subsidiaries' unappropriated earnings for 1998 and the years between 1998 and the share swap)

(3) Unappropriated retained earnings

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
1997 and before	\$61,969		\$-	\$-
1998 and onwards	18,858,535		23,636,939	740,575
Total	\$18,920,504		\$23,636,939	\$740,575

(4) Assessment of income tax returns

- (a) As of December 31, 2004, the Company's income tax returns for 2002 and 2003 have not been assessed by the NTA.
- (b) As of December 31, 2004, CTB's income tax returns through 2001 have been assessed by the NTA.
- (c) BIS' income tax returns through 2001 have been assessed by the NTA. Additional income taxes of NT\$29,751 thousand, NT\$72,209 thousand and NT\$51,305 thousand were levied by the NTA for 1999, 2000 and 2001, respectively, as the NTA revised downward the withholding taxes paid on the interest income from bonds pertaining to former purchasers, revised upward the premium income received from issuance of stock warrants, and disagreed with the expenses recognized for the securities transactions. BIS did not agree with the assessment and filed tax appeals which were still under review as of December 31, 2004.
- (d) For the bonds sold by CHBF under repurchase agreements, the interest income pertaining to former purchasers is recorded as interest receivable when the bonds are repurchased by CHBF. The withholding taxes paid on the interest income pertaining to former purchasers are recorded as creditable withholding income tax. However, the NTA does not consider the interest income relating to the creditable withholding income tax as the income of CHBF, and claims that the withholding taxes paid on the interest income pertaining to former purchasers should be treated as part of the repurchasing costs instead of being refundable.

CHBF's income tax returns through 2000 have been assessed by the NTA. However, the NTA considers that the 10% withholding taxes on interest income from bonds pertaining to former purchasers, amounting to NT\$234,316 thousand, NT\$267,326 thousand, NT\$288,132 thousand, NT\$379,574 thousand, NT\$485,654 thousand, NT\$455,299 thousand, and NT\$407,459 thousand for 1994, 1995, 1996, 1997, 1998, 1999 and 2000, respectively, should not be declared as a tax credit or tax refund. Since CHBF considered that there was no defined regulation in respect of the foregoing issue, it has applied for re-examination of its 2000 tax return, has filed an appeal on the foregoing issue for the remaining years and has placed with the NTA a deposit of NT\$513,966 thousand. The withholding taxes on interest income from bonds pertaining to former purchasers were declared to be NT\$425,693 thousand, NT\$463,566 thousand and NT\$475,036 thousand for the un-assessed tax returns filed for 2001, 2002 and 2003, respectively. The corresponding amount for the year ended December 31, 2004 was estimated to be NT\$362,489 thousand (US\$11,357 thousand).

As of December 31, 2004, other than the tax appeal for the 1996 income tax return, all the other aforementioned tax appeals regarding the interest income from bonds pertaining to former purchasers have been resolved and 60% of the withholding taxes that have been paid was refunded by the NTA. The tax appeal for 1996 is pending the NTA's assessment, and CHBF estimated that 60% of the withholding tax paid would be refunded. Hence, as at December 31, 2004, NT\$805,966 thousand (US\$25,252 thousand) was set aside as provision for tax on interest income from bonds pertaining to former purchasers based on the income tax returns assessed or filed for 1996, 2001, 2002 and 2003, and 40% of the tax estimated for the interest income from bonds pertaining to former purchasers for the year ended December 31, 2004. The tax provision was recorded as "valuation allowance for income tax refund receivable" and contra account of "other receivables – affiliated companies".

- (e) ICBC's income tax returns through 2000 have been assessed by the NTA. However, ICBC did not agree with the NTA's assessments on the income tax returns filed for 1996, 1997, 1998 and 2000 and has filed a tax appeal. In addition, the withholding taxes paid by ICBC on the interest income from bonds pertaining to former purchasers during the years from 1996 to 2002 amounted to NT\$248,971 thousand, which has been recorded in ICBC's book in prior years.

As of December 31, 2004, ICBC has settled with the NTA on the assessment of the tax appeal with respect to the aforementioned withholding taxes and agreed that 65% of the withholding taxes that have been on the interest income from bonds pertaining to former purchasers would be refunded. ICBC has made necessary adjustments.

- (f) CKI's income tax returns through 2001 have been assessed by the NTA. The tax returns assessed by NTA are not materially different from those filed by CKI.

### 23. Earnings per share (EPS)

(In thousand shares)	Year Ended December 31, 2003 (Restated)	Year Ended December 31, 2004
Beginning balance of outstanding shares	9,453,206	9,800,095
Add: Capitalization of retained earnings	378,331	-
Less: Treasury stock purchased	(4,062)	(69,555)
Add: US\$103,351 thousand of ECBs converted during the period from February 19, 2004 to December 31, 2004	-	50,680
Add: Treasury stock reissued to the employees of the Company's subsidiaries	-	24,262
Add: Treasury stock reissued to the Company's employees	-	48,692
Weighted-average number of shares outstanding	9,827,475	9,854,174



(In thousand dollars)	Year Ended December 31, 2003 (Restated)		Year Ended December 31, 2004	
	NT\$		NT\$	US\$
Income before income tax from continuing operations	\$20,582,241		\$23,699,537	\$742,536
Net income	\$18,099,076		\$21,904,131	\$686,284
Basic earnings per shares (in dollars)				
Income before income tax from continuing operations	\$2.09		\$2.41	\$0.0755
Net income	\$1.84		\$2.22	\$0.0696
Diluted earnings per share (in dollars)				
Income before income tax from continuing operations	\$2.03		\$2.13	\$0.0667
Net income	\$1.79		\$1.97	\$0.0617

Pro forma information based on the assumption that shares of the Company held by its subsidiaries are not treated as treasury stock:

(In thousand shares)	Year Ended December 31, 2003 (Restated)		Year Ended December 31, 2004	
Beginning balance of outstanding shares	9,453,206		9,800,095	
Add: Capitalization of retained earnings	378,331		-	
Add: Treasury stock reissued to the employees of the Company's subsidiaries	30,000		30,000	
Add: Treasury stock reissued to the Company's employees	-		48,692	
Add: Shares of the Company held by its subsidiaries and treated as treasury stock	35,080		5,080	
Add: US\$103,351 thousand of ECBs converted during the period from February 19, 2004 to December 31, 2004	-		50,680	
Less: Treasury stock purchased	(4,062)		(69,555)	
Weighted-average number of shares outstanding	9,892,555		9,864,992	

(In thousand shares)	Year Ended December 31, 2003 (Restated)		Year Ended December 31, 2004	
	NT\$		NT\$	US\$
Income before income tax from continuing operations	\$20,608,274		\$23,711,351	\$742,907
Net income	\$18,125,109		\$21,915,945	\$686,654
Basic earnings per shares (in dollars)				
Income before income tax from continuing operations	\$2.08		\$2.40	\$0.0752
Net income	\$1.83		\$2.22	\$0.0696
Diluted earnings per share (in dollars)				
Income before income tax from continuing operations	\$2.02		\$2.13	\$0.0667
Net income	\$1.78		\$1.97	\$0.0617

## V. RELATED PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Chunghwa Post Co., Ltd. (Chunghwa Post) (formerly Directorate General of Postal Remittances and Savings Bank)	Director of the Company
Bank of Taiwan (BOT)	Director of the Company
United Microelectronics Corporation (UMC)	Director and supervisor of the Company
Mega Investment Trust Co., Ltd. (MITC)	Subsidiary of the Company
Chung Hsing Securities Corporation (CHS)	Indirect subsidiary of the Company (Operations sold to BIS on January 31, 2003)
Chung Hsing Securities Investment Service Corporation (CHSIS)	Indirect subsidiary of the Company (liquidated on August 12, 2003)
Cathay Investment & Development Corporation (Bahamas) (CIDC Bahamas)	Indirect subsidiary of the Company
Win Card Co., Ltd. (Win Card)	Indirect subsidiary of the Company
Chung Hsing Security Investment Trust Co., Ltd. (CHSIT)	Investee accounted for under equity method
Taiwan Finance Holding Corporation (TFC)	Investee accounted for under equity method
Mega Asset Management Co., Ltd. (MAM)	Investee accounted for under equity method
Barits International Futures Co., Ltd. (BIF)	Indirect subsidiary of the Company
Hoan Insurance Agency Co., Ltd. (Hoan)	The Company's director is also the director of Hoan.
Other related parties	The Company's directors, supervisors, managers, their relatives, associated companies and substantial related parties

## 2. Significant transactions with related parties

Related party transactions with an amount exceeding NT\$100 million (US\$3,133 thousand) are set forth below.

### (1) Deposits

Details of the related parties' deposits placed with CTB and ICBC and recorded under "deposits and remittances" are as follows:

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Chunghwa Post	\$61,555,077		\$57,036,967	\$1,787,040
Others (individual amounts accounting for less than 10% of the total amount)	46,151,371		83,032,302	2,601,507
<b>Total</b>	<b>\$107,706,448</b>		<b>\$140,069,269</b>	<b>\$4,388,547</b>

### (2) Credits extended

Details of the credits extended to the related parties by CTB and ICBC and recorded under "bills, discounts and loans" are as follows:

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Others (individual amounts accounting for less than 10% of the total amount)	\$39,769,725		\$17,622,454	\$552,134

### (3) Securities purchased

#### (a) Mutual funds

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
MITC	\$839,998	\$143,602		\$4,499
TFC	622,862	-		-
<b>Total</b>	<b>\$1,462,860</b>	<b>\$143,602</b>		<b>\$4,499</b>

#### (b) Corporate bonds

In Thousands of NT Dollars

	Year Ended December 31, 2003 (Restated)				
	Cost	Issue Period	Interest Rate (%)	Interest Receivable	Interest Income
UMC	\$300,000	Jun 10, 2003~	2.86437	\$4,813	\$4,813
The third domestic unsecured corporate bonds (Bond A-14)		Jun 10, 2008			

In Thousands of NT Dollars

	Year Ended December 31, 2004				
	Cost	Issue Period	Interest Rate (%)	Interest Receivable	Interest Income
UMC	\$300,000	Jun 10, 2003~	1.7675	\$2,978	\$6,758
The third domestic unsecured corporate bonds (Bond A-14)		Jun 10, 2008			

In Thousands of US Dollars

	Year Ended December 31, 2004				
	Cost	Issue Period	Interest Rate (%)	Interest Receivable	Interest Income
UMC	\$9,399	Jun 10, 2003~	1.7675	\$93	\$212
The third domestic unsecured corporate bonds (Bond A-14)		Jun 10, 2008			

### (4) Sales of securities and bonds

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
BOT	\$369,833,085	\$274,620,701		\$8,604,214
UMC	44,539,566	47,621,993		1,492,057
CHS	85,288,253	91,278,133		2,859,859
CHSIS	579,925	-		-
Chunghwa Post	59,879,034	51,142,838		1,602,370
MITC	-	5,411,753		169,557
MAM	2,144,072	1,864,542		58,419
Other related parties	1,487,545	1,772,749		55,543
<b>Total</b>	<b>\$563,751,480</b>	<b>\$473,712,709</b>		<b>\$14,842,019</b>

Terms and conditions on the above transactions are not materially different from those with non-related parties.

## (5) Margin deposits for futures trading – own capital

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
BIF	\$50,494	\$313,217	\$9,813	

## (6) Guarantee for issuance of commercial paper

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
MITC	\$-	\$100,000	\$3,133	

## (7) Liability bonds sold under repurchase agreements

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
MITC	\$-	\$949,433	\$29,747	

## (8) Other long-term liabilities

	December 31, 2003 (Restated)		December 31, 2004	
	NT\$	NT\$	US\$	
CHS	\$450,000	\$-	\$-	

## (9) Transactions with other financial institutions

## (a) Due from banks/call loans to banks

In Thousands of NT Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2003 (restated)	TFC	\$300,000	\$-	1.05-1.185	\$49
Year ended December 31, 2004	TFC	500,000	-	1.005-1.09	267

In Thousands of US Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2004	TFC	15,666	-	1.005-1.09	8

## (b) Due to other banks/call loans from banks

In Thousands of NT Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2003 (restated)	Chunghwa Post	\$58,673,693	\$47,481,264	1.52-2.15	\$963,485
	CIDC Bahamas	557,350	103,524	0.95-1.72	3,089
	BOT	1,600,000	-	1.025-1.625	1,419
	TFC	105,000	-	1.125	2
			\$47,584,788		\$967,995
Year ended December 31, 2004	Chunghwa Post	\$58,484,216	\$46,522,745	0.10-2.15	\$799,032
	BOT	1,500,000	-	0.95-1.16	547
			\$46,522,745		\$799,579

In Thousands of US Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2004	Chunghwa Post	\$1,832,384	\$1,457,616	0.10-2.15	\$25,035
	BOT	46,997	-	0.95-1.16	17
			\$1,457,616		\$25,052

## (c) Overdrafts on banks

In Thousands of NT Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2003 (restated)	BOT	\$2,587,000	\$733,000	1.75-3.50	\$17,193
Year ended December 31, 2004	BOT	2,250,000	918,000	1.75-2.00	14,263

In Thousands of US Dollars

Period	Related Party	Highest Balance	Ending Balance	Interest Rate (%)	Interest Income
Year ended December 31, 2004	BOT	\$70,495	\$28,762	1.75-2.00	\$447

(10) Collaterals

Collaterals		December 31, 2003 (Restated)		December 31, 2004	
		NT\$		NT\$	US\$
BOT	Certificates of time deposit, negotiable certificates of deposit, government bonds and corporate bonds	\$4,925,223		\$4,733,976	\$148,321

(11) Refundable deposits

		December 31, 2003 (Restated)		December 31, 2004	
		NT\$		NT\$	US\$
BOT		\$-		\$106,966	\$3,351

(12) Others

- (a) In September 2004, CHBF entered into a contract with MAM for sale of its non-performing loans (NPL). The NPLs sold amounted to NT\$2,270,845 thousand (US\$71,148 thousand) with a gain of NT\$522,892 thousand (US\$16,383 thousand).
- (b) On July 29, 2004, CTB sold its NPLs and the associated real estate property to MAM in an open bid. The book values of the NPLs and real estate property sold were NT\$3,512,164 thousand (US\$110,041 thousand) and NT\$571,499 thousand (US\$17,906 thousand), respectively, with a loss of NT\$512,852 thousand (US\$16,068 thousand) made on the sale.
- (c) ICBC sold its NPLs to MAM in September 2004 in an open bid with a gain of NT\$175,700 thousand (US\$5,505 thousand) which was recorded under "other operating revenues".
- (d) For the years ended December 31, 2003 and 2004, the securities purchased from TFC amounted to NT\$325,667 thousand and NT\$542,117 thousand (US\$16,985 thousand), respectively, and the bills and bonds purchased from (sold to) TFC under resell (repurchase) agreements amounted to NT\$297,195 thousand and NT\$0, respectively.
- (e) ICBC has been outsourcing its credit card operations to Win Card Co., Ltd. since 2001. The operational costs incurred for the years ended December 31, 2003 and 2004 were NT\$387,232 thousand and NT\$450,899 thousand (US\$14,127 thousand), respectively, which were recorded as business expenses. ICBC paid part of the costs on Win Card's behalf, which resulted in a receivable from Win Card of NT\$17,300 thousand and NT\$8,418 thousand (US\$264 thousand) as of December 31, 2003 and 2004, respectively. Additionally, ICBC has a lease agreement with Win Card, which is effective from January 2001 to January 2008 with the rent payable quarterly. The rental income for the years ended December 31, 2003 and 2004 was NT\$6,835 thousand and NT\$10,418 thousand (US\$326 thousand), respectively.
- (f) The insurance coverage provided by CKI for Hoan Insurance Agency Co., Ltd.'s premiums received under custody was NT\$348,063 thousand and NT\$513,546 thousand (US\$16,090 thousand) for the years ended December 31, 2003 and 2004, respectively. And the associated commission expense was NT\$86,741 thousand and NT\$125,386 thousand (US\$3,929 thousand), respectively. As of December 31, 2003 and 2004, premiums receivable from the above transactions amounted to NT\$15,175 thousand and NT\$12,487 thousand (US\$391 thousand), respectively, and commissions payable amounted to NT\$8,271 thousand and NT\$19,904 thousand (US\$624 thousand), respectively.

## VI. PLEDGED ASSETS

Asset	Carrying Value		
	December 31, 2003 (Restated)		December 31, 2004
	NT\$	NT\$	US\$
Securities purchased	\$24,955,552	\$11,042,176	\$345,965
Certificates of time deposit	1,724,135	1,187,123	37,194
Long-term investments and stocks of the Company's subsidiaries	31,323,055	24,185,547	757,764
Property and equipment	1,178,529	2,856,689	89,504
Other assets	49,985	389,957	12,218
Total	\$59,231,256	\$39,661,492	\$1,242,645

## VII. COMMITMENTS AND CONTINGENT LIABILITIES

### 1. The Company

- (1) As of December 31, 2004, the total amount of the contracts entered into by the Company for the set-up of information system, risk management consulting and the advertising campaign for enhancing the Group's image was NT\$328,235 thousand (US\$10,284 thousand), and the accrued amount on the above expenditures was NT\$107,799 thousand (US\$3,377 thousand).
- (2) The Company has entered into several operating lease agreements for its offices. Rents are based on the actual floor area of the leasehold property and are payable monthly or quarterly according to the terms of the respective lease agreements. Guarantee

deposits paid by the Company (listed under "non-operating assets") amounted to NT\$2,254 thousand (US\$71 thousand). As of December 31, 2004, the rents payable for the next five years were as follows:

Year	Amount	
	NT\$	US\$
2005	\$26,502	\$831
2006	24,619	771
2007	21,996	689
2008	4,406	138
2009	-	-
Total	\$77,523	\$2,429

## 2. The subsidiaries

### (1) Chiao Tung Bank (CTB)

(a) As of December 31, 2003 and 2004, CTB's commitments and contingent liabilities were as follows:

	December 31, 2003		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Forward securities purchased	\$7,044,663	\$-	\$-	\$-
Trust assets	7,405,761	9,716,029	304,415	
Customers' securities under custody	424,175,314	195,783,969	6,134,159	
Guarantee effects	35,402	4,680	147	
Travelers' checks consigned-in	286,243	278,823	8,736	
Investments for customers	600,346	600,347	18,810	
Collections for customers	272,406,449	217,014,279	6,799,332	
Agency loans payable	11,644,827	9,789,221	306,709	
Government bonds under custody	174,861,300	184,772,900	5,789,169	
Commercial papers under custody	-	18,185,836	569,785	
Certified notes paid	88,883,413	78,993,380	2,474,962	
Guarantees issued	67,991,313	68,103,306	2,133,763	
Options bought	-	14,791,068	463,423	
Letters of credit	15,197,252	21,450,529	672,072	
Options written	339,980	15,585,268	488,306	
Total	\$1,070,872,263	\$835,069,635	\$26,163,788	

(b) The following information is disclosed in accordance with Article 17 of the Trust Law Enforcement Rules.

#### Balance sheet of trust accounts

Trust Assets	Dec 31, 2003			Dec 31, 2004			Trust Liabilities and Equities	Dec 31, 2003			Dec 31, 2004		
	NT\$	NT\$	US\$	NT\$	NT\$	US\$		NT\$	NT\$	US\$			
Bank deposits	\$34,937	\$84,611	\$2,651				Trust capital						
Short-term investments							Pecuniary trust	\$7,405,761	\$8,618,936	\$270,042			
Stocks	-	331,073	10,373				Securities trust	-	305,291	9,565			
Mutual funds	7,370,824	8,546,709	267,779				Real estate trust	-	791,802	24,808			
Real estate properties													
Land	-	289,589	9,073										
Buildings	-	464,047	14,539										
Total Trust Assets	\$7,405,761	\$9,716,029	\$304,415	Total Trust Liabilities and Equities	\$7,405,761	\$9,716,029	\$304,415						

#### Trust property

	December 31, 2003		December 31, 2004	
	NT\$	NT\$	NT\$	US\$
Demand deposits	\$1,170	\$55,232	\$1,730	
Time deposits	33,767	29,379	921	
Overseas mutual funds	3,555,140	4,042,612	126,660	
Domestic mutual funds	3,815,684	4,504,097	141,119	
Domestic stocks	-	331,073	10,373	
Land	-	289,589	9,073	
Buildings	-	464,047	14,539	
Total	\$7,405,761	\$9,716,029	\$304,415	

- (c) In January 2002, CTB's Singapore Branch assigned its entire participation in a syndicated loan facility granted to an Indonesian customer to a third party. In October 2002, a stockholder of the Indonesian customer brought legal action against the consortium of 57 banks participating in the syndicated loan facility, including CTB's Singapore Branch. The stockholder claimed among others that the loan facility granted by the consortium banks was illegal. In 2003, a district court in South Jakarta passed its summary judgement and ruled in favor of the plaintiff on some of the claims. The consortium banks were advised by their lawyers that the district court's ruling did not appear to have a strong legal basis and thus have filed for an appeal. The appeal has yet to be heard. CTB's Singapore Branch has assessed and provided for the potential claims payable resulting from the lawsuit based on the summary judgement of the district court.
- (d) For the purpose of strengthening information technology infrastructure and modifying the method of duty segregation and business process, CTB entered into an agreement with Shinsei Bank, Limited of Japan and Shinsei Information Technology Co., Ltd. of Japan on March 12, 2004. The contract period is from April 1, 2004 to March 31, 2006.

(Amount are expressed in dollars.)		December 31, 2004		
Financial Statement Account	Counterparty	Contract Amount	Amount Paid	Amount Outstanding
Business expense - service charges	Shinsei Information	US\$6,000,000	US\$2,000,000	US\$4,000,000

For each calendar year during the term of the agreement, CTB shall pay to Shinsei Bank a fee in respect of that year, which is computed according to the formula stipulated in the agreement. The fee shall be payable no later than 90 days after the end of that calendar year or the date on which the agreement expires or sooner terminates during that year.

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

- (a) BIS has entered into proxy delivery agreements with Grand Cathay Securities and Fubon Securities. Under these agreements, Grand Cathay Securities and Fubon Securities agree to be BIS' 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 Grand Cathay Securities and Fubon Securities.
- (b) Two of BIS' former brokers conducted a fraudulent transaction in November 1994 and embezzled NT\$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 NT\$56,823 thousand in advance for BIS and thus, cancelled BIS' NT\$60 million time deposit placed with LKCC without BIS' consent and deducted NT\$56,823 thousand from the cancelled deposit. BIS filed a lawsuit against LKCC for return of the NT\$56,823 thousand as well as execution of provisional seizure of the properties of the said securities brokers' joint guarantors.

The NT\$56,823 thousand was recorded by BIS under "other assets – other receivables". For executing the provisional seizure, BIS pledged NT\$19,000 thousand time deposit to the Court as collateral in 1998, which was replaced by the government bonds with a cost of NT\$21,167 thousand and a face value of NT\$19,000 thousand in June 1999. The collateral was recorded under "other assets – refundable deposits".

On July 9, 2002, the High Court ruled that both parties were liable for the above fraudulent transaction. Therefore, LKCC was required to compensate BIS NT\$39,467 thousand whereas BIS was required to compensate LKCC NT\$17,354 thousand. Neither the two parties agreed with the ruling and again lodged an appeal. As a result, the case was sent back to the Supreme Court for the third time on January 23, 2003 and was still under review by the High Court as at December 31, 2004. BIS has set aside NT\$24,172 thousand (US\$757 thousand) as an allowance for bad debts as recommended by its legal consultant.

- (c) BIS has entered into several operating lease agreements for its branch offices. As of December 31, 2004, the annual minimum rents payable (excluding the adjustments for the consumer price index) for the next five years were as follows:

Year	Amount	
	NT\$	US\$
2005	\$33,743	\$1,057
2006	22,071	692
2007	19,184	601
2008	14,907	467
2009	5,773	181
Total	\$95,678	\$2,998

- (d) As of December 31, 2003 and 2004, the checks written by BIS and pledged to the Taiwan Stock Exchange as guarantee deposits for settlement of securities transactions amounted to NT\$30,000 thousand (US\$940 thousand).
- (e) BIS' 1999, 2000 and 2001 income tax returns have been assessed by the NTA. However, BIS did not agree with the NTA's assessments and has filed tax appeals.

(3) Chung Hsing Bills Finance Corporation (CHBF)

(a) As of December 31, 2003 and 2004, CHBF's commitments and contingent liabilities arising from its normal course of business were as follows:

	December 31, 2003		December 31, 2004	
	NT\$		NT\$	US\$
Bills and bonds sold under repurchase agreements	\$190,020,748		\$198,555,812	\$6,221,005
Guarantees for commercial papers	161,326,400		167,749,600	5,255,807
Bills and bonds purchased under resell agreements	12,734,340		4,550,240	142,565
Total	\$364,081,488		\$370,855,652	\$11,619,377

(b) On December 7, 2004, CHBF entered into an agreement to sell its buildings and land located on Nanking East Road in Taipei City for a total of NT\$27,500 thousand (US\$862 thousand). As of December 31, 2004, NT\$5,500 thousand (US\$172 thousand) has been paid and deposited in an exclusive bank account. The outstanding amount was to be paid upon completion of the title transfer on January 7, 2005.

(4) International Commercial Bank of China (ICBC)

As of December 31, 2004, ICBC had the following commitments and contingent liabilities:

(a) Collections and guarantee assets and liabilities

	December 31, 2004	
	NT\$	US\$
Securities sold under repurchase agreements	\$8,062,036	\$252,594
Securities purchased under resell agreements	1,968,424	61,673
Trust and security held for safekeeping (including trustee amount of NT\$130,758,742 thousand (US\$4,096,837 thousand))	777,514,112	24,360,501
Travelers' checks consigned-in	2,607,073	81,683
Collections for customers and agency loans payable	88,848,370	2,783,732
Guarantees for commercial paper, customs duties and performance bonds	105,589,792	3,308,262
Letters of credit	57,307,499	1,795,516
Government bonds and bills under custody and consignment of goods	225,220,899	7,056,456
Loan commitments	342,136,147	10,719,558
Credit card lines	71,897,661	2,252,645
Certified notes paid	17,566,054	550,367

(b) The following information is disclosed in accordance with Article 17 of the Trust Law Enforcement Rules.

Balance sheet of trust accounts

Trust Assets	December 31, 2004		Trust Liabilities and Equities	December 31, 2004	
	NT\$	US\$		NT\$	US\$
Cash	\$2,173,389	\$68,095	Trust capital		
Investments in stocks	20,900,416	654,837	Pecuniary trust	\$128,677,865	\$4,031,640
Investments in bonds	35,344,753	1,107,396	Securities trust	2,012,877	63,066
Investments in mutual funds	46,818,858	1,466,894	Real estate trust	68,000	2,131
Other assets	25,521,326	799,615			
Total Trust Assets	\$130,758,742	\$4,096,837	Total Trust Liabilities and Equities	\$130,758,742	\$4,096,837

Trust property

	December 31, 2004	
	NT\$	US\$
Investments in stocks	\$20,900,416	\$654,837
Investments in bonds	35,344,753	1,107,396
Investments in mutual funds	46,818,858	1,466,894
Other assets	25,521,326	799,615
Total	\$128,585,353	\$4,028,742

(c) ICBC has entered into several lease agreements for a number of its branch offices. Rents are based on the actual floor area of the leasehold property and are payable monthly, quarterly or semi-annually according to the terms of the respective lease agreements. All the lease agreements will expire by the end of August 2021 and are renewable. Deposits paid for these lease agreements amounted to NT\$141,369 thousand (US\$4,429 thousand) as of December 31, 2004 and were recorded under "other assets". The annual rents payable for the next five years are as follows:



Year	Amount	
	NT\$	US\$
2005	\$185,810	\$5,822
2006	145,366	4,554
2007	93,219	2,921
2008	62,681	1,964
2009	30,011	940

(d) As of December 31, 2004, contracts signed by ICBC for renovation of its branch offices and purchase of equipment amounted to NT\$110,605 thousand (US\$3,465 thousand) and the accrued expenses on these contracts were NT\$64,192 thousand (US\$2,011 thousand).

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

(a) As of December 31, 2003 and 2004, the unutilized portion of the letters of credit issued by CKI for reinsurance was US\$232,914.45 thousand and US\$78,799.27 thousand, respectively.

(b) On December 24 and 28, 2004, CKI entered into agreements to sell its real estate properties located on Shinshen South Road and Jinshan South Road in Taipei City for NT\$10,528,500 (US\$329,871) and NT\$64,600,000 (US\$2,024,000), respectively. The transfers of the titles and using rights of the properties were to be completed by January 2005. As of December 31, 2004, NT\$1,605,000 (US\$50,287) and NT\$11,500,000 (US\$360,310) have been collected, respectively, with no gains or losses recognized.

(6) Mega Investment Trust Co., Ltd. (MITC)

(a) In July 1999, the former Chairman of MITC together with the former Chairman of Tung-Kang Credit Cooperative (TKCC) and other staff of TKCC embezzled MITC's time deposits placed with TKCC of NT\$220 million and NT\$430 million from MITC's mutual funds. The District Court of Pingtung indicted the above persons in August 1999. As of December 31, 2004, the ruling made by the High Court was that MITC's former Chairman was not guilty while the others were sentenced to 14 months to 12 years of imprisonment. The persons found guilty have lodged an appeal.

(b) MITC's former Chairman together with a number of TKCC's staff embezzled MITC's time deposits placed with TKCC and pledged the said deposits as collaterals for loans. As a result, MITC incurred a contingent liability of NT\$195 million. According to the information provided by TKCC, the interest on the aforementioned loans was all paid up as of May 1999 with the interest rate ranging from 7.25% to 7.9%. However, the fact is that interest on the loans had not been paid since June 1999. The interest on the loans accrued from June 1999 to January 2000 amounted to approximately NT\$1,852,553. To safeguard its rights, upon maturity of the pledged time deposits in January 2000, the creditor bank used the pledged time deposits to compensate for the principal of the loans, and the interest on the pledged time deposits of NT\$1,230,415 for the corresponding period to compensate for the interest on the loans. The amount of shortage was deducted from the demand deposits. Clarification of the above dispute is pending the Court's ruling.

(c) As of December 31, 2004, details of the property rented by MITC under operating lease were set forth below.

Lessor	Location of the Leasehold Property	Lease Period	Rent per Month		Method of Payment	Year	Accrued Rent	
BIS	9th Floor, 100 Roosevelt Rd., Section 2, Taipei	Nov 1, 2003 ~ Oct 31, 2013	NT\$832,295	US\$26,077	Monthly	2005	NT\$9,987,540	US\$312,922
						2006	9,987,540	312,922
						2007	9,987,540	312,922
						2008	9,987,540	312,922
						2009	9,987,540	312,922
						2010 and onwards	38,285,570	1,199,536
			<u>NT\$88,223,270</u>	<u>US\$2,764,146</u>				

(7) Mega Asset Management Co., Ltd. (MAM)

As of December 31, 2004, details of the assets rented by MAM under operating lease were set forth below.

Lessor	Leasehold Asset	Lease Period	Rent per Month		Accrued Rent for the Following Years	
CHBF	12th Floor of CHBF's head office located on Chunghsiao East Rd., Taipei	Dec 1, 2003 ~ Nov 30, 2008	NT\$482,160	US\$15,107	NT\$22,661,520	US\$710,014
EasyRent Ltd.	Cars for business use	Dec 24, 2003 ~ Feb 1, 2007	24,100	755	602,500	18,877
Total					<u>NT\$23,264,020</u>	<u>US\$728,891</u>



## VIII. SIGNIFICANT DISASTER LOSS

None.

## IX. SIGNIFICANT SUBSEQUENT EVENTS

### 1. The Company

None.

### 2. The subsidiaries

None.

## X. OTHERS

### 1. Derivative financial instruments

#### A. Derivative financial instruments undertaken by CTB, CHBF and ICBC

- (1) CTB, CHBF and ICBC have undertaken derivative financial instruments for hedging and non-hedging purposes. The derivative financial instruments undertaken for hedging purposes are to hedge the existing exposure of CTB, CHBF and ICBC by entering into back-to-back transactions. Those for non-hedging purposes are undertaken for profit seeking.
- (2) The derivative financial instruments undertaken by CTB, CHBF and ICBC are mainly for risk hedging purposes by taking certainty, profitability and liquidity into account.
- (3) The contract amounts (notional principal amounts) of the derivative financial instruments undertaken, the associated credit risk and their fair values are set forth below.

In Thousands of NT Dollars

Financial Instrument	December 31, 2003 (Restated)		
	Contract Amount	Credit Risk	Fair Value
<u>Trading purposes</u>			
Currency forwards	\$197,046,031	\$97,210	\$267,813
Interest rate swaps	11,650,550	398,027	386,187
Foreign exchange swaps	23,840,338	289,642	266,502
Cross-currency swaps	12,047,460	23,201	(78,672)
Financial futures	33,998	-	(170)
Currency options	380,268	115,831	115,831
Non-delivery forwards	2,171,769	8,125	7,733
<u>Non-trading purposes</u>			
Interest rate swaps	92,095,801	250,602	(1,742,969)
Foreign exchange swaps	6,762,670	65,664	145,190
Cross-currency swaps	40,695,602	261,944	42,164
Currency options	7,300,359	-	2,244

In Thousands of NT Dollars

Financial Instrument	December 31, 2004		
	Contract Amount	Credit Risk	Fair Value
<u>Trading purposes</u>			
Currency forwards	\$300,474,282	\$1,317,005	\$717,548
Interest rate swaps	40,433,236	379,094	373,058
Foreign exchange swaps	23,202,934	112,554	(765,546)
Cross-currency swaps	14,425,116	32,910	(36,622)
Financial futures	540,056	-	(32)
Interest rate futures	2,725,000	-	(50)
Currency options	14,673,388	138,957	(321,682)
Interest rate options	200,000	-	(2,008)
Non-delivery forwards	540,056	-	(23,286)
<u>Non-trading purposes</u>			
Interest rate swaps	106,109,046	335,499	(1,246,404)
Cross-currency swaps	52,115,209	163,648	(556,685)
Currency options	27,620,227	-	-

Financial Instrument	December 31, 2004		
	Contract Amount	Credit Risk	Fair Value
<u>Trading purposes</u>			
Currency forwards	\$9,414,239	\$41,263	\$22,482
Interest rate swaps	1,266,824	11,877	11,688
Foreign exchange swaps	726,977	3,526	(23,985)
Cross-currency swaps	451,957	1,031	(1,147)
Financial futures	16,921	-	(1)
Interest rate futures	85,378	-	(2)
Currency options	459,736	4,354	(10,079)
Interest rate options	6,266	-	(63)
Non-delivery forwards	16,921	-	(730)
<u>Non-trading purposes</u>			
Interest rate swaps	3,324,531	10,512	(39,051)
Cross-currency swaps	1,632,835	5,127	(17,442)
Currency options	865,377	-	-

- (a) The currency forward, interest rate swap, cross-currency swap and currency option contracts undertaken by CTB and ICBC for trading purposes are mainly for hedging customers' as well as CTB's and ICBC's exposures and currency exposures arising from foreign currency funding requirements. Non-delivery forward, interest rate swap and cross-currency swap contracts undertaken by CTB, CHBF and ICBC for non-trading purposes are mainly for hedging interest rate and exchange rate exposures arising from foreign currency denominated assets. CTB, CHBF and ICBC aim to utilize the derivative financial instruments to hedge most of their market risk by undertaking derivative contracts of which the fair values are inversely proportional to those of the hedged items. CTB, CHBF and ICBC also perform periodic review on their positions.
- (b) The above credit risk amounts are based on the contracts with positive fair values at the balance sheet date and represent the possible loss that will be incurred by CTB and ICBC in the event that the counterparties default.
- (c) Before entering into financial derivative transactions, credit history and credit rating of the customers are reviewed. The transactions can then be conducted within the approved credit limits. Adequate collaterals and guarantee deposits are required from the customers to cover the realized or potential loss of such transactions.
- (d) The above-mentioned credit risk pertains to the risk that the counterparties may default on maturity dates. As the counterparties of CTB, CHBF and ICBC are all financial institutions with good credit ratings, credit risk is considered to be remote.
- (e) Fair values of currency forwards are determined based on the exchange rates published in the inquiry system of Reuters or the Associated Press.
- (f) Fair values of cross-currency swaps are determined based on the rates quoted in the Bloomberg Information System.
- (g) Net gains (losses) of CTB, ICBC and CHBF and their disclosures in the income statement

Financial Instrument	Year Ended Dec 31, 2003	Year Ended Dec 31, 2004		Income Statement Disclosure
	NT\$	NT\$	US\$	
Financial futures	\$801	\$(22,069)	\$(691)	Gain (loss) on derivative financial instruments
Interest rate futures	-	36,505	1,144	Gain (loss) on derivative financial instruments
Currency options	110,103	405,486	12,704	Gain (loss) on derivative financial instruments
Non-delivery forwards	-	9,714	304	Gain (loss) on derivative financial instruments
Currency forwards	4,750	(1,699,768)	(53,256)	Foreign exchange gain (loss)/ interest income (expense)
Interest rate swaps, foreign exchange swaps and cross-currency swaps	341,381	787,725	24,680	Interest income (expense)

- (h) Market risk and cash flow risk
- 1) Market risk arises from the fluctuations in interest rates and exchange rates.
  - 2) As the forward exchange rates are determined by the spot exchange rates and the interest rates on the respective currencies, CTB and ICBC compute the forward exchange rate for each future period at the end of each month based on the closing spot exchange rate published by the Central Bank on that date and the interest rate on the respective currency on the same date. The resulting forward exchange rate at maturity of each contract is then used to determine its fair value.
  - 3) As CTB's and ICBC's position in currency forwards matches with their spot and forward exchange position, fluctuations in

exchange rates will not result in significant gains (losses) and changes in cash flows. The aforementioned interest rate swap, foreign exchange swap and cross-currency swap contracts were undertaken by CTB, CHBF and ICBC to hedge their interest rate and foreign exchange risks arising from their foreign currency denominated assets or liabilities. The gains (losses) arising from the fluctuations in interest rates and exchange rates are mostly offset by the gains (losses) on the hedged items. As a result, market risk and changes in cash flows are assessed to be minimal.

(i) Liquidity risk and the amount, timing and uncertainty of future cash requirements

1) CTB and ICBC have entered into numerous financial derivative transactions of which the notional principal amounts are the bases for computing the amounts receivable from/payable to counterparties upon settlement. Therefore, the notional principal amounts are neither the actual amounts delivered nor the actual amounts of cash requirements of CTB and ICBC. As the derivative financial instruments issued or held by CTB and ICBC are likely to be sold at a reasonable price, it is expected that there are no significant cash requirements upon maturity of these contracts.

2) Derivative financial instruments employed by CTB and ICBC are all denominated in major foreign currencies. Thus, liquidity risk is considered to be low. The working capital of CTB and ICBC is expected to be adequate to support their future cash needs.

(j) The purposes and strategies of holding derivative financial instruments

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

B. Derivative financial instruments undertaken by BIS

(1) Fair values of derivative financial instruments

In Thousands of NT Dollars

Derivative Financial Instrument	December 31, 2003		December 31, 2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Options bought - futures	\$-	\$-	\$11,519	\$11,519
Margin deposits for futures trading – own capital	90,783	90,783	313,217	313,217
Derivative financial instrument assets - OTC	-	-	26,329	26,329
Deferred losses on derivative financial instruments	62,597	62,597	67,019	67,019
<b>Liabilities</b>				
Liability on issuance of stock warrants	1,116,000	1,116,000	164,682	164,682
Repurchase of stock warrants issued	(810,632)	(810,632)	(98,721)	(98,721)
Liability on options written - futures	-	-	11,735	11,735
Derivative financial instrument liabilities - OTC	14,502	14,502	183,682	183,682

In Thousands of US Dollars

Derivative Financial Instrument	December 31, 2004	
	Carrying Value	Fair Value
<b>Assets</b>		
Options bought - futures	\$361	\$361
Margin deposits for futures trading – own capital	9,813	9,813
Derivative financial instruments - OTC	825	825
Deferred losses on derivative financial instruments	2,100	2,100
<b>Liabilities</b>		
Liability on issuance of stock warrants	5,160	5,160
Repurchase of stock warrants issued	(3,093)	(3,093)
Liability on options written - futures	368	368
Derivative financial instrument liabilities - OTC	5,755	5,755

The methods and assumptions adopted by BIS to estimate the fair values of the above financial instruments are summarized below.

- (a) Fair values of the short-term financial instruments are estimated to be equal to their carrying values on the balance sheets. As maturity of these instruments is short, it is reasonable that their fair values equal their carrying values.
- (b) Fair values of short- and long-term equity investments, securities held for operations, liability on issuance of stock warrants, options contracts and other derivative financial instruments equal their quoted market prices, if available. If the quoted market prices are not available, their fair values are estimated using financial information or other information.

(2) Stock warrants

(a) Please see (g) below for details of stock warrants issued by BIS.

(b) The purpose of issuing derivative financial instruments is to generate reasonable profits by controlling the risk within a tolerable limit.

(c) Credit risk

As proceeds from the stock warrants issued by BIS have all been received, there is no credit risk.

(d) Market risk

BIS is in a short position for the stock warrants issued, which is in reverse to the investors' position. As the investors may exercise their option rights before expiration of the contracts because of the fluctuations in the underlying securities' fair values, BIS' position is exposed to market risk. To reduce the uncertainty, BIS mainly adopts delta and vega risk hedging strategies which are summarized below.

1) Delta risk hedging strategy

(i) Hedge instruments

The hedge instruments are mainly the underlying securities and are supplemented by the title certificates of the underlying securities.

(ii) Risk hedging strategy

The dynamic hedging method is adopted by referring to the delta risk value calculated using BIS' risk model. Under this method, when the values of the underlying securities fluctuate, BIS will trade the underlying securities or the title certificates of those securities to maintain its position in gains (losses) on the stock warrants to be neutral to the delta risk.

2) Vega risk hedging strategy

(i) Hedge instruments

The hedge instruments are mainly the warrants listed in the domestic market with the same underlying securities (including the warrants issued by BIS) and are supplemented by the convertible bonds issued by the companies of the underlying securities.

(ii) Risk hedging strategy

As there are currently no options contracts on spot goods traded in Taiwan, and the domestic securities firms are prohibited from engaging in trading of overseas financial products, the strategy adopted in vega hedge is primarily through buying the significantly underpriced stock warrants with the same underlying securities, of which the price volatility will partly offset the price volatility of the stock warrants issued by BIS.

As convertible bonds involve the risk of early redemption by the bond issuers, coupled with the liquidity risk (large difference between the buying and selling prices) and the interest rate risk, the hedging strategy would become complicated and inefficient if convertible corporate bonds are used as hedge instruments. Therefore, convertible bonds will not be used as the primary hedge instruments unless the underlying securities of the stock warrants issued show volatile price movements, and the terms on the convertible bonds and their liquidity meet the risk hedging requirements of BIS.

(e) Amount and timing of future cash flows

When the options on the stock warrants are exercised by the warrant holders, BIS can opt to settle the contracts by cash or by delivery of the underlying securities. As a result, cash inflows or outflows will occur, respectively. The amount and timing of the cash flows depend on the amount of the stock warrants exercised by the warrant holders and the exercise date.

(f) Accounting policies

Issuance of stock warrants and its subsequent valuation are accounted for by the fair value method and are recorded as "liability on issuance of stock warrants". For the warrants that use the derivative products issued by BIS as the hedge instruments, if the unrealized gain arising from the increase in the market value of the hedge instruments exceeds the loss arising from the variation in the warrants' value upon valuation at year-end, the excess amount is deferred. Conversely, if the loss arising from the variation in the warrants' value exceeds the unrealized gain arising from the increase in the market value of the hedge instruments, the excess amount is recognized as current loss. For the warrants that are issued under repurchase agreements, the repurchase amount is recorded under "repurchase of stock warrants issued" which is a contra account of "liability on issuance of stock warrants". At expiration of the warrants, the amount of the unexercised warrants is reversed after being revalued by the fair value method. A gain on the unexercised expired stock warrants is recognized accordingly.

(g) Fair values and carrying values

The stock warrants issued by BIS are all American-style warrants with the contract periods ranging from six months to one year, starting from the date on which the warrants are listed in the market. The warrants can be settled by either cash or delivery of securities at BIS' discretion. Details of the stock warrants outstanding as of December 31, 2003 and 2004 are set forth below:

December 31, 2003 (Amounts are expressed in thousands of NT dollars.)

Warrant No.	Underlying Securities		Date of Issuance Approved	Liability on Stock Warrants Issued				Repurchase of Stock Warrants Issued			Exercise Price (in dollars)
	Securities Issuer	Class of Shares		Issue Amount	Variation Value	Fair Value	No. of Units (in '000)	Repurchase Cost	Variation Value	Fair Value	
08	BenQ Corp.	Common shares	Jul 30, 2003	\$141,900	\$(138,900)	\$3,000	30,000	\$100,892	\$(98,798)	\$2,094	\$3.70
09	China Trust Financial Holding	Common shares	Jul 31, 2003	100,800	107,200	208,000	40,000	114,120	72,029	186,149	3.90
10	China Steel	Common shares	Aug 1, 2003	108,500	(78,500)	30,000	50,000	28,222	(19,149)	9,073	1.80
11	Uni-President	Common shares	Aug 4, 2003	44,800	(12,800)	32,000	40,000	32,694	(9,805)	22,889	1.05
12	Fubon Financial Holding	Common shares	Aug 5, 2003	84,800	(28,800)	56,000	40,000	72,198	(28,501)	43,697	3.65
13	Yulon Motor	Common shares	Aug 6, 2003	166,800	(150,800)	16,000	40,000	129,978	(116,940)	13,038	3.00
14	Ambit Microsystems	Common shares	Aug 7, 2003	85,800	(79,800)	6,000	60,000	71,960	(66,936)	5,024	1.20
15	Realtek Semiconductor	Common shares	Aug 8, 2003	86,400	(82,400)	4,000	80,000	56,550	(53,946)	2,604	1.65
16	Taiwan Cellular	Common shares	Aug 11, 2003	98,800	(30,800)	68,000	40,000	77,110	(27,543)	49,567	3.05
17	MediaTek	Common shares	Aug 12, 2003	163,800	(121,800)	42,000	30,000	84,716	(63,499)	21,217	7.90
18	Hon Hai Precision	Common shares	Aug 13, 2003	126,400	(102,400)	24,000	80,000	68,157	(55,105)	13,052	2.40
19	Asia Optical	Common shares	Aug 14, 2003	66,900	(14,400)	52,500	30,000	31,697	(7,046)	24,651	4.45
20	China Motor	Common shares	Aug 15, 2003	166,800	(148,800)	18,000	30,000	138,712	(123,403)	15,309	3.40
21	Cathay Financial Holdings	Common shares	Aug 18, 2003	148,800	(60,800)	88,000	40,000	120,136	(49,443)	70,693	2.80
22	Taishin Financial Holding	Common shares	Aug 19, 2003	77,200	16,800	94,000	40,000	70,639	9,696	80,335	2.05
23	E.Sun Financial Holding	Common shares	Aug 20, 2003	65,200	(13,200)	52,000	40,000	39,259	(8,189)	31,070	1.70
24	Chungwha Telecom	Common shares	Aug 21, 2003	132,800	(110,800)	22,000	40,000	117,678	(98,159)	19,519	2.15
25	SinoPac Holdings	Common shares	Aug 22, 2003	53,200	18,800	72,000	40,000	37,863	10,240	48,103	2.00
26	China Development Financial Holding	Common shares	Aug 25, 2003	57,200	62,800	120,000	40,000	34,777	37,433	72,210	2.45
27	Fuhwa Financial Holding	Common shares	Aug 26, 2003	49,200	(21,200)	28,000	40,000	36,278	(15,860)	20,418	1.35
28	Waterland Financial Holdings	Common shares	Aug 27, 2003	43,200	(15,200)	28,000	40,000	21,039	(7,568)	13,471	1.50
29	Cheng Shin Rubber	Common shares	Aug 28, 2003	160,800	(120,800)	40,000	40,000	154,883	(115,634)	39,249	3.00
30	Altek	Common shares	Aug 29, 2003	51,500	(39,000)	12,500	50,000	30,013	(22,813)	7,200	1.20
				<u>\$2,281,600</u>	<u>\$(1,165,600)</u>	<u>\$1,116,000</u>		<u>\$1,669,571</u>	<u>\$(858,939)</u>	<u>\$810,632</u>	

December 31, 2004 (Amounts are expressed in thousands of NT dollars.)

Warrant No.	Underlying Securities		Date of Issuance Approved	Liability on Stock Warrants Issued				Repurchase of Stock Warrants Issued			Exercise Price (in dollars)
	Securities Issuer	Class of Shares		Issue Amount	Variation Value	Fair Value	No. of Units (in '000)	Repurchase Cost	Variation Value	Fair Value	
41	Walsin Lihwa Corp.	Common shares	Nov 19, 2004	\$59,430	\$(2,430)	\$57,000	30,000	\$51,290	\$(2,439)	\$48,851	\$20.75
42	Hsinchu International Bank	Common shares	Nov 22, 2004	58,200	(3,200)	55,000	25,000	49,365	505	49,870	25.08
43	BenQ Corp.	Common shares	Nov 23, 2004	52,682	-	52,682	20,000	-	-	-	53.25
				<u>\$170,312</u>	<u>\$(5,630)</u>	<u>\$164,682</u>		<u>\$100,655</u>	<u>\$(1,934)</u>	<u>\$98,721</u>	

December 31, 2004 (Amounts are expressed in thousands of US dollars.)

Warrant No.	Underlying Securities		Date of Issuance Approved	Liability on Stock Warrants Issued				Repurchase of Stock Warrants Issued			Exercise Price (in dollars)
	Securities Issuer	Class of Shares		Issue Amount	Variation Value	Fair Value	No. of Units (in '000)	Repurchase Cost	Variation Value	Fair Value	
41	Walsin Lihwa Corp.	Common shares	Nov 19, 2004	\$1,862	\$(76)	\$1,786	30,000	\$1,607	\$(76)	\$1,531	\$0.65
42	Hsinchu International Bank	Common shares	Nov 22, 2004	1,823	(100)	1,723	25,000	1,547	16	1,562	0.79
43	BenQ Corp.	Common shares	Nov 23, 2004	1,651	-	1,651	20,000	-	-	-	-
				<u>\$5,336</u>	<u>\$(176)</u>	<u>\$5,160</u>		<u>\$3,154</u>	<u>\$(60)</u>	<u>\$3,093</u>	

(h) Supplementary disclosures

Gains (losses) arising from “liability on issuance of stock warrants”, “repurchase of stock warrants issued” and “securities held for risk hedging” for the years ended December 31, 2003 and 2004 are set forth below.

1) Valuation gain (loss)

	Valuation Gain (Loss)			Financial Statement Account
	Year Ended Dec 31, 2003	Year Ended Dec 31, 2004		
	NT\$	NT\$	US\$	
Gain on variation in value of liability on issuance of stock warrants	\$1,840,438	\$5,630	\$176	Gain on issuance of stock warrants
Loss on variation in value of repurchase of stock warrants issued	(1,357,300)	(1,934)	\$(61)	Loss on issuance of stock warrants

2) Gain (loss) on sale

	Gain (Loss) on Sale			Financial Statement Account
	Year Ended Dec 31, 2003	Year Ended Dec 31, 2004		
	NT\$	NT\$	US\$	
Loss on resell of the stock warrants repurchased	\$(377,805)	\$(100,074)	\$(3,135)	Loss on issuance of stock warrants
Securities held for risk hedging	43,024	154,833	4,851	Gain on sale of securities – risk hedging

3) Gain (loss) at maturity

	Gain (Loss) at Maturity			Financial Statement Account
	Year Ended Dec 31, 2003	Year Ended Dec 31, 2004		
	NT\$	NT\$	US\$	
Gain on stock warrants exercised at maturity	\$-	\$212,560	\$6,660	Gain on issuance of stock warrants
Gain on unexercised expired stock warrants	12,068	12,584	394	Gain on issuance of stock warrants

(3) Futures

(a) Proprietary trading of futures

1) BIS has been engaged in proprietary trading of futures contracts since December 2003. Details of the futures contracts outstanding as of December 31, 2003 and 2004 are set forth below:

Transaction	No. of Contracts Outstanding	Contract Amount/ Premiums Paid		Fair Value		
		NT\$	US\$	NT\$	US\$	
<u>December 31, 2003</u>						
Purchase of January 2004 TSE Banking and Insurance Sector Index Futures	180	\$157,826	\$4,945	\$157,752	\$4,943	
Sale of January 2004 TSE Banking and Insurance Sector Index Futures	120	105,217	3,297	105,168	3,295	
<u>December 31, 2004</u>						
Purchase of January 2005 Taiwan Stock Index Futures	101	\$121,366	\$3,802	\$124,998	\$3,916	
Sale of February 2005 Taiwan Stock Index Futures	5	6,260	196	6,185	194	

2) The net losses incurred on the futures trading for the years ended December 31, 2003 and 2004 were NT\$14,694 thousand and NT\$91,762 thousand (US\$2,875 thousand), respectively, which were recorded under “loss on futures contracts”.

(b) TAIEX Index Options

1) Details of the TAIEX Index Option contracts outstanding as of December 31, 2003 and 2004 are set forth below:

December 31, 2003

None.

December 31, 2004

Transaction	No. of Contracts Outstanding	Contract Amount/ Premiums Paid		Fair Value	
		NT\$	US\$	NT\$	US\$
Purchase of January 2005 TAIEX Index 5600 Call Options	20	\$520,000	\$16,292	\$570,000	\$17,859
Purchase of January 2005 TAIEX Index 6000 Call Options	383	2,650,500	83,044	4,385,350	137,399
Purchase of January 2005 TAIEX Index 6300 Call Options	902	1,874,025	58,716	3,202,100	100,326
Purchase of January 2005 TAIEX Index 6400 Call Options	406	492,025	15,416	842,450	26,395
Purchase of January 2005 TAIEX Index 5500 Put Options	61	47,920	1,501	7,930	248
Purchase of January 2005 TAIEX Index 5700 Put Options	19	17,575	551	8,550	268
Purchase of January 2005 TAIEX Index 6000 Put Options	616	3,745,450	117,350	1,509,200	47,285
Purchase of January 2005 TAIEX Index 6200 Put Options	16	178,500	5,593	104,800	3,283
Purchase of February 2005 TAIEX Index 6000 Call Options	13	117,400	3,678	179,400	5,621
Purchase of February 2005 TAIEX Index 6300 Call Options	54	197,900	6,200	340,200	10,659
Purchase of February 2005 TAIEX Index 6400 Call Options	36	102,475	3,211	158,400	4,963
Purchase of February 2005 TAIEX Index 5600 Put Options	1	1,775	56	850	27
Purchase of February 2005 TAIEX Index 5700 Put Options	16	41,900	1,313	20,800	652
Purchase of February 2005 TAIEX Index 5800 Put Options	5	20,250	634	10,000	313
Purchase of February 2005 TAIEX Index 5900 Put Options	10	75,000	2,350	30,500	956
Purchase of March 2005 TAIEX Index 6300 Call Options	10	70,000	2,193	90,000	2,820
Purchase of September 2005 TAIEX Index 6000 Call Options	2	41,450	1,299	58,500	1,833
Sale of January 2005 TAIEX Index 5900 Call Options	52	698,000	21,869	795,600	24,927
Sale of January 2005 TAIEX Index 6100 Call Options	188	972,800	30,479	1,541,600	48,300
Sale of January 2005 TAIEX Index 6200 Call Options	1,552	5,243,850	164,296	8,613,600	269,875
Sale of January 2005 TAIEX Index 6500 Call Options	171	115,175	3,609	175,275	5,492
Sale of January 2005 TAIEX Index 5400 Put Options	9	4,410	138	450	14
Sale of January 2005 TAIEX Index 5600 Put Options	347	576,050	18,048	67,665	2,120
Sale of January 2005 TAIEX Index 6100 Put Options	47	245,450	7,690	192,700	6,038
Sale of February 2005 TAIEX Index 6100 Call Options	18	121,900	3,819	188,100	5,893
Sale of February 2005 TAIEX Index 6200 Call Options	2	10,100	316	15,700	492
Sale of March 2005 TAIEX Index 6100 Call Options	10	96,500	3,023	144,000	4,512

2) The net losses incurred by BIS on the TAIEX Index Options for the years ended December 31, 2003 and 2004 were NT\$1,252 thousand and NT\$44,459 thousand (US\$1,393 thousand), respectively, which were recorded under "loss on option contracts".

(c) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The option contracts entered into by BIS are all exchange-traded and can be settled at expiration without default. Therefore, no significant credit risk is expected to arise.

(d) Market risk

The major risk associated with the futures and option trading undertaken by BIS is the market risk arising from the fluctuations in the market prices of the underlying securities. Losses will be incurred if market index prices and the prices of the underlying securities move in opposite directions. To control the risk within a tolerable limit, a stop-loss mechanism has been established.

Pursuant to the Letter (87) Tai-Tsai-Tseng (2) No.01761 issued by the SFC, securities firms are allowed to undertake futures trading for risk hedging purpose with the approval from the SFC if risk hedging is deemed necessary for the marketable securities held for proprietary trading and underwriting. However, the total market value of the securities firm's position in the outstanding futures contracts cannot exceed the total market value of the spot securities held on hand nor can it exceed 20% of the securities firm's net worth. Hence, market risk is assessed to be remote.

(e) Liquidity risk

As premiums are paid before futures and option contracts are bought, no funding requirement is expected. In addition, the options written and the outstanding futures contracts can be settled at reasonable prices. Therefore, liquidity risk is assessed to be remote.

(f) Amount and timing of future cash flows

To hedge the risk arising from proprietary trading of stocks, BIS has entered into TAIEX Index Futures and TAIEX Index Option contracts. Margin deposits are paid before the transactions take effect. BIS' position in the outstanding futures contracts is marked to market daily, and its working capital is assessed to be adequate to support the margin calls. Hence, no cash flow risk or significant cash requirements are expected.



(4) Interest rate swaps

(a) BIS has been undertaking interest rate swap contracts for risk hedging and trading purposes. Details of the interest rate swap contracts outstanding as of December 31, 2003 and 2004 are set forth below:

December 31, 2003

None.

December 31, 2004

Counterparty	Transaction	Notional Principal		Fixed Interest Rate	Floating Interest Rate	Settlement Date	Expiry Date	Purpose	Hedged Item
		NT\$	US\$						
Fubon Bills Finance	Receive floating/ pay fixed	\$300,000	\$9,399	1.34%	1.202%	Quarterly	Sep 5, 2005	Trading	None
Fubon Bills Finance	Receive fixed/ pay floating	300,000	9,399	1.39%	1.190%	Quarterly	Sep 19, 2005	Trading	None
Fubon Bills Finance	Receive floating/ pay fixed	100,000	3,133	1.81%	1.177%	Quarterly	Aug 7, 2006	Trading	None
Jihsun Securities	Receive fixed/ pay floating	100,000	3,133	1.82%	1.177%	Quarterly	Aug 7, 2006	Trading	None
Fubon Bills Finance	Receive floating/ pay fixed	300,000	9,399	1.805%	1.170%	Quarterly	Oct 5, 2006	Trading	None
Jihsun Securities	Receive floating/ pay fixed	300,000	9,399	2.21%	1.174%	Quarterly	Jul 26, 2007	Trading	None
Polaris Securities	Receive fixed/ pay floating	300,000	9,399	2.215%	1.174%	Quarterly	Jul 26, 2007	Trading	None
HSBC	Receive floating/ pay fixed	300,000	9,399	2.10%	1.177%	Quarterly	Oct 22, 2007	Trading	None
HSBC	Receive fixed/ pay floating	300,000	9,399	1.91%	1.193%	Quarterly	Nov 23, 2007	Trading	None
Polaris Securities	Receive fixed/ pay floating	300,000	9,399	2.68%	1.179%	Quarterly	Oct 12, 2009	Trading	None
Taishin International Bank	Receive fixed/ pay floating	200,000	6,266	2.665%	1.174%	Quarterly	Oct 26, 2009	Trading	None
Entie Commercial Bank	Receive floating/ pay fixed	500,000	15,666	2.58%	1.174%	Quarterly	Oct 27, 2009	Trading	None
Chinatrust Commercial Bank	Receive floating/ pay fixed	300,000	9,399	2.57%	1.178%	Quarterly	Nov 11, 2009	Trading	None
President Securities	Receive fixed/ pay floating	300,000	9,399	2.31%	1.193%	Quarterly	Nov 23, 2009	Trading	None
KGI Securities	Receive floating/ pay fixed	300,000	9,399	2.21%	1.196%	Quarterly	Dec 9, 2009	Trading	None
KGI Securities	Receive floating/ pay fixed	300,000	9,399	2.21%	1.196%	Quarterly	Dec 9, 2009	Trading	None

(b) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The counterparties of BIS are all well-known banks with good credit ratings. Thus, the credit risk is assessed to be remote.

(c) Market risk

The market risk arises from the fluctuations in interest rates. The interest rate swaps are undertaken by BIS to hedge the interest rate risk arising from net assets. Thus, the market risk is offset against each other. BIS mainly utilizes interest rate swaps when an increase in interest rates is expected. When the interest rate moves in an unfavorable direction, the loss can be controlled within a tolerable limit. As a result, no significant market risk is expected.

(d) Amount and timing of future cash flows

Upon settlement of the contracts, the amount of the notional principal multiplied by the interest rate differential is received or paid. As the amount settled is insignificant and the notional principal is not settled, no significant cash requirement is expected.

(5) Asset swaps

(a) As BIS has underwritten convertible bonds on a firm commitment basis, it has entered into convertible bond asset swap option contracts to enhance the liquidity of the remaining convertible bonds held on hand and thereby, reduce the risk of its position in the convertible bonds.

(b) Details of the asset swap option contracts undertaken by BIS as of December 31, 2003 and 2004 are as follows:

December 31, 2003

None.

December 31, 2004

Financial Instrument	Notional Principal / Contract Amount		Fair Value	
	NT\$	US\$	NT\$	US\$
Sale of American call options	\$2,132,600	\$66,817	\$114,999	\$3,603

(c) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. The quantitative information of BIS' right to buy or obligation to sell convertible bonds are entered into the information system of the GreTai Securities Market (the



over-the-counter market) on the contract date and settlement of the asset swap option contracts is conducted through Taiwan Securities Central Depository Co., Ltd. Hence, no significant credit risk is expected.

(d) Market risk

When BIS exercises its right to buy or performs its obligation to sell convertible bonds, the related prices are quoted in accordance with the rules specified in the contracts. Therefore, market risk is assessed to be remote.

(e) Amount and timing of future cash flows

BIS' working capital is assessed to be adequate to support the periodic payment of the specified interest on the asset swap transaction during the contract period. Hence, no significant funding risk is expected.

(f) Gains (losses) on the convertible bond asset swaps are as follows:

	Realized Loss		Valuation Gain		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
Asset swap options	\$(2,453)	\$(77)	\$283	\$9	\$(2,170)	\$(68)

(6) Structured financial instruments

(a) BIS obtained the approval from the governing authority in July 2003 to issue structured financial products denominated in New Taiwan dollars, which include equity-linked notes (ELN) and principal-guaranteed notes (PGN). Details of the outstanding contracts of the structured financial instruments as of December 31, 2003 and 2004 are set forth below:

December 31, 2003

None.

December 31, 2004

In Thousands of NT Dollars

Transaction	Contract Principal	Cost of Fixed Income Securities	Market Price of Fixed Income Securities	Option Cost	Option Value
ELN	\$40,000	\$38,784	\$39,965	\$1,137	\$24

In Thousands of US Dollars

Transaction	Contract Principal	Cost of Fixed Income Securities	Market Price of Fixed Income Securities	Option Cost	Option Value
ELN	\$1,253	\$1,215	\$1,252	\$36	\$1

(b) Credit risk

The credit risk pertains to the risk that the counterparties may default at expiration of the contracts. As payments for the structured financial instruments are collected from the investors on the contract date and placed in an exclusive account at the custodian institution, no significant credit risk is expected.

(c) Market risk

Payments received from the investors for the structured financial instruments on the contract date are utilized in accordance with the terms and conditions specified in the contract. As the prices of the underlying securities and the fixed income securities invested using the payments from the investors can be referred to the public quoted market prices, market risk is assessed to be remote.

(d) Amount and timing of cash flows

Payments received from the investors for the structured financial instruments on the contract date are placed in an exclusive account at the custodian institution, which are separated from BIS' own assets. The terms and conditions on utilization of the investors' payments are specified in the contract, including the proportion to be invested in fixed income securities. Therefore, no significant cash requirements are expected at expiration of the contract.

(e) Gains (losses) on the structured financial instruments for the years ended December 31, 2003 and 2004 are set forth below:

	Year Ended December 31, 2003					
	Realized Gain		Valuation Loss		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
PGN	\$930	\$29	\$-	\$-	\$930	\$29

	Year Ended December 31, 2004					
	Realized Gain		Valuation Loss		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
ELN	\$778	\$24	\$(1,077)	\$(34)	\$(299)	\$(9)
PGN	271	9	-	-	271	8
Total	\$1,049	\$33	\$(1,077)	\$(34)	\$(28)	\$(1)

## 2. Fair values of non-derivative financial instruments

In Thousands of NT Dollars

	December 31, 2003 (Restated)		December 31, 2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$54,150,859	\$54,150,859	\$64,688,233	\$64,688,233
Due from the Central Bank and other banks	218,482,582	218,482,582	213,294,345	213,294,545
Securities purchased, net	363,801,282	364,280,339	497,011,851	499,474,962
Receivables, net	70,592,825	70,592,825	116,049,779	116,049,779
Bills, discounts and loans, net	947,482,314	947,482,314	1,031,438,120	1,031,438,120
Long-term equity investments	36,973,456	53,531,320	38,108,349	45,837,296
Other long-term investments	23,397,006	23,532,451	109,768,354	116,497,075
<b>Liabilities</b>				
Short-term debts	17,582,689	17,582,689	23,399,191	23,399,191
Bills sold under repurchase agreements	34,772,884	34,772,884	250,636,709	250,636,709
Due to the Central Bank and other banks	229,804,909	229,804,909	244,097,749	244,097,749
Payables	60,958,815	60,958,815	101,702,273	101,702,273
Deposits and remittances	968,364,452	968,364,452	1,033,515,216	1,033,515,216
Funds borrowed from the Central Bank and other banks	144,475,721	144,475,721	136,297,888	136,297,888
Bank debentures payable, net	74,300,344	74,300,344	85,438,020	85,438,020
Corporate bonds payable, net	43,444,820	43,444,820	50,107,476	50,107,476

In Thousands of US Dollars

	December 31, 2004	
	Carrying Value	Fair Value
<b>Assets</b>		
Cash and cash equivalents	\$2,026,676	\$2,026,764
Due from the Central Bank and other banks	6,682,781	6,682,788
Securities purchased, net	15,572,010	15,649,183
Receivables, net	3,635,986	3,635,986
Bills, discounts and loans, net	32,316,261	32,316,262
Long-term equity investments	1,193,982	1,436,140
Other long-term investments	3,439,182	3,650,000
<b>Liabilities</b>		
Short-term debts	733,126	733,126
Bills sold under repurchase agreements	7,852,765	7,852,765
Due to the Central Bank and other banks	7,647,891	7,647,891
Payables	3,186,461	3,186,461
Deposits and remittances	32,381,340	32,381,340
Funds borrowed from the Central Bank and other banks	4,270,386	4,270,386
Bank debentures payable, net	2,676,881	2,676,881
Corporate bonds payable, net	1,569,931	1,569,931

The assumptions and methods adopted by the Company to estimate the fair values of the above financial instruments are summarized below.

- (1) Fair values of the short-term financial instruments are estimated to be equal to their carrying values on the balance sheets. As maturity of these instruments is short and their disposal prices approximate to their carrying values, it is reasonable that their fair values equal their carrying values. This method is applied to cash and cash equivalents, due from the Central Bank and other banks, receivables, short-term debts, bills and bonds sold under repurchase agreements, due to the Central Bank and other banks, payables, deposits and remittances.
- (2) Fair values of the securities purchased, long-term equity investments and other long-term investments equal 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) As bills, discounts, loans and deposits are all interest-bearing financial assets and liabilities, most of which are based on floating interest rates, their fair values approximate to their carrying values.
- (4) As funds borrowed from the Central Bank and other banks and bank debentures payable are financial liabilities with floating interest rates, their fair values equal their carrying values.

- (5) As the unsecured corporate bonds recorded under corporate bonds payable are interest-bearing financial liabilities, most of which are based on floating interest rates, their fair value approximates to their carrying value. The fair value of the ECBs is estimated based on their carrying value on the balance sheet. As the coupon rate on the ECBs is zero and the date of redemption is uncertain, it is difficult to calculate the present value of ECBs. In addition, the carrying value of ECBs is adjusted on the balance sheet date based on the prevailing spot exchange rate on that date. Therefore, the fair value of the ECBs is estimated based on their carrying value on the balance sheet.

### 3. Disclosures required by the Guidelines for Preparation of Financial Reports by Financial Holding Companies

- (1) Information on the apportionment 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 facilities or premises

- (a) Transactions between the Company and its subsidiaries

Please refer to Note V.

- (b) Joint promotion of businesses

To create synergies within the group and provide one-stop financial services, CTB established a financial consulting center to facilitate the cross-selling of BIS' and CKI's products on April 2, 2003.

- (c) Sharing of information

Under the Financial Holding Company Act, Computer Process of Personal Data Protection Law and the related regulations stipulated by the Ministry of Finance, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the group or exchanged between the subsidiaries for the purpose of cross-selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are bound to use the information for the specified purposes only. In addition, the Company is required to publish its "Measures for Protection of Customers' Information" at its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

- (d) Sharing of operating facilities or premises

To provide one-stop-shopping services, CTB set up a securities desk and an insurance desk within its financial consulting center on April 2, 2003, which are engaged in the cross-selling of BIS' and CKI's products, respectively. In June and August 2004, the Company obtained additional permits from the governing authorities to set up service desks in the branch offices of the other subsidiaries to cross sell products other than the core products of the respective branches.

- (e) Apportionment of revenues, costs, expenses, gains and losses

- a. Sharing of premises

Costs and expenses incurred on cross-selling of products are allocated to the subsidiaries (i.e. CTB, BIS and CKI) involved in the joint promotion of businesses.

- b. Joint promotion of businesses

The promotion bonus amounting to NT\$7,753 thousand (US\$243 thousand), NT\$24,375 thousand (US\$764 thousand) and NT\$2,115 thousand (US\$66 thousand) were paid by ICBC, MITC and CHBF, respectively, to other subsidiaries. The insurance premiums income of CKI increased by NT\$227,699 thousand (US\$7,134 thousand) as a result of the cross-selling.

- (2) Capital adequacy ratio of the Company's securities subsidiary

Subsidiary	December 31, 2003	December 31, 2004
Barits International Securities Co., Ltd.	386.39%	268%

- (3) Eliminations of the transactions between the controlling company and its affiliated companies

- (a) Pursuant to the rules stipulated by the SFC, listed companies are required to comply with Paragraph 36 of the SFAS 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.

- (b) Separate disclosures are required where the affiliated companies' total assets and operating revenues both exceed 10% of the controlling company's respective accounts.

Please refer to Appendix 1 for details.

### 4. Certain accounts for 2003 have been reclassified to conform to the 2004 financial statement presentation.

## XI. SEGMENT INFORMATION

### 1. Information by industry

Expressed in Thousands of NT Dollars

	Year Ended December 31, 2003 (Restated)				
	Banking	Bills Finance	Other Industries	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	\$56,340,675	\$9,733,248	\$15,512,958	\$-	\$81,586,881
Income derived from inter-company transactions	3,503	3,074	287,415	(293,992)	-
Total income (loss)	\$56,344,178	\$9,736,322	\$15,800,373	(293,992)	\$81,586,881
Net income (loss)	\$12,194,024	\$3,888,994	\$20,860,187	\$(18,990,400)	\$17,952,805
Investment income accounted for by the equity method					1,931,151
Net general income					698,285
Income before income tax from continuing operations					\$20,582,241
Identifiable assets	\$1,605,390,437	\$44,977,062	\$65,845,604	\$(13,277,433)	\$1,702,935,670
Long-term investments					60,370,462
Total assets					\$1,763,306,132
Depreciation and amortization	\$1,079,978	\$70,948	\$234,465		
Capital expenditure	\$708,808	\$17,013	\$2,192,468		

Expressed in Thousands of NT Dollars

	Year Ended December 31, 2004				
	Banking	Bills Finance	Other Industries	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	\$62,382,382	\$9,771,312	\$16,084,269	\$-	\$88,237,963
Income derived from inter-company transactions	-	6,020	251,880	(257,900)	-
Total income (loss)	\$62,382,382	\$9,777,332	\$16,336,149	\$(257,900)	\$88,237,963
Net income (loss)	\$18,234,126	\$4,013,733	\$22,366,871	\$(22,435,687)	\$22,179,043
Investment income accounted for by the equity method					640,198
Net general income					880,296
Income before income tax from continuing operations					\$23,699,537
Identifiable assets	\$1,751,555,883	\$153,934,208	\$88,709,201	\$(21,170,769)	\$1,973,028,523
Long-term investments					147,876,703
Total assets					\$2,120,905,226
Depreciation and amortization	\$1,058,035	\$70,029	\$387,544		
Capital expenditure	\$518,140	\$13,284	\$2,082,728		

Expressed in Thousands of US Dollars

	Year Ended December 31, 2004				
	Banking	Bills Finance	Other Industries	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	\$1,954,519	\$306,148	\$503,941	\$-	\$2,764,608
Income derived from inter-company transactions	-	188	7,892	(8,080)	-
Total income (loss)	\$1,954,519	\$306,336	\$511,833	\$(8,080)	\$2,764,608
Net income (loss)	\$571,299	\$125,755	\$700,782	\$(702,938)	\$694,898
Investment income accounted for by the equity method					20,058
Net general income					27,580
Income before income tax from continuing operations					742,536
Identifiable assets	\$54,878,462	\$4,822,954	\$2,779,371	\$(663,307)	\$61,817,480
Long-term investments					4,633,165
Total assets					\$66,450,645
Depreciation and amortization	\$33,150	\$2,194	\$12,142		
Capital expenditure	\$16,234	\$416	\$65,255		

## 2. Geographic information

Expressed in Thousands of NT Dollars

	Year Ended December 31, 2003 (Restated)				
	Domestic Operations	USA	Other Overseas Operations	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	\$72,777,167	\$4,983,378	\$3,826,336	\$-	\$81,586,881
Income derived from inter-company transactions	36,678	43,541	213,773	(293,992)	-
Total income (loss)	\$72,813,845	\$5,026,919	\$4,040,109	\$(293,992)	\$81,586,881
Net income	\$16,066,624	\$815,362	\$1,070,819		\$17,952,805
Investment income accounted for by the equity method					1,931,151
Net general income					698,285
Income before income tax from continuing operations					\$20,582,241
Identifiable assets	\$1,394,602,431	\$190,279,707	\$131,330,965	\$(13,277,433)	\$1,702,935,670
Long-term Investments					60,370,462
Total assets					\$1,763,306,132

Expressed in Thousands of NT Dollars

	Year Ended December 31, 2004				
	Domestic Operations	USA	Other Overseas Operations	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	\$78,037,779	\$4,714,258	\$5,485,926	\$-	\$88,237,963
Income derived from inter-company transactions	106,566	19,393	131,941	(257,900)	-
Total income (loss)	\$78,144,345	\$4,733,651	\$5,617,867	\$(257,900)	\$88,237,963
Net income	\$22,027,709	\$19,393	\$131,941		\$22,179,043
Investment income accounted for by the equity method					640,198
Net general income					880,296
Income before income tax from continuing operations					\$23,699,537
Identifiable assets	\$1,595,560,051	\$199,246,610	\$180,392,631	\$(2,170,769)	\$1,973,028,523
Long-term investments					147,876,703
Total assets					\$2,120,905,226

Expressed in Thousands of US Dollars

	Year Ended December 31, 2004				
	Domestic Operations	USA	Other Overseas Operations	Adjustments and Eliminations	Total
Income derived from transactions conducted outside the Company and its subsidiaries	\$2,445,022	\$147,704	\$171,882	\$-	\$2,764,608
Income derived from inter-company transactions	3,339	607	4,134	(8,080)	-
Total income (loss)	\$2,448,361	\$148,311	\$176,016	\$(8,080)	\$2,764,608
Net income	\$690,156	\$607	\$4,134		\$694,897
Investment income accounted for by the equity method					20,058
Net general income					27,581
Income before income tax from continuing operations					\$742,536
Identifiable assets	\$49,990,916	\$6,242,649	\$5,651,928	\$(68,013)	\$61,817,480
Long-term investments					4,633,165
Total assets					\$66,450,645

## 3. Export information

No export revenues were generated by the Company and its subsidiaries for the years ended December 31, 2003 and 2004.

## 4. Information on major customers

No customers of the Company and its subsidiaries accounted for more than 10% of their respective unconsolidated operating revenues for the years ended December 31, 2003 and 2004.

## Appendix 1

### MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

#### Eliminated Transactions between the Controlling Company and its Affiliated Companies

For the Year Ended December 31, 2004

Expressed in Thousands of Dollars

Transactions Eliminated	Affiliated Companies											
	Mega		CTB		BIS		CHBF		ICBC		CKI	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
1. Long-term investments and stockholders' equity eliminated (1) between the Company and its subsidiaries	(191,460,211)	(5,998,691)	60,837,904	1,906,128	14,621,853	458,121	36,809,926	1,153,302	72,516,502	2,272,034	6,674,026	209,106
2. Liability accounts eliminated												
(1) deposits and loans	(16,183,552)	(507,051)	11,102,645	347,860	(794,288)	(24,886)	-	-	6,125,132	191,908	(249,937)	(7,831)
(2) receivables and payables	(490,301)	(15,362)	163,674	5,128	(682)	(21)	131	4	328,954	10,307	(1,776)	(56)
(3) others	391,873	12,278	(231,997)	(7,269)	430,710	13,494	(1,150,840)	(36,057)	463,458	14,521	96,796	3,033
3. Profit and loss accounts eliminated												
(1) interest income (expense)	308,250	9,658	(183,843)	(5,760)	37,180	1,165	(3,432)	(108)	(158,105)	(4,954)	(50)	(1)
(2) others	(27,560)	(863)	(23,547)	(738)	(60,018)	(1,881)	2,697	85	(70,397)	(2,206)	178,825	5,603

## Appendix 2

### MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

#### Terms on Corporate Bonds

December 31, 2004

Expressed in Dollars

Type of the bonds issued	First domestic unsecured corporate bonds
Date of issuance	December 16, 2002 – December 25, 2002
Face value	NT\$5,000,000
Place of issuance	Taiwan, R.O.C.
Issue price	NT\$5,000,000
Principal amount	NT\$15,000,000,000
Interest rate	Bond A-1: 2.95%
	Bond A-2: 2.9286%
	Bond B: Average interest rate on two-year time deposits + 0.25%
	Bond C: Average interest rate on one-year time deposits + 0.25%
	Bond D: 5.45% - floating rate A, but not less than 0%
	Bond E-1: 3.85% for first year; 4.90% - floating rate B from second to fifth year, but not less than 0%
	Bond E-2: 3.75% for first year; 4.65% - floating rate B for second and third years, but not less than 0%; floating rate B + 0.4% for fourth and fifth years, but not exceeding 3%
Period	Bonds A-1, A-2, B, D, E-1 and E-2: 5 years
	Bond C: 3 years
Guarantor	None
Trustee	China Trust Commercial Bank
Underwriter	None
Lawyer	Shintai Law Office
Certified public accountant	Diwan, Ernst & Young
Method of repayment	Principal to be repaid in lump sum at maturity based on the face value
Outstanding principal	NT\$15,000,000,000
Clauses on redemption and early repayment	None
Restricted clauses	None
Use of proceeds	Investments

Average interest rate on time deposits: Average of the fixed board rates on time deposits offered by Chang Hwa Commercial Bank, First Commercial Bank, Hua Nan Commercial Bank and Bank of Taiwan on the date on which the interest rates are set for Bonds B and C.

Floating rate A: USD 6-month LIBOR appearing on Page No.3750 of Moneyline Telerate at 11:00 am of London time on the date on which the interest rate is set for Bond D.

Floating rate B: Interest rate appearing on Page No.6165 of Moneyline Telerate for the 90-day promissory notes at 11:00am of the date on which the interest rates are set for Bonds E-1 and E-2.

### Appendix 3

#### MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

##### Terms on Corporate Bonds

December 31, 2004

Expressed in Dollars

Name of the corporate bonds issued	First unsecured corporate bonds issued by Barits International Securities Co., Ltd. in 2004
Date of issuance	Bonds A ~ J: April 27, 2004 - May 10, 2004
Face value	NT\$10,000,000
Place of issuance	Taiwan, R.O.C.
Issue price	NT\$10,000,000
Principal amount	NT\$5,000,000,000
Interest rate	1.75%
Period	3 years Maturity date for Bonds A ~ J: April 27, 2007 - May 10, 2007
Guarantor	None
Trustee	Bank SinoPac
Underwriter	None
Lawyer	Shintai Law Office
Certified public accountant	Diwan, Ernst & Young
Method of repayment	Principal to be repaid in lump sum at maturity
Outstanding principal	NT\$5,000,000,000
Clauses on redemption and early repayment	None
Restricted clauses	None

### Appendix 4

#### MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

##### Terms on Euro Convertible Bonds

December 31, 2004

Expressed in Dollars

Type of the bonds issued	Euro convertible bonds
Date of approval by the governing authority	July 25, 2003
Date of issuance	September 24, 2003
Face value	US\$1,000
Place of issuance	Listed on the Luxemburg Stock Exchange
Issue price	100% of face value
Principal amount	US\$690,000,000
Yield to maturity	-0.10%
Coupon rate	0%
Period	Two years with maturity on September 24, 2005
Collaterals	None
Conversion period	October 24, 2003 ~ September 9, 2005
Conversion price at issuance	NT\$21.08 per share (The exchange rate is fixed at NT\$34.1/US\$1.)
Current conversion price (effective Aug 10, 2004)	NT\$19.509 per share (The exchange rate is fixed at NT\$34.1/US\$1.)
Guarantor	None
Trustee	The Bank of New York
Underwriter	Lehman Brothers and Morgan Stanley
Attorney	Baker & McKenzie
Certified public accountant	Diwan, Ernst & Young
Method of repayment	To be redeemed at maturity at 99.80% of the principal amount
Outstanding principal	US\$586,649,000
Redemption at the issuer's option	<ol style="list-style-type: none"> <li>The issuer may redeem the bonds after September 24, 2004 if the market price of the shares, translated into US dollars at the prevailing rate, is at least 130% of the conversion price for a period of 20 consecutive trading days.</li> <li>The issuer may also redeem the bonds if more than 90% in aggregate principal amount of the bonds has already been redeemed, repurchased or converted.</li> <li>The issuer may also redeem the bonds if additional interest expense is incurred because of a change in the Taiwan Tax Law.</li> </ol>
Redemption at the bondholders' option	The bondholders have the right to require the issuer to redeem the bonds, in whole or in part, on March 24, 2005 at 99.85% of the principal amount.
Adjustment in conversion price	The conversion price may be adjusted if the issuer increases capital through cash injection, distributes stock dividends, or distributes bonus shares to employees through issuance of new shares.
Use of proceeds	To repay loans and invest in companies in the Taiwan financial services industry.

## Appendix 5

### MEGA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

#### Terms on Euro Convertible Bonds

December 31, 2004

Expressed in Dollars

Type of the bonds issued	Euro convertible bonds
Date of approval by the governing authority	February 5, 2004
Date of issuance	February 13, 2004
Face value	US\$1,000
Place of issuance	Listed on the Luxemburg Stock Exchange
Issue price	100% of face value
Principal amount	US\$200,000,000
Yield to maturity	-0.625% (compounded semi-annually)
Coupon rate	0%
Period	One and half years with maturity on August 13, 2005
Collaterals	None
Conversion period	March 15, 2004 ~ July 29, 2005
Conversion price at issuance	NT\$27.625 per share (The exchange rate is fixed at NT\$33.25/US\$1.)
Current conversion price (effective Aug 10, 2004)	NT\$25.566 per share (The exchange rate is fixed at NT\$33.25/US\$1.)
Guarantor	None
Trustee	The Bank of New York
Underwriter	Lehman Brothers, Morgan Stanley and Citigroup
Attorney	Baker & McKenzie
Certified public accountant	Diwan, Ernst & Young
Method of repayment	To be redeemed at maturity at 99.065% of the principal amount
Outstanding principal	US\$200,000,000
Redemption at the issuer's option	<ol style="list-style-type: none"> <li>1. The issuer may redeem the bonds after September 24, 2004 if the market price of the shares, translated into US dollars at the prevailing rate, is at least 130% of the conversion price for a period of 20 consecutive trading days.</li> <li>2. The issuer may also redeem the bonds if more than 90% in aggregate principal amount of the bonds has already been redeemed, repurchased or converted.</li> <li>3. The issuer may also redeem the bonds if additional interest expense is incurred because of a change in the Taiwan Tax Law.</li> </ol>
Adjustment in conversion price	The conversion price may be adjusted if the issuer increases capital through cash injection, distributes stock dividends, or distributes bonus shares to employees through issuance of new shares.
Use of proceeds	To invest in companies in the Taiwan financial services industry.



## IV. Financial Statements (Parent Company)

English Translation of a Report Originally Issued in Chinese

### **Report of Independent Auditors**

The Board of Directors and Stockholders  
Mega Financial Holding Co., Ltd.  
(Formerly known as CTB Financial Holding Co., Ltd.)

We have audited the accompanying balance sheets of Mega Financial Holding Co., Ltd. (the "Company") as of December 31, 2003 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. 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 audits.

We conducted our audits in accordance with the "Regulations for Audit and Certification of Financial Statements of Financial Institutions 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mega Financial Holding Co., Ltd. as of December 31, 2003 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with the "Guidelines for Preparation of Financial Reports by Financial Holding Companies", "Guidelines for Preparation of Financial Reports by 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 Co., Ltd. as of and for the years ended December 31, 2003 and 2004, on which we have issued an unqualified opinion with explanatory paragraph thereon.



March 10, 2005  
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 on Taiwan 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 CO., LTD. / BALANCE SHEETS

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

December 31, 2003 and 2004

ASSETS	Notes	Dec. 31, 2003	Dec. 31, 2004	
		NT\$	NT\$	US\$
<b>Current Assets</b>				
Cash and cash equivalents	II, IV-1 and V	\$10,399,216	\$16,643,459	\$521,461
Receivables	V	131,916	1,446,030	45,306
Other Receivables	V	667	1,048,064	32,837
Prepaid expenses		6,900	51,319	1,608
<b>Total Current Assets</b>		10,538,699	19,188,872	601,212
<b>Long-term Investments</b>	II and IV-2			
Long-term equity investments				
Long-term investments accounted for under equity method		187,522,453	194,113,297	6,081,815
Long-term investments accounted for under cost method		150,000	848,216	26,576
<b>Total Long-term Investments</b>		187,672,453	194,961,513	6,108,391
<b>Property and Equipment</b>	II and IV-3			
Computers		38,418	68,610	2,150
Miscellaneous equipment		6,852	7,154	224
Leasehold improvements		28,588	28,768	901
Less: Accumulated depreciation		(4,971)	(21,405)	(671)
Subtotal		68,887	83,127	2,604
Machinery on order		21,753	57,659	1,807
<b>Total Property and Equipment, Net</b>		90,640	140,786	4,411
<b>Non-operating Assets</b>				
Refundable deposits	V	1,980	2,545	80
Miscellaneous assets		10	-	-
Bond issuance expenses	II	226,683	64,305	2,015
Deferred income tax assets - non-current	II and IV-12	-	3,845	120
Other deferred expenses	II	23,079	42,225	1,323
<b>Total Non-operating Assets</b>		251,752	112,920	3,538
<b>TOTAL ASSETS</b>		<b>\$198,553,544</b>	<b>\$214,404,091</b>	<b>\$6,717,552</b>

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

Expressed in Thousands of Dollars

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	Dec. 31, 2003	Dec. 31, 2004	
		NT\$	NT\$	US\$
<b>Current Liabilities</b>				
Short-term loans	IV-4	\$2,192,000	\$600,000	\$18,799
Commercial paper payable, net	IV-5	899,285	2,996,992	93,899
Payables		453,082	2,901,501	90,908
Other payables	V	-	1,391,603	43,601
Deferred income tax liabilities - current		-	12,544	393
Corporate bonds payable within one year		-	27,207,476	852,444
<b>Total Current Liabilities</b>		<b>3,544,367</b>	<b>35,110,116</b>	<b>1,100,044</b>
<b>Long-term Liabilities</b>				
Corporate bonds payable, net	II and IV-6	38,444,820	12,900,000	404,173
Accrued pension liability	II and IV-7	13,226	23,415	734
<b>Total Long-term Liabilities</b>		<b>38,458,046</b>	<b>12,923,415</b>	<b>404,907</b>
<b>Other Liabilities</b>				
Guarantee deposits received		1,291	2,509	79
Deferred revenue		17,258	-	-
<b>Total Other Liabilities</b>		<b>18,549</b>	<b>2,509</b>	<b>79</b>
<b>Total Liabilities</b>		<b>42,020,962</b>	<b>48,036,040</b>	<b>1,505,030</b>
<b>Stockholders' Equity</b>				
<b>Capital stock</b>				
Common stock	IV-8	113,971,716	113,657,296	3,561,027
<b>Capital surplus</b>	II			
Additional paid-in capital		46,573,328	46,402,120	1,453,837
Capital surplus - treasury stock		1,954	2,353	74
Adjustments arising from long-term equity investments accounted for under equity method		1,047	2,340	73
<b>Total capital surplus</b>		<b>46,576,329</b>	<b>46,406,813</b>	<b>1,453,984</b>
<b>Retained earnings</b>				
Legal reserve		5,697,916	7,521,240	235,650
Special reserve	II	405,703	381,624	11,957
Unappropriated retained earnings	IV-9	18,920,504	23,636,939	740,575
<b>Total retained earnings</b>		<b>25,024,123</b>	<b>31,539,803</b>	<b>988,182</b>
<b>Equity adjustments</b>				
Unrealized loss on the decline in market value of long-term equity investments		(18,750)	(4,855)	(152)
Cumulative translation adjustments		606,770	12,543	393
Net loss not recognized as pension cost		(9,340)	(14,500)	(454)
<b>Total equity adjustments</b>		<b>578,680</b>	<b>(6,812)</b>	<b>(213)</b>
<b>Treasury stock</b>	II and IV-10	(29,618,266)	(25,229,049)	(790,458)
<b>Total Stockholders' Equity</b>		<b>156,532,582</b>	<b>166,368,051</b>	<b>5,212,522</b>
<b>Commitments and Contingent Liabilities</b>	VII			
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$198,553,544</b>	<b>\$214,404,091</b>	<b>\$6,717,552</b>

# MEGA FINANCIAL HOLDING CO., LTD. / STATEMENTS OF INCOME

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

For the Years Ended December 31, 2003 and 2004

Expressed in Thousands of Dollars, Except Per Share Amounts

	Notes	Year Ended	Year Ended	
		Dec. 31, 2003	Dec. 31, 2004	
		NT\$	NT\$	US\$
<b>Operating Revenues</b>				
Investment income accounted for under equity method	II and IV-2	\$18,822,304	\$21,939,522	\$687,393
Other operating revenues		32,194	1,366	43
<b>Total Operating Revenues</b>		<b>18,854,498</b>	<b>21,940,888</b>	<b>687,436</b>
<b>Operating Costs</b>				
Other operating costs		-	(36,784)	(1,152)
<b>Total Operating Costs</b>		<b>-</b>	<b>(36,784)</b>	<b>(1,152)</b>
<b>Operating Expenses</b>				
Administrative and general expenses	IV-11 and V	(296,340)	(477,694)	(14,967)
Staff training expenses		(749)	(1,045)	(33)
<b>Total Operating Expenses</b>		<b>(297,089)</b>	<b>(478,739)</b>	<b>(15,000)</b>
<b>Income from Operations</b>		<b>18,557,409</b>	<b>21,425,365</b>	<b>671,284</b>
<b>Non-operating Income</b>				
Interest income	V	65,530	340,605	10,672
Foreign exchange gain		-	36,465	1,142
Miscellaneous income		3,871	1,484	47
<b>Total Non-operating Income</b>		<b>69,401</b>	<b>378,554</b>	<b>11,861</b>
<b>Non-operating Expenses</b>				
Interest expense	V	(521,744)	(417,651)	(13,086)
Foreign exchange loss		(1,750)	-	-
Remittance fees, service charges and securities issuance expenses		(3,751)	(3,451)	(108)
<b>Total Non-operating Expenses</b>		<b>(527,245)</b>	<b>(421,102)</b>	<b>(13,194)</b>
<b>Income before Income Tax from Continuing Operations</b>		<b>18,099,565</b>	<b>21,382,817</b>	<b>669,951</b>
<b>Income Tax Benefit (Expense)</b>	II and IV-12	<b>(489)</b>	<b>521,314</b>	<b>16,333</b>
<b>Net Income</b>		<b>\$18,099,076</b>	<b>\$21,904,131</b>	<b>\$686,284</b>
<b>Basic Earnings per Share (in dollars)</b>				
Income before income tax from continuing operations	IV-13	\$1.84	\$2.17	\$0.0680
Net income		\$1.84	\$2.22	\$0.0696
<b>Diluted Earnings per Share (in dollars)</b>				
Income before income tax from continuing operations		\$1.79	\$1.92	\$0.0602
Net income		\$1.79	\$1.97	\$0.0617
<b>Pro forma information based on the assumption that shares of the Company held by its subsidiaries are not treated as treasury stock:</b>				
Income before income tax from continuing operations		\$18,125,598	\$21,394,631	\$670,321
Net income		\$18,125,109	\$21,915,945	\$686,654
<b>Basic earnings per share (in dollars)</b>				
Income before income tax from continuing operations		\$1.83	\$2.17	\$0.0680
Net income		\$1.83	\$2.22	\$0.0696
<b>Diluted earnings per share (in dollars)</b>				
Income before income tax from continuing operations		\$1.78	\$1.92	\$0.0602
Net income		\$1.78	\$1.97	\$0.0617

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

# MEGA FINANCIAL HOLDING CO., LTD. / STATEMENTS OF CASH FLOWS

(Formerly CTB FINANCIAL HOLDING CO., LTD.)

For the Years Ended December 31, 2003 and 2004

Expressed in Thousands of Dollars

	Year Ended	Year Ended	
	Dec. 31, 2003	Dec. 31, 2004	
	NT\$	NT\$	US\$
<b>Cash Flows from Operating Activities</b>			
Net income	\$18,099,076	\$21,904,131	\$686,284
Adjustments to reconcile net income to net cash provided by operating activities:			
Investment income accounted for under equity method	(18,822,304)	(21,939,522)	(687,393)
Loss on the decline in market value of investments accounted for under cost method	-	36,784	1,152
Cash dividends received from investees accounted for under equity method	7,347,682	12,271,698	384,488
Depreciation and amortization	70,346	223,834	7,013
Increase in receivables	(27,318)	(1,407,527)	(44,100)
Increase in other receivables	-	(1,048,064)	(32,837)
Increase in prepaid expenses	(6,900)	(44,419)	(1,392)
Decrease in miscellaneous assets	-	10	-
Decrease in deferred pension costs	4,476	-	-
Decrease in deferred income tax assets/liabilities, net	-	8,699	273
Increase (decrease) in payables	(1,796)	531,216	16,644
Increase in other payables	-	1,391,603	43,601
Increase in accrued pension liability	7,104	10,189	319
<b>Net cash provided by operating activities</b>	<b>6,670,366</b>	<b>11,938,632</b>	<b>374,052</b>
<b>Cash Flows from Investing Activities</b>			
Increase in long-term investments	(7,716,466)	(735,219)	(23,035)
Proceeds from capital reduction by investees	-	3,000,000	93,994
Acquisition of property and equipment	(88,006)	(79,977)	(2,506)
Increase in refundable deposits	(216)	(565)	(18)
Increase in bond issuance expenses	(256,238)	(49,695)	(1,557)
Increase in other deferred expenses	(24,802)	(12,558)	(394)
Decrease (increase) in forward exchange receivable for non-trading purposes	(94,080)	94,080	2,948
Increase in forward exchange payable for non-trading purposes	-	462,450	14,489
<b>Net cash provided by (used in) investing activities</b>	<b>(8,179,808)</b>	<b>2,678,516</b>	<b>83,921</b>
<b>Cash Flows from Financing Activities</b>			
Increase (decrease) in guarantee deposits received	(60)	1,218	38
Decrease in short-term loans	(8,808,000)	(1,592,000)	(49,879)
Increase in commercial paper payable	899,285	2,097,707	65,724
Increase in corporate bonds payable	23,444,820	5,047,708	158,151
Increase (decrease) in deferred revenue	17,258	(17,258)	(541)
Cash dividends and bonus distributed	(3,425,988)	(13,721,631)	(429,916)
Purchase of treasury stock	(619,435)	(2,431,355)	(76,177)
Sale of treasury stock	-	2,242,706	70,267
<b>Net cash provided by (used in) financing activities</b>	<b>11,507,880</b>	<b>(8,372,905)</b>	<b>(262,333)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>9,998,438</b>	<b>6,244,243</b>	<b>195,640</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>400,778</b>	<b>10,399,216</b>	<b>325,821</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$10,399,216</b>	<b>\$16,643,459</b>	<b>\$521,461</b>
<b>Supplemental Information:</b>			
Interest paid	\$533,655	\$420,739	\$13,182
Income tax paid	\$5,176	\$26,599	\$833
<b>Investing and Financing Activities not Affecting Cash Flows:</b>			
Capitalization of retained earnings	\$3,783,314	\$-	\$-
Reissuance of treasury stock held by subsidiaries to employees	\$-	\$499,199	\$15,641
Conversion of corporate bonds payable	\$-	\$(3,373,570)	\$(105,698)

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

**MEGA FINANCIAL HOLDING CO., LTD. / STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Formerly CTB FINANCIAL HOLDING CO., LTD.)

For the Years Ended December 31, 2003 and 2004

	Common Stock		Capital Surplus
	No. of Shares	Amount	
<b>Balance as of January 1, 2003</b>	11,048,840	\$110,488,402	\$49,925,341
Appropriation of 2002 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	(2,742,903)
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Capitalization of retained earnings	378,331	3,783,314	-
Provision of special reserve for valuation loss on treasury stock held by subsidiaries	-	-	-
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	(166,189)
Changes in cumulative translation adjustments	-	-	-
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2003	-	-	-
Disposal of the Company's stock by its subsidiaries	-	-	(245)
Purchase of treasury stock	-	-	-
Retirement of treasury stock by subsidiaries	(30,000)	(300,000)	(441,629)
Cash dividends distributed to subsidiaries	-	-	1,954
<b>Balance as of December 31, 2003</b>	<u>11,397,171</u>	<u>\$113,971,716</u>	<u>\$46,576,329</u>
Appropriation of 2003 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Retirement of treasury stock	(31,442)	(314,420)	(128,484)
Purchase of treasury stock	-	-	-
Conversion of euro convertible bonds	-	-	79,057
Treasury stock reissued to employees	-	-	(78,658)
Reissuance of treasury stock held by subsidiaries	-	-	(42,724)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	1,293
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2004	-	-	-
<b>Balance as of December 31, 2004</b>	<u>11,365,729</u>	<u>\$113,657,296</u>	<u>\$46,406,813</u>

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

Expressed in Thousands of New Taiwan Dollars / Thousand Shares

Retained Earnings			Treasury Stock	Unrealized Loss on the Decline in Market Value of Long-term Equity Investments	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Total Stockholders' Equity
Legal Reserve	Special Reserve	Unappropriated Retained Earnings					
\$5,077,446	\$354,967	\$6,239,231	\$(29,740,460)	\$(66,241)	\$258,034	\$-	\$142,536,720
620,470	-	(620,470)	-	-	-	-	-
-	-	(1,040,411)	-	-	-	-	(3,783,314)
-	-	(48,400)	-	-	-	-	(48,400)
-	-	(7,807)	-	-	-	-	(7,807)
-	-	(3,783,314)	-	-	-	-	-
-	50,736	(50,736)	-	-	-	-	-
-	-	134,158	-	-	-	-	(32,031)
-	-	-	-	-	348,736	-	348,736
-	-	-	-	47,491	-	-	47,491
-	-	-	-	-	-	(9,340)	(9,340)
-	-	18,099,076	-	-	-	-	18,099,076
-	-	(823)	-	-	-	-	(1,068)
-	-	-	(619,435)	-	-	-	(619,435)
-	-	-	741,629	-	-	-	-
-	-	-	-	-	-	-	1,954
<u>\$5,697,916</u>	<u>\$405,703</u>	<u>\$18,920,504</u>	<u>\$(29,618,266)</u>	<u>\$(18,750)</u>	<u>\$606,770</u>	<u>\$(9,340)</u>	<u>\$156,532,582</u>
1,823,324	-	(1,823,324)	-	-	-	-	-
-	-	(15,000,338)	-	-	-	-	(15,000,338)
-	-	(151,763)	-	-	-	-	(151,763)
-	-	(24,282)	-	-	-	-	(24,282)
-	-	(176,531)	619,435	-	-	-	-
-	-	-	(2,431,355)	-	-	-	(2,431,355)
-	-	-	3,294,514	-	-	-	3,373,571
-	-	(35,537)	2,364,700	-	-	-	2,250,505
-	-	-	541,923	-	-	-	499,199
-	(24,079)	24,079	-	-	-	-	-
-	-	-	-	-	-	-	1,293
-	-	-	-	13,895	-	-	13,895
-	-	-	-	-	(594,227)	-	(594,227)
-	-	-	-	-	-	(5,160)	(5,160)
-	-	21,904,131	-	-	-	-	21,904,131
<u>\$7,521,240</u>	<u>\$381,624</u>	<u>\$23,636,939</u>	<u>\$(25,229,049)</u>	<u>\$(4,855)</u>	<u>\$12,543</u>	<u>\$(14,500)</u>	<u>\$166,368,051</u>

**MEGA FINANCIAL HOLDING CO., LTD. / STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Formerly CTB FINANCIAL HOLDING CO., LTD.)  
For the Years Ended December 31, 2004

	Common Stock		Capital Surplus
	No. of Shares	Amount	
<b>Balance as of January 1, 2004</b>	11,397,171	3,570,878	1,459,295
Appropriation of 2003 earnings			
Legal reserve	-	-	-
Cash dividends	-	-	-
Remuneration to directors and supervisors	-	-	-
Bonus to employees	-	-	-
Retirement of treasury stock	(31,442)	(9,851)	(4,026)
Purchase of treasury stock	-	-	-
Conversion of euro convertible bonds	-	-	2,477
Treasury stock reissued to employees	-	-	(2,464)
Reissuance of treasury stock held by subsidiaries	-	-	(1,339)
Reversal of special reserve for valuation gain on the Company's stock held by its subsidiaries	-	-	-
Adjustments arising from long-term equity investments accounted for under equity method:			
Changes in capital surplus	-	-	41
Changes in unrealized loss on the decline in market value of long-term equity investments	-	-	-
Changes in cumulative translation adjustments	-	-	-
Net loss not recognized as pension cost	-	-	-
Net income for the year ended December 31, 2004	-	-	-
<b>Balance as of December 31, 2004</b>	<b>11,365,729</b>	<b>\$3,561,027</b>	<b>\$1,453,984</b>

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



Expressed in Thousands of US Dollars / Thousand Shares

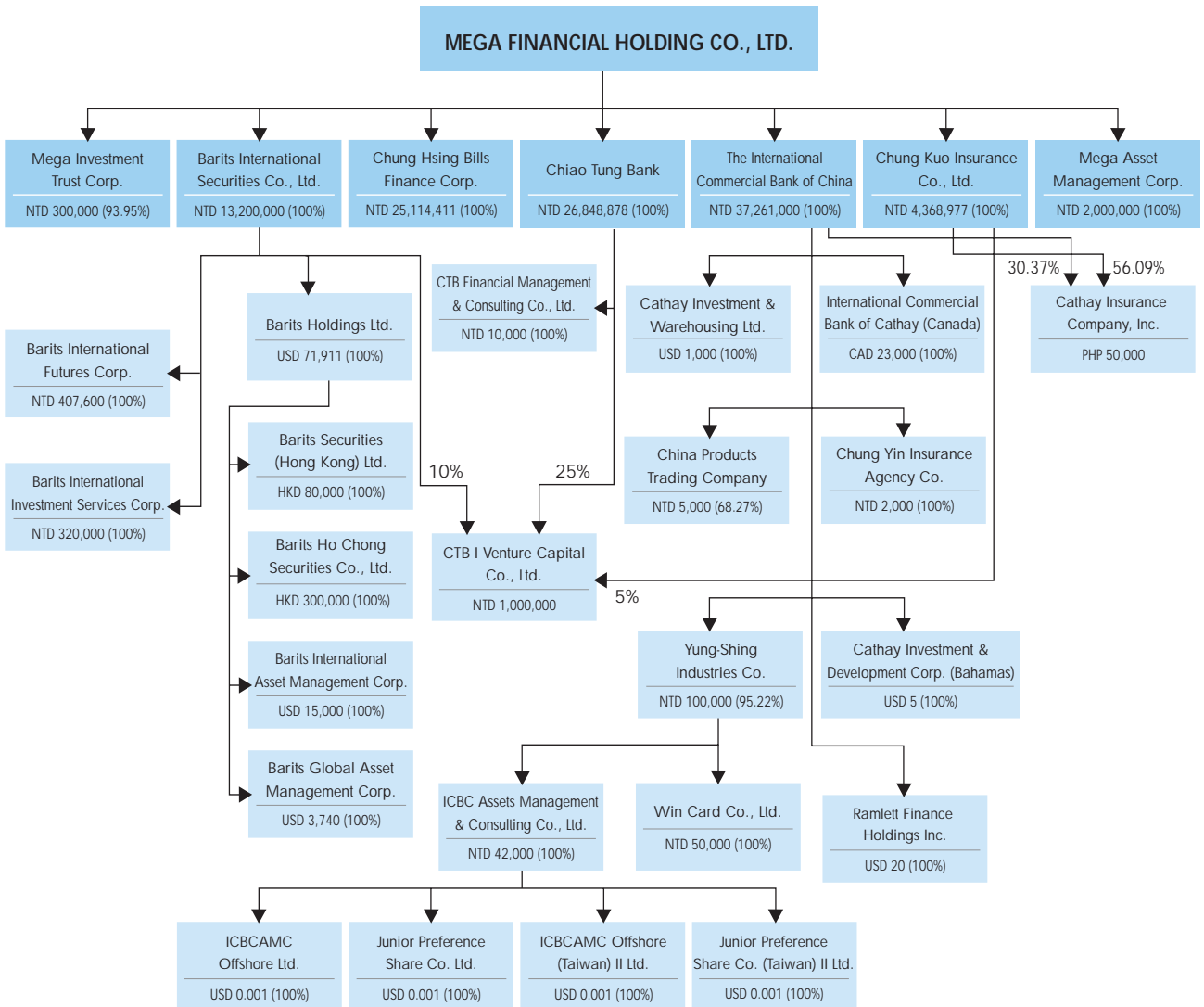
Legal Reserve	Retained Earnings		Treasury Stock	Unrealized Loss on the Decline in Market Value of Long-term Equity Investments	Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Total Stockholders' Equity
	Special Reserve	Unappropriated Retained Earnings					
178,523	12,711	592,803	(927,978)	(587)	19,011	(293)	4,904,363
57,127	-	(57,127)	-	-	-	-	-
-	-	(469,979)	-	-	-	-	(469,979)
-	-	(4,755)	-	-	-	-	(4,755)
-	-	(761)	-	-	-	-	(761)
-	-	(5,531)	19,408	-	-	-	-
-	-	-	(76,177)	-	-	-	(76,177)
-	-	-	103,221	-	-	-	105,698
-	-	(1,113)	74,089	-	-	-	70,512
-	-	-	16,979	-	-	-	15,640
-	(754)	754	-	-	-	-	-
-	-	-	-	-	-	-	41
-	-	-	-	435	-	-	435
-	-	-	-	-	(18,618)	-	(18,618)
-	-	-	-	-	-	(162)	(162)
-	-	686,284	-	-	-	-	686,284
<b>\$235,650</b>	<b>\$11,957</b>	<b>\$740,575</b>	<b>(\$790,458)</b>	<b>(\$152)</b>	<b>\$393</b>	<b>(\$454)</b>	<b>\$5,212,522</b>

# Group Information

## I. Mega Financial Group

As of December 31, 2004

In thousands of dollars



## II. Concise Company Profile

December 31, 2004 Expressed in thousands of dollars

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Chiao Tung Bank	03.15.1907	91 Heng Yang Road, Taipei, Taiwan	NTD 26,848,878	Commercial banking & industrial banking business
The International Commercial Bank of China	12.17.1971	100 Chi-lin Road, Taipei, Taiwan	NTD 37,261,000	Commercial banking business
Barits International Securities Co., Ltd.	10.19.1989	3F, No. 95, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD 13,200,000	Brokerage, dealing and underwriting of securities
Chung Hsing Bills Finance Corp.	05.03.1976	3~7F, No. 123, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD 25,114,411	Brokerage, dealing, underwriting, and guaranteeing of short-term debt instruments
Chung Kuo Insurance Co., Ltd.	11.01.1931	58 Sec. 1, Wu Chang Street, Taipei, Taiwan	NTD 4,368,977	Non-life insurance
Mega Investment Trust Corp.	05.21.1996	9F, No. 100, Sec. 2, Roosevelt Road, Taipei, Taiwan	NTD 300,000	Asset management
Mega Asset Management Corp.	12.05.2003	12F, No. 123, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD 2,000,000	NPL asset management
CTB Financial Management & Consulting Co., Ltd.	01.16.2002	5F, No. 91, Heng Yang Road, Taipei, Taiwan	NTD 10,000	Asset management and investment consulting
CTB I Venture Capital Co., Ltd.	11.05.2003	5F, No. 91, Heng Yang Road, Taipei, Taiwan	NTD 1,000,000	Venture capital investment
Barits International Futures Corp.	07.29.1999	4F, No. 563, Sec. 4, Chung Hsiao E. Road, Taipei, Taiwan	NTD 407,600	Brokerage of futures contracts
Barits International Investment Services Corp.	12.10.1997	4F, No. 95, Sec. 2, Chung Hsiao E. Road, Taipei, Taiwan	NTD 320,000	Securities investment advisory
Barits Holdings Ltd.	05.05.1997	P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD 71,911	Investment business
Barits Securities (Hong Kong) Ltd.	05.23.1997	Room 3406, 34F, Edinburgh Tower, The Landmark, No. 15, Queen's Road Central, Hong Kong	HKD 80,000	Investment consulting
Barits Ho Chong Securities Co., Ltd.	08.20.1992	Room 3404-3405, 34F, Edinburgh Tower, The Landmark, No. 15, Queen's Road Central, Hong Kong	HKD 300,000	Brokerage of securities
Barits International Asset Management Corp.	01.16.1998	P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	USD 15,000	Asset management
Barits Global Asset Management Corp.	11.06.1998	P. O. Box 309, Grand Cayman	USD 3,740	Overseas investment
China Products Trading Company	12.29.1956	12F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 5,000	Harvesting, processing, transporting, and warehousing of agriculture products (stop running business since 1966)

December 31, 2004 Expressed in thousands of dollars

Company	Date of Incorporation	Address	Paid-in Capital	Main Business
Yung-Shing Industries Co.	12.09.1950	7F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 100,000	International trading and agency service for electronic data processing, printing and packaging.
Chung Yin Insurance Agency Co.	11.05.1996	4F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 2,000	Life insurance agent
Win Card Co., Ltd	11.10.2000	4-7F, No. 99, Sec. 3 Chung-yang Road, San-chung City, Taipei Hsien, Taiwan	NTD 50,000	Business administration consulting, advertising, and management of past due accounts receivable
ICBC Assets Management & Consulting Co., Ltd.	02.13.2003	12F, No. 100 Chi-lin Road, Taipei, Taiwan	NTD 42,000	Asset management and investment consulting
International Commercial Bank of Cathay (Canada)	12.01.1982	North York Madison Centre, 4950 Yonge Street, Suite 1002, Toronto, Ontario M2N 6K1, Canada	CAD 23,000	Commercial banking
Cathay Investment & Warehousing Ltd.	11.01.1982	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, providing business information of international trades
Cathay Investment & Development Corporation (Bahamas)	07.15.1969	P. O. Box 3937 Nassau, Bahamas	USD 5	International investment and development
Ramlett Finance Holdings Inc.	01.13.1982	Calle 50 y Esquina Margarita A de Vallarino, Entrada Nuevo Campo Alegre Edificio ICBC, Panama	USD 20	Investment of Real Estate
Cathay Insurance Company, Inc.	04.06.1960	10F, Tytana Plaza, Lorenzo Ruiz Binondo, Manila, Philippines	PHP 50,000	Non-life insurance
ICBCAMC Offshore Limited	04.01.2003	Romasco Place, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, British Virgin Islands	USD 0.001	Fund management
Junior Preference Share Company Limited	04.01.2003	Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2681GT, George Town, Grand Cayman, British West Indies	USD 0.001	Investment
ICBCAMC Offshore (Taiwan) II Limited	10.28.2003	Romasco Place, Wickhams Cay 1, P. O. Box 3140, Road Town, Tortola, British Virgin Islands	USD 0.001	Fund management
Junior Preference Share Company (Taiwan) II Limited	10.28.2003	Century Yard, Cricket Square, Hutchins Drive, P. O. Box 2681GT, George Town, Grand Cayman, British West Indies	USD 0.001	Investment

Footnote: Exchange rate: PHP1=NTD0.5653; USD1=NT\$31.768 ; CAD1=NT\$26.3788; HKD1=NT\$4.0846

### III. Operation Information

Expressed in thousands of NT\$, except EPS

Company	Paid-in Capital	Total Assets	Total Liabilities	Stockholders' Equity	Total Operating Revenue	Operating Income (Loss)	Net Income (After Tax)	Earnings per share (After Tax)
Chiao Tung Bank	26,848,878	641,532,495	581,204,650	60,327,845	23,126,103	7,234,051	6,119,982	2.28
The International Commercial Bank of China	37,261,000	1,155,536,845	1,082,845,000	72,691,845	38,974,485	11,696,429	10,185,475	2.74
Barits International Securities Co., Ltd	13,200,000	47,350,231	32,698,206	14,652,025	3,968,638	261,649	145,267	0.11
Chung Hsing Bills Finance Corporation	25,114,411	245,919,677	208,688,934	37,230,743	9,214,941	4,776,456	5,453,590	2.01
Chung Kuo Insurance Co., Ltd	4,368,977	12,212,775	5,375,816	6,836,959	11,756,477	449,317	531,373	1.22
Mega Investment Trust Corp.	300,000	423,572	26,123	397,449	218,399	88,594	92,794	3.09
Mega Asset Management Corp.	2,000,000	4,018,434	1,858,127	2,160,307	259,351	201,654	161,774	0.81
CTB Financial Management & Consulting Co., Ltd	10,000	49,053	2,994	46,059	47,931	31,147	31,328	31.33
CTB I Venture Capital Co., Ltd	1,000,000	991,927	76	991,850	1,665	(19,088)	(5,245)	(0.05)
Barits International Futures Corp.	407,600	1,854,987	1,426,801	428,186	239,406	22,891	17,227	0.42
Barits International Investment Services Corp.	320,000	337,241	5,912	331,329	33,411	(3,153)	94	0.01
Barits Holdings Ltd.	2,294,774	2,334,163	132	2,334,031	1,640	(2,693)	(2,693)	(0.001)
Barits Securities (Hong Kong) Ltd.	328,800	464,973	22,625	442,348	120,277	10,811	10,811	0.03
Barits Ho Chong Securities Ltd.	1,233,000	2,466,798	982,137	1,484,661	173,067	58,486	58,486	116.97
Barits International Asset Management Corp.	477,829	9,954,645	9,327,790	626,855	180,085	(42,297)	(42,297)	(0.089)
Barits Global Asset Management Corp.	119,589	1,677,329	1,524,294	153,035	51,065	21,625	21,625	0.18
China Products Trading Company	5,000	83,302	15,339	67,963	0	(493)	(8,143)	(81.43)
Yung-Shing Industries Co.	100,000	1,378,218	879,237	498,981	237,594	6,339	(60,268)	(60.27)
Chung Yin Insurance Agency Co.	2,000	41,370	17,425	23,945	126,128	26,118	19,945	99.73
Win Card Co., Ltd	50,000	209,723	141,039	68,684	436,144	16,726	14,101	28.20
ICBC Assets Management & Consulting Co., Ltd.	42,000	309,324	238,259	71,065	43,124	27,785	26,945	6.42
International Commercial Bank of Cathay (Canada)	606,712	7,161,769	6,527,562	634,207	285,499	44,986	28,606	124.00

Expressed in thousands of NT\$, except EPS

Company	Paid-in Capital	Total Assets	Total Liabilities	Stockholders' Equity	Total Operating Revenue	Operating Income (Loss)	Net Income (After Tax)	Earnings per share (After Tax)
Cathay Investment & Warehousing Ltd.	31,768	84,740	41,752	42,988	15,686	3,835	1,894	1,894.00
Cathay Investment & Development Corporation (Bahamas)	159	911,195	3,208	907,987	26,240	21,105	21,105	4,221.00
Ramlett Finance Holdings Inc.	635	64,106	70,191	(6,085)	10,040	1,510	1,057	704.67
Cathay Insurance Company, Inc.	28,265	39,523	10,845	28,678	2,888	(3,928)	(4,087)	(8.17)
ICBCAMC Offshore Limited	0.035	228,861	207,224	21,637	7,852	3,333	7,851	-
Junior Preference Share Company Limited	0.035	219,959	-	219,959	230,799	230,799	230,799	-
ICBCAMC Offshore (Taiwan) II Limited	0.034	87,434	76,517	10,917	4,051	3,333	4,048	-
Junior Preference Share Company (Taiwan) II Limited	0.034	-	224,266	-224,266	0	0	-235,319	-

Footnote: Exchange rate: PHP1=NTD0.5653; USD1=NT\$31.768 ; CAD1=NT\$26.3788; HKD1=NT\$4.0846





# Mega Holdings

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