OFFERING MEMORANDUM

6,800,000 Global Depositary Shares Representing 170,000,000 Common Shares

E.Sun Financial Holding Company, Ltd.

(incorporated as a company limited by shares in Taiwan, the Republic of China)

E.Sun Commercial Bank, Ltd. (the "Selling Shareholder") is offering common shares, par value NT$10 per share (each, a "Common Share"), of E.Sun Financial Holding Company, Ltd. (the "Company") in the form of global depositary shares (each, a "GDS") evidenced by global depositary receipts, for a total of 6,800,000 GDSs (the "Offering"). Each GDS represents the right to receive 25 Common Shares. Payment for the GDSs will be in U.S. dollars at a price of US$14.50 each (equivalent to NT$19.63 per Common Share, translated at the noon buying rate of NT$33.85 = US$1.00 of the U.S. Federal Reserve Bank of New York on September 23, 2004). The Common Shares are listed and admitted for trading on the Taiwan Stock Exchange (the "TSE") of the Republic of China (the "ROC"). On September 24, 2004, the closing price for the Common Shares on the TSE was NT$20.40 per share. Applications have been made to list the International GDSs (as defined herein) on the Luxembourg Stock Exchange and to have the International GDSs designated as eligible for quotation on the International Order Book of the London Stock Exchange Limited. The Rule 144A GDSs (as defined herein) are expected to be designated as eligible for trading in the Private Offerings, Resales and Trading through Automated Linkages Market of NASD Inc. (the "PORTAL Market") in the United States. Prior to this Offering, there has been no market outside the ROC for the Common Shares, and there has been no market for the GDSs.

Delivery of any withdrawn Common Shares will only be made by Citibank, N.A. (Taipei), as custodian for the Depositary (the "Custodian") through the book-entry system maintained by the Taiwan Securities Central Depository Co., Ltd. (the "TSCD"). Request for exchange of such shares in book-entry form for shares in physical form may be made only (i) through a broker or custodian which is a participant in the TSCD and (ii) in accordance with and subject to the requirements and procedures of the TSCD.

Investing in the GDSs involves risks. See "Risk Factors" beginning on page 22.

PRICE: US$14.50 PER GLOBAL DEPOSITARY SHARE

The Company will not receive any of the proceeds from the sale of any GDSs by the Selling Shareholder. The Selling Shareholder is a wholly owned subsidiary of the Company.

The GDSs and the Common Shares represented thereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). The GDSs are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the Securities Act. For a description of restrictions on transfers of the GDSs and the Common Shares represented thereby, see "Description of the Global Depositary Shares" and "Transfer Restrictions."

The Manager expects to deliver the GDSs in book-entry form through The Depository Trust Company ("DTC"), Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, société anonyme ("Clearstream") on or about September 27, 2004.

Sole Global Coordinator and Bookrunner

MORGAN STANLEY

September 24, 2004

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E.Sun Commercial Bank, Ltd. (the "Selling Shareholder" or "E.Sun Bank") is offering 6,800,000 global depositary shares (each, a "GDS"), representing 170,000,000 common shares, par value NT$10 per share (each, a "Common Share"), of E.Sun Financial Holding Company, Ltd. (the "Company," "we" or "E.Sun Financial") through Morgan Stanley Services Limited ("Morgan Stanley") as the manager of the GDSs (the "Manager"). The Company will not receive any proceeds from the sale of any GDSs by the Selling Shareholder. For more information, see "Plan of Distribution."

GDSs sold to non-U.S. persons outside the United States in reliance on Regulation S ("Regulation S") under the United States Securities Act of 1933, as amended (the "Securities Act"), will be sold in the form of International GDSs (the "International GDSs"). GDSs sold within the United States in reliance on Rule 144A ("Rule 144A") under the Securities Act will be sold in the form of Rule 144A GDSs (the "Rule 144A GDSs"). The GDSs will be evidenced by global depositary receipts (the "GDRs"). The International GDRs will be evidenced by a master GDR (the "International Master GDR") and the Rule 144A GDRs will be evidenced by a master GDR (the "Rule 144A Master GDR," together with the International Master GDR, the "Master GDRs"), in each case registered in the name of the DTC or its nominee. Interests in the GDSs represented by the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

The GDSs will be issued pursuant to two separate deposit agreements, one for Rule 144A GDSs (the "Rule 144A Deposit Agreement") and one for International GDSs (the "International Deposit Agreement" and, together with the Rule 144A Deposit Agreement, the "Deposit Agreements") dated as of September 20, 2004 entered into among us, Citibank, N.A., as depositary (the "Depositary") and holders and beneficial owners from time to time of Rule 144A GDSs or International GDSs, respectively.

We, having made all reasonable enquiries, confirm that this offering memorandum (the "Offering Memorandum") contains all information with respect to us, our subsidiaries, the GDSs and the Common Shares that is material in the context of the issue and offering of the GDSs (including all information required by applicable laws of the ROC), that the information contained herein (save as set out below) is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the GDSs, make this Offering Memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects and that this Offering Memorandum does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary in order to make the statements herein, in the light of the circumstances under which they are made, not misleading. We accept responsibility accordingly. Information contained in each of the sections entitled "Market Price Information," "Regulation of the Taiwan Financial Services Industry," "Appendix A — The Securities Market of the ROC" and "Appendix B — Foreign Investment and Exchange Controls in the ROC" has been derived from government and other public sources and we accept responsibility only for accurately extracting information from such sources.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the GDSs in any jurisdiction in which such offer or solicitation is unlawful. The distribution of this Offering Memorandum and the offer, sale and delivery of the GDSs in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by us and the Manager to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the GDSs or the possession or distribution of this Offering Memorandum (in preliminary or final form) in any jurisdiction where additional action would be required for such purposes. The GDSs may not be offered or sold, directly or indirectly, in the ROC. For a further description of certain restrictions on offering and sales of the GDSs, see "Plan of Distribution."

No person is authorized in connection with the issue, offering or sale of the GDSs to give any information or to make any representation not contained in this Offering Memorandum and any information or representation not contained herein must not be relied upon as having been authorized by us or the

Manager. Neither the delivery of this Offering Memorandum nor any sale or allotment made in connection with the issue of the GDSs shall, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

The GDSs and the Common Shares represented thereby have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary is a criminal offence in the United States.

The Manager makes no representation or warranty, express or implied, as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or to the future. The Manager has not independently verified any of such information and assumes no responsibility for its accuracy or completeness.

In connection with this Offering, Morgan Stanley may over-allot or effect transactions which stabilize or maintain the market price of the GDSs at a level above that which might otherwise prevail in the open market. Such activities, if commenced, may be discontinued at any time. Morgan Stanley will only conduct such activities insofar as it is permitted by applicable laws and regulations in the relevant jurisdictions.

Each purchaser of the GDSs must comply with all applicable laws and regulations in each jurisdiction in which it purchases, offers or sells the GDSs or distributes this Offering Memorandum and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the GDSs under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and neither we nor the Manager shall have any responsibility thereof.

PRESENTATION OF INFORMATION

The terms "E.Sun Financial" and "Company" refer to E.Sun Financial Holding Company, Ltd. and the terms "we," "us" and "our" refer to E.Sun Financial Holding Company, Ltd. and its subsidiaries, unless the context otherwise requires. The terms "E.Sun Bank," "E.Sun Bills Finance," and "E.Sun Securities," refer to E.Sun Commercial Bank, Ltd., E.Sun Bills Finance Corporation, and E.Sun Securities Co., Ltd., respectively, as well as their respective subsidiaries, if applicable, unless the context otherwise requires. The term "Selling Shareholder" refers to E.Sun Commercial Bank, Ltd. in its capacity as the selling shareholder of the GDSs in the Offering.

In this Offering Memorandum, "ROC" refers to the Republic of China, "Taiwan" refers to the island of Taiwan and other areas under the effective control of the government of the Republic of China, and the "ROC Company Law" refers to the Company Law of the ROC. The "CBC" or the "Central Bank" refers to the Central Bank of China. The "MOF" or the "Ministry of Finance" refers to the Ministry of Finance of the ROC government. The "FSC" or the "Financial Supervisory Commission" refers to the Financial Supervisory Commission of the ROC government. The "Securities and Futures Bureau" refers to the Securities and Futures Bureau under the jurisdiction of the FSC, or its predecessor, the Securities and Futures Commission and the Securities and Exchange Commission under the jurisdiction of the MOF, as the context may require. See "Appendix A — The Securities Market of the ROC — Regulation and Supervision."

We publish our financial statements in New Taiwan dollars, the lawful currency of the ROC. All references to "United States dollars," "U.S. dollars" and "US$" are to United States dollars, and all references to "New Taiwan dollars," "NT dollars" and "NT$" are to New Taiwan dollars.

Unless otherwise specified, where financial information has been translated from NT dollars into U.S. dollars, it has been translated, for your convenience only, at the rate of NT$33.66 = US$1.00, the noon buying rate of the U.S. Federal Reserve Bank of New York on June 30, 2004. The noon buying rate of the U.S. Federal Reserve Bank of New York on September 23, 2004 was NT$33.85 = US$1.00. See "Exchange Rates." Such translation amounts are unaudited, and it should not be construed that the NT dollar amounts have been, or could have been, converted into U.S. dollars at that or any other rate.

Our financial statements are prepared using accounting principles, procedures and reporting practices generally accepted in the Republic of China ("ROC GAAP") and are not intended to present the financial condition, results of operations and cash flows in accordance with accounting principles and practices generally accepted in any country or jurisdiction, including the United States, other than those in the ROC. The material differences between ROC GAAP and generally accepted accounting principles in the United States ("U.S. GAAP"), as applicable to us, are discussed under the caption "Summary of Material Differences Between ROC GAAP and U.S. GAAP." Certain financial amounts presented herein may not correspond directly to our financial statements, included elsewhere herein, or may not add up due to rounding.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this Offering Memorandum, statements made in press releases and oral statements that may be made by us or our officers, Directors or employees acting on our behalf that are not statements of historical fact may constitute "forward-looking statements." You can identify some of these forward-looking statements by terms such as "expects," "believes," "plans," "intends," "estimates," "anticipates," "may," "will," "would" and "could" or similar words. However, you should note that these words are not the exclusive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements. These forward-looking statements, including statements as to:

- our future revenue and profitability,
- our business strategy and expansion plans,
- our future loan growth and asset quality,
- cross-selling among our business platforms,
- opening and relocation of bank branches,
- recognition, amortization and impairment of goodwill arising from the KBB acquisition, and
- other matters described in this Offering Memorandum regarding matters that are not historical facts,

are only forecasts. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include, among others:

- the intense competition in and other risks relating to the Taiwan financial services industry;
- regulations (including the risk of deregulation and of new and untested regulations) to which our businesses in Taiwan are subject;
- general economic, political and social conditions and developments in Taiwan and other jurisdictions in which we operate our businesses;
- the amount of new and renewal business and market acceptance of our new financial products and services;
- the impact of mergers and acquisitions in the financial services industry, competing demands for our capital and the risk of undisclosed liabilities;
- the amount of dividends received from subsidiaries;
- legal proceedings; and
- other risks identified in "Risk Factors."

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially different than expected, expressed or implied by the forward-looking statements in this Offering Memorandum, we advise you not to place undue reliance on those statements. We are not representing or warranting to you that our actual future results, performance or achievements will be as discussed in those statements. Further, we disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

We are a company limited by shares incorporated under the ROC Company Law and regulated as a financial holding company under the ROC Financial Holding Company Act. All of our directors, supervisors and executive officers and certain of the experts named in this Offering Memorandum are residents of the ROC, and a significant portion of our assets and the assets of these persons are located in the ROC. As a result, it may not be possible for you to effect service of process upon us or these persons outside of the ROC, or to enforce against any of them judgments obtained in courts outside of the ROC. Our ROC counsel has advised us that any final judgment obtained against us in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the GDSs or the Common Shares represented thereby will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied with the following:

- the court rendering the judgment had jurisdiction over the subject matter according to the laws of the ROC;
- the court proceedings resulting in the judgment and the judgment were not contrary to the public order or good morals of the ROC;
- the judgment was a final judgment for which the period for appeal has expired or from which no appeal could be taken;
- if we did not appear in the proceedings in such court and a judgment by default was rendered, process was duly served within a reasonable period of time on us within the jurisdiction of such court in accordance with the laws and regulations of such jurisdiction, or with the assistance of the judicial authorities of the ROC; and
- judgments of the courts of the ROC would be recognized and enforceable in the jurisdiction of the court rendering the judgment on a reciprocal basis.

Judgments obtained in certain United States courts have been confirmed to be recognized and enforceable in the courts of the ROC on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of China for the remittance out of the ROC of any amounts recovered in respect of the judgment denominated in a currency other than NT dollars. See "Appendix B — Foreign Investment and Exchange Controls in the ROC."

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SUMMARY

You should read the following summary together with the more detailed information regarding the Company, the GDSs and the Common Shares represented thereby and our consolidated financial statements and notes to those statements appearing elsewhere in this Offering Memorandum.

Overview

We believe we are one of the leading financial holding companies in Taiwan in terms of asset quality and customer service. We have built a strong brand name that is widely recognized in Taiwan and have cultivated a unique corporate culture that distinguishes us from many of our peer companies. We focus on providing a broad range of high-quality, competitive, innovative financial products and services to our consumer and corporate customers through our three principal subsidiaries: E.Sun Bank, E.Sun Bills Finance, and E.Sun Securities. In addition, through our flagship company, E.Sun Bank, we believe we have been able to deliver strong financial performance while maintaining industry-leading asset quality and prudent credit risk management policy.

In 2003, after conducting a comprehensive review of our operations and in pursuit of a customer-centric organization structure, we reorganized our subsidiaries' various businesses into five product-oriented business platforms, principally consumer banking, credit card, corporate banking, wealth management and treasury products, and established a group-wide management information system serving all business platforms. We believe that such reorganization of our operations will enable us to provide services to our customers more efficiently and to better marshal our resources and cross-sell financial products and services to our group customer base. In January 2004, we entered into a long-term bancassurance agreement with Prudential (U.K.) ("Prudential") for distributing standard insurance products and certain insurance products that are tailor-made for the Taiwan market in Taiwan. We believe this strategic partnership will significantly strengthen our insurance distribution business and enhance the depth of our wealth management product offerings. The recent acquisition of the government-restructured Kaohsiung Business Bank ("KBB") will be key to our future growth as it will increase our domestic branch network immediately from 54 branches to 99 branches and further to up to 114 branches, with up to 67 branches in the greater Taipei area, by the end of 2006. We believe such expansion in distribution network will broaden our customer reach and revenue base.

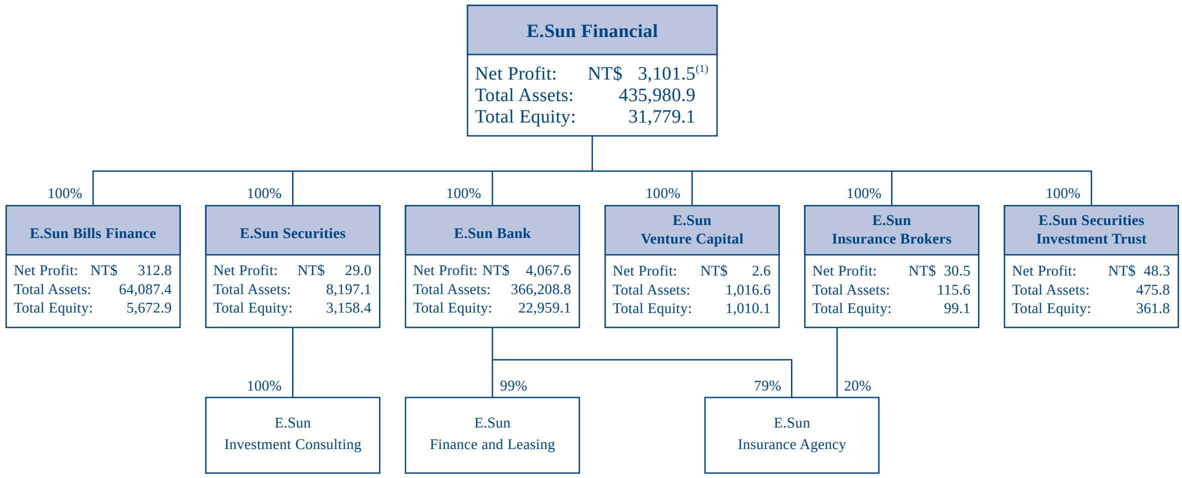
Our goal is to become a leading financial institution in Taiwan renowned for superior customer service, strong asset quality, reliable operations, professionalism and integrity. We have chosen "E.Sun," or "Yushan" in Chinese, the highest mountain in Taiwan, as our name to represent our aspiration for excellence. We also place a strong emphasis on cultivating a corporate culture that encourages teamwork, leadership and the hiring of talented and well-qualified people.

We were formed on January 28, 2002 pursuant to the ROC Financial Holding Company Act. The ROC Financial Holding Company Act permits financial institutions to be reorganized under a single financial holding company structure so that the ownership of different operating companies may be consolidated. We believe that the establishment of E.Sun Financial will further promote the integration of business units and personnel and other resources within the E.Sun Financial group and thereby provide customers with more comprehensive and high-quality financial products and services.

Our Common Shares are listed on the Taiwan Stock Exchange and trade under the stock code "2884." As of September 24, 2004, our market capitalization, based on the closing price of NT$20.40 per Common Share on the Taiwan Stock Exchange, was NT$51.0 billion (US$1.5 billion).

Organizational Structure and Principal Subsidiaries

Set forth below is an organizational chart depicting our principal subsidiaries as of June 30, 2004:



(1) Amounts in millions.

E.Sun Bank

E.Sun Bank was formed when its current Chairman Mr. Yung-Jen Huang brought together a group of financial professionals with the goal of forming and managing a first-class professional bank. E.Sun Bank commenced its operations on February 21, 1992 as one of the 16 New Banks that were organized after the ROC government's liberalization of the financial industry. Twelve years later, E.Sun Bank is the core operating entity of our company, representing approximately 84.0% of our total assets as of June 30, 2004. E.Sun Bank offers a broad range of banking services and financial products to its consumer and corporate customers. As of June 30, 2004 E.Sun Bank had a client base of approximately 3.1 million distinct customer accounts. E.Sun Bank also has an extensive distribution and customer service network, currently consisting of 99 domestic branches (including 45 branches acquired from KBB and 12 sub-branches), two overseas branches, 291 ATMs and 1,607 customer sales representatives (including 80 ATMs and 400 customer sales representatives from KBB). We expect to open up to 15 additional branches by the end of 2006 using the inactive branch licenses acquired from KBB. As of June 30, 2004, there were approximately 1.5 million active E.Sun Bank credit cards, which are credit cards that have been used for purchases or payments during the most recent six months, and approximately 2.2 million E.Sun Bank credit cards in force, which are credit cards that have been issued and not cancelled, expired or suspended. In terms of active credit cards, E.Sun Bank was the fifth largest and, in terms of credit cards in force, the sixth largest credit card issuer in Taiwan as of June 30, 2004.

E.Sun Bills Finance

E.Sun Bills Finance was established in 1995 as one of the newly established bills finance companies in Taiwan. E.Sun Bills Finance acts as a broker or dealer for fixed-income securities such as government bonds, financial debentures and short-term bills. E.Sun Bills Finance also offers underwriting services for commercial paper and other products and acts as a surety for its customers by issuing guarantees for commercial paper. As of June 30, 2004, E.Sun Bills Finance was the seventh largest bills finance company in Taiwan in terms of trading volume for bills, with a market share of approximately 4.7%, and the sixth largest bills finance company in Taiwan in terms of underwriting volume of commercial paper, with a market share of approximately 3.6%.

E.Sun Securities

E.Sun Securities provides a broad range of brokerage and securities products and services primarily to individuals as well as to corporations and institutions. E.Sun Securities' products and services include securities brokerage, margin trading, underwriting, financial advisory and financial products. In addition, E.Sun Securities engages in proprietary trading of equity and fixed-income securities. As of June 30, 2004, E.Sun Securities had 10 branches and more than 80 brokers throughout Taiwan.

Recent Developments

Reorganization of our operations

In late 2002, we completed a comprehensive review of our operations with a view to establish a customer-centric organization structure for providing tailored product lines to better meet the distinct needs of our customer groups. In 2003, we reorganized our various businesses across the corporate boundaries of our subsidiaries to create product-oriented business platforms, principally consumer banking, credit card, corporate banking, wealth management and treasury products, and established a group-wide management information system serving all business platforms. A senior executive vice president was appointed to lead the cross-subsidiary reporting chain in each business platform. In addition, we have 10 corporate banking centers, 10 consumer banking centers and 1 wealth management center. We have extracted all of the processing functions relating to our retail and corporate banking businesses from our branches and consolidated them into these newly established centers. Following such consolidation, the branches continue to serve as our venues for deposit taking and front-line centers for marketing and cross-selling of our financial products to our customers. We believe that such a realignment of our operations will enable us to provide our products and services to our customers more efficiently and to better marshal our resources and cross-sell our financial products. The table below sets forth the principal products and services offered by each principal subsidiary along each of our business platforms.

	Consumer banking	Credit cards	Corporate banking	Wealth management	Treasury
E.Sun Bank	• Mortgage loans • Secured and unsecured personal loans • Cash cards • Deposit products • Micropayment services	• Credit cards • Travel center	• Corporate loans • Deposit products • Guarantees and acceptance • Cash management	• Affluent customer products distribution • Mutual fund distribution and trust services • Insurance referrals	• Risk management unit • Planning department • Money market department • Trading department • Operation department • Marketing department
E.Sun Bills Finance			• Guarantees • Certification and underwriting	• Corporate finance consultancy services	• Fixed-income trading
E.Sun Securities			• Underwriting	• Brokerage • Margin trading • Research • Financial advisory services	• Fixed-income trading • Proprietary trading • Warrants issuance
E.Sun Venture Capital			• Venture capital investment		
E.Sun Securities Investment Trust				• Securities investment trust	
E.Sun Insurance Brokers				• Insurance products	

In addition to realigning the businesses of our principal subsidiaries, we have also established the following wholly owned subsidiaries and acquired the following businesses to expand the scope of our operations.

- In October 2002, we established E.Sun Venture Capital Co., Ltd. ("E.Sun Venture Capital") to engage in venture capital investments. In 2003 and for the six months ended June 30, 2004, E.Sun Venture Capital invested NT$132.9 million and NT$137.9 million, respectively, in domestic pre-IPO companies in a range of industries.

- In June 2003, E.Sun Securities acquired the brokerage business of Yung Li Securities Co., Ltd. for a total consideration of NT$355.0 million.

- On July 30, 2003, we established E.Sun Insurance Brokers Co., Ltd. ("E.Sun Insurance Brokers") to coordinate the distribution of third-party insurance products and services, including principally the insurance products of Prudential, to our consumer customers. E.Sun Insurance Brokers has taken over substantially all of the operations of E.Sun Insurance Agency since its establishment.

- On September 16, 2003, we acquired our affiliate, E.Sun Securities Investment Trust Co., Ltd. ("E.Sun Securities Investment Trust") through a share exchange. E.Sun Securities Investment Trust was established in September 2001 to invest in securities using funds raised by issuing beneficiary certificates in securities investment trusts.

Prudential bancassurance arrangements

In January 2004, we entered into an agreement with Prudential, under which E.Sun Insurance Brokers will market and promote Prudential insurance products to our customers for an initial term of 10 years. As of June 30, 2004, we had distributed exclusively 5 categories of Prudential's insurance policies to our customers including single premium life insurance policies, travel insurance policies, term life insurance policies, medical insurance policies and investment-linked insurance policies. Some of these products are tailored for the Taiwan market, such as the insurance policies linked to the performance of a portfolio of twenty NASDAQ stocks or certain Prudential investment funds. In connection with such distribution arrangements, Prudential has agreed to pay E.Sun Insurance Brokers commissions on an earned-premium basis and to provide a variety of administrative, sales, marketing, distribution and other support services, including training the insurance consultants at E.Sun Bank's branches. Prudential has also agreed to certain exclusivity restrictions. Also see "Share Ownership" with respect to Prudential's ownership interest in E.Sun Financial.

Acquisition of KBB

On June 3, 2004, E.Sun Bank entered into an agreement pursuant to which E.Sun Bank agreed to assume substantially all assets and liabilities of KBB in exchange for a cash subsidy of NT$13,368.0 million from the Financial Restructuring Fund established by the ROC Executive Yuan to manage insolvent local financial institutions. E.Sun Bank assumed control of KBB on September 4, 2004 and on September 6, 2004 received 70% of the cash subsidy. We expect E.Sun Bank to receive the remaining 30% of the cash subsidy in November 2004, subject to an adjustment primarily for KBB's earnings/(losses) for the period from February 29, 2004, the reference date for the acquisition-related valuation, to September 4, 2004. The KBB earnings/(losses) arising from non-cash items for the same period, such as any provisions for loan losses made by KBB, will be excluded from the adjustment.

KBB was one of the largest banks with one of the longest operating histories in the Kaohsiung area in southern Taiwan. The Central Deposit Insurance Company ("CDIC"), an organization jointly established by the MOF and the Central Bank to safeguard depositors' interest in financial institutions, assumed control of

KBB in January 2002 and disposed a substantial majority of KBB's non-performing loans (the "NPLs") with a face amount of NT$32.7 billion (including NT$10.6 billion of NPLs previously written-off) in June 2003.

As of December 31, 2003, the date of KBB's latest audited financial statements provided to us, KBB had total assets of NT$42.6 billion and a negative shareholders' equity of NT$17.0 billion. The total loans (net of the loan loss reserve) and deposits of KBB were NT$20.6 billion and NT$53.3 billion, respectively, as of December 31, 2003. For the year ended December 31, 2003, KBB had a loss after tax of NT$7.8 billion, of which NT$7.6 billion was attributable to a one-time charge resulting from the sale of the NPLs in June 2003. As of December 31, 2003, the remaining broad-based NPLs of KBB amounted to NT$2.9 billion and KBB maintained a loan loss reserve in the amount of NT$713.7 million (excluding the loss reserve for accounts receivables).

KBB currently has 60 licenses for bank branches, of which 15 licenses are inactive. The acquisition of KBB immediately expanded E.Sun Bank's domestic branch network by increasing its number of domestic branches from 54 to 99. We intend to use the inactive KBB licences to open up to 15 additional domestic branches by the end of 2006 and as a result further expand E.Sun Bank's branch network to up to 114 branches. We expect that up to 67 of the 114 branches will be located in the greater Taipei area, which will include 28 existing E.Sun branches and one existing KBB branch already in the greater Taipei area, and up to 15 new branches to be opened in and up to 23 KBB branches to be relocated to the greater Taipei area.

E.Sun Bank is required to employ at least half of the 791 former KBB employees for a minimum of one year commencing September 4, 2004. In addition, we will make a payment of approximately NT$230.0 million to all KBB employees on or before October 3, 2004 pursuant to an agreement with the Financial Restructuring Fund (acting through the CDIC) and KBB. The Financial Restructuring Fund is otherwise required to fund the severance pay and pension benefits for all KBB employees under the ROC Labor Standards Law and its relevant regulations upon their termination by KBB on September 3, 2004.

We currently estimate that the negative fair value of KBB's net assets will exceed the government cash subsidy by approximately NT$6.0 billion to NT$6.5 billion. Of this excess, approximately NT$0.8 billion to NT$1.3 billion will arise from additional provisions made in respect of KBB's NPLs. We intend to make such additional provisions in line with our risk management policies to maintain E.Sun Bank's leading asset quality. We believe that the full amount of such additional provisions will be expensed as impaired goodwill in the quarter ending September 30, 2004. The remaining excess after such impairment is expected to be capitalized as goodwill. Pursuant to existing accounting rules, we expect to amortize the capitalized goodwill on a 5-year straight-line basis for the four months ending as of December 31, 2004 and thereafter, upon the implementation of new accounting rules as of January 1, 2005, subject the unamortized amount of capitalized goodwill to annual goodwill impairment tests. The foregoing are our preliminary estimates and there can be no assurance that the amount of the impaired or capitalized goodwill will fall within our estimated range or that our independent appraiser or certified public accountants will not require us to alter the amount or classification of the impaired or capitalized goodwill upon their performance of the annual goodwill impairment test or audit of our financial statements, respectively, for the year ended December 31, 2004. Under the ROC Banking Law and the Regulations Governing the Management of a Bank's Capital Adequacy, goodwill arising from the KBB acquisition will reduce E.Sun Bank's Tier I capital by the amount of the goodwill. Our net income going forward and E.Sun Bank's capital adequacy ratio may be adversely affected by the recognition, amortization and impairment of the goodwill.

Audit committee

We were the second ROC financial holding company to form an audit committee on July 27, 2004. Dr. Chen-En Ko, an accounting professor of National Taiwan University, who became our independent director on June 11, 2004, heads the five-member audit committee of our board of directors.

Competitive Strengths

Our competitive strengths include the following:

Strong brand recognition

We believe that our strong brand, which is associated with professional and sound management and high-quality customer service, has contributed to our success and growth. We believe the E.Sun brand is widely recognized in Taiwan even though E.Sun Bank has a smaller asset base and a relatively shorter history compared to other leading banks in Taiwan. In 1999, E.Sun Bank received *Commonwealth Magazine*'s "#1 Corporate Image Award," a rating of all domestic banks in Taiwan. We believe that we have been successful in building a strong brand due to E.Sun Bank's focus on maintaining high standards of service quality and customer satisfaction. Moreover, we believe other members of the E.Sun Financial group, including E.Sun Bills Finance and E.Sun Securities, benefit from the strong brand recognition of E.Sun Bank. E.Sun Bank was awarded the National Quality Award presented by the Executive Yuan of ROC in 2001 and was ranked first among all Taiwan banks for service quality in the annual survey conducted by Taiwan's *Businessweekly* in 1999 and 2000.

High-quality retail banking franchise

As the flagship of E.Sun Financial group, E.Sun Bank is a leading commercial bank in Taiwan with strong retail banking franchise. E.Sun Bank had a client base of approximately 3.1 million distinct customer accounts as of June 30, 2004. We believe our successful focus on retail banking products such as mortgage loans, credit cards and wealth management products has enabled E.Sun Bank to increase its transaction volume substantially and as a result, enhanced its profitability in 2003 and the first half of 2004. As a result of E.Sun Bank's focus on expanding its mortgage business, E.Sun Bank had the highest increase in the outstanding mortgage balance among all banks in Taiwan, increasing from NT$61.0 billion as of December 31, 2002 to NT$87.4 billion as of December 31, 2003 and further to NT$110.7 billion as of June 30, 2004. E.Sun Bank is also the fifth largest credit card issuer in Taiwan in terms of active credit cards, with approximately 1.5 million active credit cards, and the sixth largest credit card issuer in Taiwan in terms of number of credit cards in force, with approximately 2.2 million credit cards in force as of June 30, 2004. E.Sun Bank has introduced a wide range of affinity card programs with approximately 112 retailers and corporations to increase brand awareness and capture new cardholders. E.Sun Bank also has been successful in increasing its credit card consumption from NT$37.4 billion in 2002 to NT$50.6 billion in 2003 and further up to NT$29.4 billion in the first half of 2004 through extensive and innovative marketing efforts by credit card specialists. In addition, we believe that our recent focus on wealth management has also successfully elevated our business volume with affluent customers. Our net fee income from distributing mutual funds and investment trusts increased to NT$238.8 million for the six months ended June 30, 2004 from NT$27.8 million for the six months ended June 30, 2003.

We believe that E.Sun Bank provides a strong foundation for our future growth, particularly as a platform for cross-selling opportunities. The distribution capability and consumer information collection capability has enabled E.Sun Bank to build a high-quality retail banking franchise.

Superior asset quality and risk management

In order to achieve and maintain strong asset quality, we have established a comprehensive risk management process and a diligent risk monitoring program at each subsidiary. In addition, we have taken a number of measures to strengthen our credit approval process, including centralization of decision making and employee training. Our asset quality is reflected by E.Sun Bank's broad-based NPL ratio, which has been the lowest among all domestic commercial banks in Taiwan since December 2002. As of June 30, 2004, with a broad-based NPL ratio of 1.28%, E.Sun Bank also had the lowest NPLs of any domestic commercial bank in Taiwan, compared to the ROC industry average broad-based NPL ratio of 4.90% as of June 30, 2004, as reported to the MOF. Broad-based NPL ratio is defined as the aggregate amount of NPLs and surveillance loans as a percentage of gross loans. Consistent with its prudent credit risk management policy, E.Sun Bank has adopted a conservative NPL write-off policy. E.Sun Bank has also been successful in diversifying its loan portfolio. As of June 30, 2004, no loan exposure to a single customer or single customer group exceeded 0.9%. E.Sun Bank has attained one of the highest credit ratings among the New Banks with a long-term bank deposit rating of "Baa2" from Moody's Investors Service, Inc. in 2003. In addition, our asset quality is also reflected in the fact that E.Sun Bills Finance had no broad-based NPLs in 2003 or for the six months ended June 30, 2004. E.Sun Bills Finance has maintained a long-term rating of "twBBB" and a short-term rating of "twA-3" from Taiwan Ratings Corporation. E.Sun Bills Finance believes that these ratings are based on its favorable asset quality compared to other local bills finance companies.

Extensive distribution network

E.Sun Bank distributes its retail banking products through an extensive distribution network of 99 domestic branches (including 45 branches recently acquired from KBB and 12 sub-branches) and two overseas branches. We intend to use the inactive KBB licences to open up to 15 additional domestic branches by the end of 2006 and as a result further expand E.Sun Bank's branch network to up to 114 branches. E.Sun Bank currently has 29 domestic branches (including one acquired from KBB) centered around the populous and affluent Taipei metropolitan area. The addition of KBB's bank branches has broadened the reach and increased the depth of E.Sun Bank's distribution network by immediately expanding E.Sun Bank's branch network in the Kaohsiung area and permitting E.Sun Bank to further strengthen its presence in the greater Taipei area in the future. As a result, we expect to have a distribution network with up to 67 branches in the greater Taipei area, up to 20 branches in the Kaohsiung/Pindong area and up to 27 branches in other locations by the end of 2006.

Distinctive and cohesive corporate culture with experienced and professional senior management team

We believe that the unique E.Sun corporate culture distinguishes us from other financial institutions in Taiwan. Since the founding of E.Sun Bank, the cultivation of the E.Sun corporate culture has been one of our foremost priorities. We aim to cultivate a corporate culture that encourages teamwork, leadership and the hiring of talented and well-qualified people. In addition, a unique and essential element of our corporate culture is the holistic principle that personal contentment and professional achievement are interlinked. As a result, we believe we have one of the lowest attrition rates in the industry, with an approximate average annual attrition rate of 5% for the past three years. Since we believe that customer satisfaction is best promoted by satisfied employees, we believe that our corporate culture has been an important factor in our ability to maintain a high degree of customer satisfaction.

Our senior management team, led by our Chairman, Mr. Yung-Jen Huang, the founder of E.Sun Bank and a banker recognized in Taiwan for his experience and achievement, is experienced, with a proven track record of sound management in the financial services industry. In 1995, our Chairman was honored with the "Eminent Corporate Leadership Prize" for his professional management performance and contributions to society. In 2001, he was presented with the prestigious "Lee, Quo-Ding Management Prize", followed by "The National Quality Prize" in 2002. Our 20-member senior management team has on average more than 26 years of experience in the financial services industry in Taiwan, and includes experts in credit evaluation, risk management, retail banking products, information technology and marketing. Our management team is committed to maximizing shareholder value, and our performance targets seek to meet this primary objective.

A track record of innovations

We believe that our track record of product innovations has enabled us to maintain and attract new customers in Taiwan's competitive market. E.Sun Bank was the first bank in Taiwan to obtain MOF approval for micropayment services. In January 2002, E.Sun Bank successfully launched eCoin, an Internet-based deposit and payment system, which provides an online payment alternative to credit cards. Customers can make small online payments using eCoin for products, content and services through a virtual bank account opened online with E.Sun Bank. In 2004, eCoin received a silver award from the ROC Ministry of Economic Affairs during the Fourth Annual e-21 Golden Website Awards, in recognition of its innovative business model. In February 2003, E.Sun Bank was among the first banks in Taiwan to offer adjustable rate mortgage loans with an interest rate cap, which allows customers the ability to elect to pay the negotiated maximum interest rate if the adjustable rate exceeds the cap. In addition, E.Sun Bank was among the first banks in Taiwan to issue inverse floater bank debentures.

Sophisticated user of information technology

We believe that we have an efficient information technology system that provides us with significant competitive advantages. We utilize sophisticated applications and software to enable us to strengthen credit and market risk management, to better process and utilize our customer relationship management data and to monitor the performance and productivity of our distribution network more effectively. As a part of the initiative to enhance our risk management system, E.Sun Bank installed the ALM and FTP system of IPS Sendero and *Kondor Plus*, a part of the Reuters risk and trade management solutions, to support asset and liability management and to measure business performance. In addition, working with Mercer Oliver Wyman, an international consulting firm, we also implemented a customer value and risk analysis management system to further leverage our relationships with customers by utilizing statistics, econometrics, computer modeling tools and our industry expertise to develop customer profiles for sales and marketing purposes. We believe that a recent group-wide upgrade of our data backup systems from level 1 to level 5 will enable us to obtain real-time backup capacity in respect of our important commercial, financial and operational data processing information.

Strategy

Our goal is to become one of the leading financial holding companies in Taiwan. We intend to pursue this goal through the following strategies:

Continue to build brand recognition and enhance customer satisfaction

We believe that our professional expertise is an essential factor in our ability to win the satisfaction and trust of our customers. We intend to continue to build the E.Sun brand to further increase our brand recognition in Taiwan. Our goal is to have the E.Sun brand widely recognized for creditworthiness and high-quality customer service. We believe that we can most effectively build brand recognition through E.Sun Bank, the flagship of the E.Sun Financial group. We intend to further raise E.Sun brand recognition by broadening our consumer banking customer base and expanding the number of E.Sun Bank credit cards in force. We will also actively pursue co-branding or strategic alliance arrangements to further expand our brand recognition. We believe an integral part of building brand recognition is customer satisfaction. We have undertaken steps towards a customer-centric restructuring of our organization. We intend to further enhance customer satisfaction through effective customer data mining to tailor our products to the needs of our customers and the effective use of our new corporate and consumer banking centers.

Capture benefits of our product-oriented, customer-centric organization structure and develop multi-relationships with customers

We intend to capture the benefits of our product-oriented, customer-centric organization structure through the following measures:

- **Expand our revenue base.** We intend to diversify and expand our revenue base by leveraging our multi-subsidiary product-oriented business platforms. We also intend to continue the development and expansion of E.Sun Bank's strong retail banking franchise to achieve higher market shares in credit cards, mortgage loans and wealth management businesses by leveraging the strength of its customer-centric structure.

- **Improve our operating efficiency.** By consolidating similar or related business operations into business platforms and centralizing the MIS operations, we intend to maintain or further improve our operating efficiencies. We seek to maintain or further reduce the operating costs of our subsidiaries relative to their operating revenue by integrating their operations along the lines of business platforms. E.Sun Bank intends to maintain its cost to total revenue ratio below 40% after integrating all KBB branches.

- **Build multi-products relationship with customers.** We believe that the realignment of our operations along the lines of business platforms has and will enhance our ability to share resources and to sell across our product lines and across our previously separated subsidiaries. We intend to leverage the solid customer base of E.Sun Bank to expand our product and service offerings through such cross-selling. For example, we expect E.Sun Bank's wealth management business to develop into a strong platform for our credit card, brokerage, insurance and treasury products by focusing its business on cross-selling such products and services to its affluent customers.

Increase scale and shareholder return through strategic alliances

Historically, we expanded our business scope through establishing and entering into new businesses, strategic alliances and mergers and acquisitions. For example, in October 2002, we established E.Sun Venture Capital Co., Ltd. to invest in early-stage companies. In January 2004, we entered into a long-term bancassurance arrangement with Prudential to distribute exclusively Prudential's insurance products in Taiwan, with respect to which Prudential has agreed to provide us with sales and marketing support. In addition, in June 2003, E.Sun Securities acquired the brokerage business of Yung Li Securities Co., Ltd. and on September 4, 2004, E.Sun Bank assumed substantially all of the assets and liabilities of KBB, a previously distressed local bank under the management of CDIC. We expect that our major business focuses in the near term will be to integrate the businesses and operations of E.Sun Bank and KBB and strengthen our insurance business through our bancassurance partnership with Prudential to enhance shareholder return. We will also continue to seek ways to increase the scale of our business operation and improve shareholders return through fostering selective strategic alliances that are value accretive.

Maintain and improve strong risk management

We place a high priority on risk management and risk control. We believe prudent risk management control procedures and risk governance at all levels within the E.Sun Financial group are critical for long-term competitive advantages in the financial services industry. We have established at the holding company level an asset and liability management committee to establish and implement risk management policies in order to enhance asset quality. We seek to maintain the highest quality of risk management and control by applying advanced and reliable methods available to protect E.Sun Financial, its clients and shareholders. In particular, we intend to continue to enhance our credit risk management evaluation, rating methodology and credit risk pricing models. We also expect to continue the use of sophisticated information technology systems in the management of our market risks in addition to our newly installed ALM and FTP systems of IPS Sandero and *Kondor Plus*.

E.Sun Bank intends to continue maintaining a high-quality loan portfolio through careful targeting of its customer base, a comprehensive risk management process, diligent risk monitoring and remediation procedures. To further strengthen its risk management, E.Sun Bank engaged Mercer Oliver Wyman, an international consulting firm, in late 2003, to assist the bank in its efforts to improve its profitability by product line and credit scoring. E.Sun Bank believes that the engagement of Mercer Oliver Wyman will facilitate its transition to Basel II standards by 2006.

Enter the PRC financial services industry and pan-pacific areas

E.Sun Bank intends to leverage its Hong Kong branch to expand its PRC operations. In June and May 2002, the MOF granted approval to permit E.Sun Bank's Hong Kong branch and its Offshore Banking Branch to engage in financial operations with banks in the PRC. Through its Hong Kong branch, E.Sun Bank established remittance relationships with the four largest PRC banks and 30 other financial institutions in the PRC with more than 760 locations for "SWIFT" remittance links. E.Sun Bank has also established a platform for providing banking products and services to its clients in the greater China area, including Taiwanese companies with operations in the PRC. In October 2003, E.Sun Bank applied for a license to open a representative office in Dongguan, Guangdong province and is currently awaiting PRC governmental approvals. In addition to our existing Los Angeles branch, E.Sun Bank seeks other growth opportunities to better serve the banking customers on the west coast of the United States.

Corporate and Other Information

We were incorporated (Corporate Registration Number: 70796305) on January 28, 2002 under ROC law. Our principal executive offices are located at No. 77, Sec. 1, Wuchang St., Taipei, Taiwan, ROC, and our telephone number is (886-2) 2389-1313. Our corporate website address is www.esunfhc.com.tw. The information on our website is not a part of this Offering Memorandum.

The Offering

The following is only a summary and is qualified in its entirety by reference to the summary of the terms of the GDSs provided in this Offering Memorandum under "Description of the Global Depositary Shares." Capitalized terms used herein and not defined have the meaning given to them in "Description of the Global Depositary Shares."

The Company	E.Sun Financial Holding Company, Ltd.
Offering	6,800,000 GDSs are being offered by the Selling Shareholder at a price of US$14.50 per GDS to: (i) non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act (the "International GDSs") and (ii) qualified institutional buyers ("QIBs") in the United States in reliance on Rule 144A (the "Rule 144A GDSs") under the Securities Act.
The GDSs	Each GDS will represent 25 Common Shares. The GDSs will be evidenced by Master GDRs.
Selling Shareholder	E.Sun Commercial Bank, Ltd., a wholly owned subsidiary of the Company. Immediately after the Offering, the Selling Shareholder will hold 0.71% of the capital stock of the Company. See "Share Ownership."
Closing Date	September 27, 2004.
Delivery of Common Shares represented by GDSs offered in this Offering to the Custodian	On or prior to the Closing Date, the Selling Shareholder will deposit, or cause to be deposited on its behalf, the Common Shares to be represented by the GDSs offered in this Offering with the Custodian and the GDSs offered in this Offering will be issued by the Depositary against receipt of the Common Shares and delivered to the Manager on the Closing Date.
Withdrawal of Common Shares	On or after the Closing Date, a holder may withdraw and either (i) hold the Common Shares represented by the GDSs or (ii) request Citibank, N.A., as Depositary, acting pursuant to the Deposit Agreements, to sell or cause to be sold on behalf of such holder the Common Shares represented by such GDSs. Delivery of the withdrawn Common Shares will only be made by the Custodian through the book-entry system maintained by the Taiwan Securities Central Depository Co., Ltd. (the "TSCD"). Request for exchange of such Common Shares in book-entry form for Common Shares in physical form may be made only through a broker or custodian which is a participant in the TSCD, and in accordance with and subject to the requirements and procedures of the TSCD. A holder, without obtaining further approval from the CBC, may convert NT dollars into other currencies, including U.S. dollars, in respect of the proceeds of the sale by such holder of any underlying Common Shares withdrawn from the depositary receipt facility. In connection with, and as a condition to, any such withdrawal, such GDSs will need to be surrendered to the Depositary for cancellation, and certain certifications will be required to be made by the withdrawing holder to the Depositary and to us, if applicable, and the holder will be required to pay the cancellation fees of the Depositary and any charges and taxes payable upon the transfer of the Common Shares being withdrawn. Unless additional GDSs are issued, the effect of such transactions will be to reduce the number of outstanding GDSs. See "Description of the Global Depositary Shares."

Additional deposit of Common Shares and issuance of additional GDSs	After the initial deposit of the Common Shares in connection with this Offering, under current ROC law and pursuant to the deposit agreements, no deposit of the Common Shares may be made into the Rule 144A GDS facility or the International GDS facility, and no GDSs may be issued against such deposits, without specific ROC regulatory approval with the exception of the issuance of additional GDSs in connection with (i) dividends on, or free distributions of, Common Shares, (ii) the exercise by holders of existing GDSs of their pre-emptive rights in the event of capital increases for cash, or (iii) to the extent that previously issued GDSs have been canceled, reissuances of GDSs up to an aggregate amount of outstanding GDSs equal to the total number of GDSs (subject to adjustment for the issuances described in clauses (i) and (ii)) that were originally approved by the ROC Securities and Futures Bureau and issued in connection with this Offering. In the case of a deposit of Common Shares requested under clause (iii) above, the Depositary will also refuse to accept the Common Shares for deposit if such deposit is not permitted under any legal, regulatory or other restriction notified by the Company to the Depositary from time to time. Such restrictions may specify blackout periods during which deposits may not be made, minimum and maximum amounts and frequencies of deposit. See "Description of the Global Depositary Shares — Issuance of GDSs Upon Deposit of Common Shares," "Description of the Global Depositary Shares — Withdrawal of Common Shares Upon Cancellation of GDSs" and "Appendix B — Foreign Investment and Exchange Controls in the ROC — Depositary Receipts."
Voting rights	Holders of GDSs may exercise voting rights with respect to the underlying Common Shares represented by GDSs only as described in the Deposit Agreements, as summarized under "Description of the Global Depositary Shares — Voting Rights."
Dividends.	Holders of the GDSs will be entitled to receive dividends, subject to the terms of the Deposit Agreements and relevant ROC laws and regulations, to the same extent as holders of Common Shares, less any fees and expenses payable under the Deposit Agreements and any ROC tax applicable to such dividends. The payment and amount of dividends on the Common Shares are subject to approval by our shareholders at a meeting of shareholders. Holders of outstanding Common Shares that are held on a dividend record date will be entitled to the full dividend declared without regard to any prior or subsequent transfer of such Common Shares. Accordingly, holders of GDSs on the relevant dividend record date will, subject to the terms of the Deposit Agreements, be entitled to the full amount of any dividend declared at our relevant general meeting of shareholders. See "Dividends," "Description of the Common Shares — Dividends and Distributions" and "Description of the Global Depositary Shares — Dividends and Distributions."

ROC tax	Dividends (whether in cash or Common Shares) declared by us out of retained earnings and distributed to a non-ROC holder in respect of the Common Shares represented by GDSs are subject to ROC withholding tax, currently at the rate of 20% for non-ROC holders on the amount of the distribution (in the case of cash dividends) or on the par value of the Common Shares (in the case of share dividends). The 20% withholding tax will be reduced proportionally to the extent that a 10% retained earning tax was previously paid on our undistributed earnings. Under current ROC law, capital gains on the sale of Common Shares represented by GDSs are exempt from ROC income tax. Sales of GDSs by non-ROC holders are not regarded as sales of ROC securities and thus any gains derived from transfers of GDSs are not subject to ROC income tax. See "Taxation — ROC Taxation."
Markets for the Common Shares and GDSs	The only trading market for the Common Shares is the TSE. Application has been made to have the International GDSs listed on the Luxembourg Stock Exchange. Application has been made to have the Rule 144A GDSs designated as eligible for trading on the PORTAL Market.
Settlement	The Company has made arrangements with DTC to have the GDSs accepted into DTC's book-entry settlement system. Upon acceptance by DTC of the Master GDSs, the GDSs will only be issued and held in book-entry form through the book-entry facilities of DTC. Each Master GDR will be registered in the name of Cede & Co., as nominee of DTC. For so long as the GDSs are held in DTC, Cede & Co. will be the holder of record of all such GDSs evidenced by such Master GDRs. Euroclear and Clearstream have accepted the GDSs for settlement in their respective systems on a book-entry basis. Accordingly, except as described above, each person owning a beneficial interest in the GDSs must rely on the procedures of DTC and institutions having accounts with DTC ("DTC participants") to exercise or be entitled to any rights as the holder or beneficial owner of a GDS. So long as any GDSs are settled through DTC's book-entry settlement system or unless otherwise required by law, ownership of beneficial interests in the GDSs will be shown on, and the transfer of such ownership will be effected only through, records maintained by (i) DTC or its nominee (with respect to DTC participants' interests) or (ii) DTC participants, including Euroclear and Clearstream. The GDSs will settle in DTC's Same-Day Funds Settlement System and secondary market trading activity in the GDSs will therefore settle in immediately available funds. See "Description of the Global Depositary Shares — Clearance, Settlement and Safekeeping."
Use of proceeds	We estimate that the net proceeds to the Selling Shareholder from this Offering (after deducting combined management and underwriting commissions and selling concessions and other estimated expenses of the Offering) will be no less than US$96.1 million. The net proceeds to the Selling Shareholder from this Offering will be used to strengthen the capital base in order to support business expansion and growth of E.Sun Bank. The Company will not receive any of the proceeds from the sale of any GDSs by the Selling Shareholder.
Transfer restrictions.	Neither the Common Shares nor the GDSs have been registered under the Securities Act and are subject to certain restrictions on transfer. See "Description of the Global Depositary Shares — Transfer Restrictions" and "Transfer Restrictions."

Governing law	The Deposit Agreements and the GDRs will be governed by, and construed in accordance with, the laws of the State of New York.
Lock-up Agreement	Each of the Company, the Selling Shareholder and our executive officers (see "Directors, Management and Organization — Executive Officers) has agreed that it, he or she (as the case may be) will not, without the prior written consent of Morgan Stanley, during the period ending 120 days after the date of this Offering Memorandum, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, or publicly announce an intention to do any of the foregoing, any (A) GDSs, (B) Common Shares or securities convertible into or exercisable or exchangeable for Common Shares, (C) securities of the same class as the GDSs or the Common Shares or (D) other instruments representing interests in securities of the same class as the GDSs or the Common Shares (collectively, the "Lock-up Securities"), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-up Securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of the GDSs, Common Shares or such other securities, in cash or otherwise. The foregoing restrictions shall not apply to (1) the following transactions entered into by the Company: (A) transactions relating to the GDSs, Common Shares or such other securities acquired in open market transactions after the completion of this Offering, (B) the issuance and/or sale of Common Shares (including treasury shares) to the Company's employee for consideration or in connection with the Company's employee stock bonus plan, (C) the issuance of Common Shares upon conversion of the existing convertible bonds and (D) the issuance of Common Shares as dividends declared on or before the date hereof, (2) the following transactions entered into by the Selling Shareholder: (A) the sale of GDSs and underlying Common Shares by the Selling Shareholder to the Manager pursuant to the Purchase Agreement, (B) transactions relating to the GDSs, Common Shares or such other securities acquired in the open market by the Selling Shareholder, and (C) the sale of no more than 8,069,028 Common Shares in the aggregate by the Selling Shareholder pursuant to the mandatory requirements set forth in the ROC Financial Holding Company Act, and (3) the following transactions entered into by an executive officer of the Company: (A) the disposal of the Lock-up Securities as bona fide gifts and (B) the disposal of the Lock-up Securities to any trust for the direct or indirect benefit of such executive officer.

SUMMARY FINANCIAL AND OTHER DATA

The following summary financial and other data for E.Sun Financial, E.Sun Bank and E.Sun Bills Finance should be read in conjunction with the financial statements of such entities, and the related notes, included elsewhere in this Offering Memorandum and the section entitled "Selected Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The audited consolidated financial statements of E.Sun Financial as of and for the period from its establishment on January 28, 2002 to December 31, 2002, as of and for the year ended December 31, 2003, as of and for the six months ended June 30, 2003 and 2004; the unaudited pro forma consolidated balance sheets and statements of income of E.Sun Financial as of and for the years ended December 31, 2001 and 2002; and the audited unconsolidated financial statements of E.Sun Bank and E.Sun Bills Finance as of and for the years ended December 31, 2001, 2002 and 2003, and as of and for the six months ended June 30, 2003 and 2004; together with the independent accountants' audit reports thereon, are included elsewhere in this Offering Memorandum.

Each of the financial statements of E.Sun Financial, E.Sun Bank and E.Sun Bills Finance has been prepared and presented in accordance with reporting requirements of the "Criteria Governing the Preparation of Financial Reports by Financial Holding Companies," "Criteria Governing the Preparation of Financial Reports by Securities Issuers" and other applicable ROC laws and regulations and in accordance with ROC GAAP, and such financial statements are not intended to present their financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in any country or jurisdiction, including the United States, other than those in the ROC.

The following summary financial data for E.Sun Financial, E.Sun Bank and E.Sun Bills Finance have been derived from their respective financial statements without material adjustment. Solely for your convenience, these summary data are presented in a different format from the financial statements. Neither such data nor the format in which they are presented should be viewed as comparable to information prepared in accordance with U.S. GAAP or generally accepted accounting principles elsewhere.

Summary Financial and Other Data Relating to E.Sun Financial

The following table sets forth, as of and for the periods indicated, certain historical financial and other data of E.Sun Financial.

	As of and for the Period from January 28 (Date of Establishment) to December 31,	As of and for the Year Ended December 31,		As of and for the Six Months Ended June 30,		
	2002	2003		2003	2004	
	(in millions, except percentages and per share data)					
Income Statement Data:						
Interest income	NT$ 12,368.4	NT$ 11,403.6	US$338.8	NT$ 5,555.1	NT$ 7,183.6	US$ 213.4
Interest expense	(5,719.5)	(3,962.2)	(117.7)	(2,140.2)	(1,988.5)	(59.1)
Net interest income	6,648.9	7,441.4	221.1	3,414.9	5,195.1	154.3
Fee income	1,118.1	1,874.6	55.7	727.0	1,265.1	37.6
Fee expense	(320.7)	(648.0)	(19.2)	(281.4)	(365.7)	(10.8)
Net fee income	797.4	1,226.6	36.5	445.6	899.4	26.8
Net gain on sales of securities	1,915.9	1,505.5	44.7	1,107.1	269.9	8.0
Net other operating income(1)	240.0	839.4	24.9	369.5	650.5	19.3
Total net operating revenue	9,602.2	11,012.9	327.2	5,337.1	7,014.9	208.4
Reversal (Provisions) for loan and other loss	(9,614.6)	(853.9)	(25.4)	75.1	(122.4)	(3.6)
Operating expense	(3,974.2)	(4,849.5)	(144.1)	(2,221.7)	(2,832.7)	(84.2)
Net operating income (loss)	(3,986.6)	5,309.5	157.7	3,190.5	4,059.8	120.6
Net non-operating income (expense)	(58.4)	(64.6)	(1.9)	(5.1)	(20.4)	(0.6)
Income (loss) before tax	(4,045.0)	5,244.9	155.8	3,185.4	4,039.4	120.0
Tax benefit (expense)	1,082.7	(715.9)	(21.2)	(753.3)	(937.9)	(27.9)
Consolidated net income (loss)	(2,962.3)	4,529.0	134.6	2,432.1	3,101.5	92.1
Less: net income of subsidiaries for the period from January 1, 2002 to January 27, 2002	129.2	0.0	0.0	0.0	0.0	0.0
Consolidated Net income (loss)	NT$ (3,091.5)	NT$ 4,529.0	US$134.6	NT$ 2,432.1	NT$ 3,101.5	US$ 92.1
Balance Sheet Data:						
Net loans(2)	NT$170,775.3	NT$199,070.3	US$5,914.2	NT$178,728.0	NT$239,780.9	US$ 7,123.6
Total assets	284,428.7	334,461.4	9,936.5	305,310.5	435,980.9	12,952.5
Deposits(3)	222,335.0	241,716.0	7,181.1	221,895.9	267,490.5	7,946.8
Total liabilities	262,307.8	307,656.4	9,140.1	280,757.6	404,201.8	12,008.4
Total shareholders' equity	22,120.9	26,805.1	796.3	24,552.8	31,779.1	944.1
Other Data:						
Earnings per share	NT$ (1.46)	NT$ 2.13	US$ 0.06	NT$ 1.15	NT$ 1.40	US$ 0.04
Book value per share(4)	8.96	10.69	0.32	9.94	12.24	0.36
Return on average assets(5)	(1.09%)	1.46%		1.65%	1.61%	
Return on average equity(6)	(14.0%)	18.5%		20.8%	21.2%	
Net interest income/total net operating revenue	69.2%	67.6%		64.0%	74.1%	
Net fee income/total net operating revenue	8.3%	11.1%		8.3%	12.8%	
Operating expense/total net operating revenue	41.4%	44.0%		41.6%	40.4%	
Double leverage ratio(7)	106.6%	104.2%		105.2%	97.6%	
Group capital adequacy ratio(8)	108.1%	113.5%		102.9%	104.6%	
Consolidated shareholders' equity/total assets	7.78%	8.01%		8.04%	7.29%	

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(1) Includes investment income (loss) from long-term equity investments and bond investments (corporate bonds and bank debentures).
(2) Includes loans, discounts and bills purchased after the deduction of allowance for possible losses.
(3) Includes deposits and remittances.
(4) Calculated by dividing total shareholders' equity by number of shares issued.

(5) Defined as annual net income for the period ended December 31, 2002 and the year ended December 31, 2003 divided by total assets as of December 31, 2002 and the average year-end total assets balance for the preceding year and as of December 31, 2003, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by average total assets balance as of December 31 of the previous year and as of June 30 of the current year respectively.

(6) Defined as annual net income for the period ended December 31, 2002 and the year ended December 31, 2003 divided by the total shareholders' equity balance as of December 31, 2002, and the average year-end total shareholders' equity balance for the preceding year and as of December 31, 2003, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004, divided by average total shareholders' equity balance as December 31 of the previous year and as of June 30 of the current year, respectively.

(7) Defined as E.Sun Financial's unconsolidated long-term investments in subsidiaries divided by shareholders' equity.

(8) Defined as E.Sun Financial's net qualified capital divided by E.Sun Financial's required capital, as defined by MOF.

	As of and for the Period from January 28 (Date of Establishment) to December 31,	As of and for the Year Ended December 31,	As of and for the Six Months Ended June 30,	
	2002	2003	2003	2004
Common Share Data (in millions) at Period End:				
Shares issued	2,470.0	2,506.4	2,470.0	2,596.4
Treasury stock[1]	(349.8)	(374.6)	(349.8)	(231.7)
Shares outstanding[2]	2,120.2	2,131.8	2,120.2	2,364.7
Weighted average number of shares outstanding	2,120.2	2,123.3	2,120.2	2,208.9

(1) Represents treasury stock relating to long-term equity investments of E.Sun Bank and E.Sun Securities in E.Sun Financial as a result of the share exchange between E.Sun Bank, E.Sun Securities and E.Sun Financial and treasury stock to be re-issued to employees. The carrying values of these treasury stocks, which were both held by E.Sun Bank and E.Sun Securities, were NT$4,247.6 million and NT$2,796.6 million as of June 30, 2003 and June 30, 2004, respectively.

(2) After deduction of treasury shares.

Summary Pro Forma Financial and Other Data Relating to E.Sun Financial

E.Sun Financial was formed through a share exchange among E.Sun Bank, E.Sun Bills Finance and E.Sun Securities on January 28, 2002. The exchange ratio was 1.0 share of E.Sun Financial for 1.0 share of E.Sun Bank; 1.0 share of E.Sun Financial for 1.10 shares of E.Sun Bills Finance; and 1.0 share of E.Sun Financial for 1.25 shares of E.Sun Securities. After the share exchange, E.Sun Bank, E.Sun Bills Finance and E.Sun Securities became wholly owned subsidiaries of E.Sun Financial.

The following table sets forth the summary unaudited pro forma consolidated financial and other data of E.Sun Financial as of and for the years ended December 31, 2001 and 2002. The summary unaudited pro forma consolidated balance sheets and income statements have been prepared in accordance with ROC GAAP based on the assumption that E.Sun Financial was established on January 1, 2001 and that each of E.Sun Bank, E.Sun Bills Finance and E.Sun Securities had been subsidiaries of E.Sun Financial since January 1, 2001. The unaudited pro forma consolidated balance sheets and income statements do not purport to be indicative of the results of operations or related effects on the financial positions of E.Sun Financial that would actually have been attained had E.Sun Financial been established on January 1, 2001 and the share exchanges by which E.Sun Bank, E.Sun Bills Finance and E.Sun Securities became wholly owned subsidiaries of E.Sun Financial had been completed on January 1, 2001. Furthermore, the unaudited pro forma consolidated financial data are based on historical financial data prepared in accordance with ROC GAAP and cannot be taken as indicative of the likely performance of E.Sun Financial in the future. The summary unaudited pro forma consolidated financial data reflect certain adjustments, including:

- elimination of intercompany transactions among E.Sun Bank, E.Sun Bills Finance and E.Sun Securities in 2001 and 2002 as if E.Sun Financial were incorporated on January 1, 2001 and these entities were wholly owned subsidiaries of E.Sun Financial;

- reversal of current income and cash dividends recognized by E.Sun Bank from E.Sun Bills Finance and E.Sun Securities under the assumption that E.Sun Financial would have recognized such amounts through the consolidation of these entities as wholly owned subsidiaries for 2001;

- reclassification of E.Sun Bank's issuance of treasury stock, purchased from the public market, into employee bonus shares in 2001 as E.Sun Financial shares and that E.Sun Financial would have had to borrow the funds to purchase the shares from the market; and

- any other adjustments to account for the differences in the accounting policies of the operating subsidiaries.

These summary unaudited pro forma consolidated financial and other data of E.Sun Financial are based on and derived from the historical ROC GAAP financial statements of E.Sun Bank, E.Sun Bills Finance and E.Sun Securities, together with the related notes, which (except for those of E.Sun Securities) are included elsewhere in this Offering Memorandum.

These summary unaudited pro forma consolidated financial and other data are presented for illustrative purposes only. This information is not necessarily indicative of the financial condition or results of operations of E.Sun Financial that might have occurred had the transactions occurred on January 1, 2001, nor is it necessarily indicative of any future financial condition or results of operations of E.Sun Financial.

	Pro Forma[1] As of and for the Year Ended December 31, 2001	2002	
	(in millions, except percentages) (unaudited)		
Income Statement Data:			
Interest income	NT$ 14,728.7	NT$ 12,368.4	US$ 367.4
Interest expense	(9,267.5)	(5,706.2)	(169.5)
Net interest income	5,461.2	6,662.2	197.9
Fee income	863.0	1,118.1	33.2
Fee expense	(212.6)	(320.7)	(9.5)
Net fee income	650.4	797.4	23.7
Net gain on sales of securities	2,564.2	1,915.9	56.9
Net other operating income	157.7	221.7	6.6
Total net operating revenue	8,833.5	9,597.2	285.1
Provisions for loan guarantee, trading and credit loss	(2,497.8)	(9,614.6)	(285.7)
Operating expense	(3,273.3)	(4,130.6)	(122.7)
Net operating income	3,062.4	(4,148.0)	(123.3)
Net non-operating income	3.2	(71.8)	(2.1)
Income before tax	3,065.6	(4,219.8)	(125.4)
Tax benefit (expense)	(1,008.5)	1,082.8	32.2
Net income (loss)	NT$ 2,057.1	NT$ (3,137.0)	US$ (93.2)
Balance Sheet Data:			
Total loans[2]	NT$179,345.2	NT$170,775.3	US$5,073.5
Total assets	273,052.8	284,905.9	8,464.2
Deposits[3]	222,725.1	222,349.0	6,605.7
Total liabilities	247,680.0	262,741.8	7,805.8
Net assets	25,372.9	22,164.2	658.5
Other Data:			
Return on average assets[4]	0.75%	(1.12%)	
Return on average net assets[5]	8.1%	(13.2%)	
Operating expense/total net operating revenue	37.1%	43.0%	
Net interest income/total net operating revenue	61.8%	69.4%	
Net fee income/total net operating revenue	7.4%	8.3%	
Net assets/total assets	9.29%	7.78%	

(1) The unaudited pro forma consolidated financial statements are based on the audited financial statements of E.Sun Financial, E.Sun Bank and E.Sun Bills Finance as of and for the years ended December 31, 2001 and 2002. On combining the three sets of financial information, E.Sun Financial made certain adjustments, where appropriate, in order to conform the different accounting policies and to eliminate certain intercompany transactions. The principal adjustments made are described in detail on page F-88 of this Offering Memorandum.

(2) Includes loans, discounts and bills purchased after the deduction of allowance for possible losses.

(3) Includes deposits and remittances.

(4) For 2001, defined as annual net income divided by total assets as of December 31, 2001. For 2002, defined as annual net income divided by average assets as of December 31, 2001 and December 31, 2002.

(5) For 2001, defined as annual net income divided by net assets as of December 31, 2001. For 2002, defined as annual net income divided by average net assets as of December 31, 2001 and December 31, 2002.

Summary Financial and Other Data Relating to E.Sun Bank

The following table sets forth, as of and for the periods indicated, certain financial and other data for E.Sun Bank. Please see "Selected Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — E.Sun Bank" for more information concerning the financial condition and results of operations of E.Sun Bank.

	As of and for the Year Ended December 31,				As of and for the Six Months Ended June 30,		
	2001	2002	2003		2003	2004	
	(in millions, except percentages)						
Income Statement Data:							
Net interest income	NT$ 5,279.7	NT$ 6,533.6	NT$ 7,206.4	US$ 214.1	NT$ 3,361.6	NT$ 4,776.1	US$ 141.9
Net fee income	477.8	592.3	946.8	28.1	334.1	693.0	20.6
Net gain/loss on sales of securities	1,456.2	1,068.9	590.6	17.6	439.7	212.6	6.3
Net other operating income	424.3	221.4	665.3	19.7	364.1	1,804.7	53.6
Total net operating revenue	7,638.0	8,416.3	9,409.1	279.5	4,499.5	7,486.4	222.4
Reversal (Provisions) for loan loss and other losses	(2,092.6)	(9,414.0)	(845.6)	(25.1)	119.8	(132.4)	(3.9)
Operating expense	(2,963.3)	(3,667.8)	(4,354.9)	(129.4)	(2,009.8)	(2,375.6)	(70.6)
Net income (loss)	1,928.0	(3,510.8)	3,396.3	100.9	2,048.0	4,067.6	120.8
Balance Sheet Data:							
Gross loans(1)	NT$180,859.2	NT$172,316.0	NT$201,240.1	US$5,978.6	NT$180,357.3	NT$241,711.8	US$ 7,181.0
Net loans(2)	179,345.2	170,775.3	199,070.3	5,914.2	178,728.0	239,780.9	7,123.6
Total assets	265,873.8	272,643.5	310,997.8	9,239.4	283,461.4	366,208.8	10,879.6
Deposits(3)	225,029.2	225,739.6	247,016.5	7,338.6	228,575.9	274,828.7	8,164.8
Total liabilities	243,070.3	254,730.1	289,688.5	8,606.3	263,500.2	343,249.6	10,197.6
Total shareholders' equity	22,803.5	17,913.4	21,309.4	633.1	19,961.2	22,959.1	682.1
Other Data:							
Return on average assets(4)	0.77%	(1.30%)	1.16%		1.47%	2.40%	
Return on average equity(5)	8.8%	(17.2%)	17.3%		21.6%	36.8%	
Net interest margin(6)	2.37%	2.79%	2.66%		2.60%	2.98%	
Net fee income/total net operating revenue	6.3%	7.0%	10.1%		7.4%	9.3%	
Operating expense/total net operating revenue	38.8%	43.6%	46.3%		44.7%	31.7%	
NPLs/gross loans(7)	2.83%	1.38%	1.18%		1.35%	0.98%	
Surveillance loans/gross loans(8)	NA	1.05%	0.41%		0.64%	0.30%	
Allowance for possible loss on loans/ gross loans	0.84%	0.89%	1.08%		0.90%	0.80%	
Allowance for possible loss on loans/ NPLs	29.6%	64.7%	91.1%		66.9%	81.9%	
Allowance for possible loss on loans/ broad-based NPLs(9)	N/A	36.8%	67.8%		45.4%	62.6%	
Gross loans/deposits	80.4%	76.3%	81.5%		78.9%	87.9%	
Total shareholders' equity/total assets	8.58%	6.57%	6.85%		7.04%	6.27%	
Capital adequacy ratio(10)	11.01%	10.38%	9.97%		10.09%	9.61%	

(1) Includes loans, discounts, bills purchased and overdue loans before the deduction of allowance for possible losses.

(2) Includes loans, discounts, bills purchased and overdue loans after the deduction of allowance for possible losses.

(3) Includes deposits and remittances.

(4) Defined as annual net income for the years ended December 31, 2001, 2002 and 2003 divided by the average year-end total assets balance for the preceding and current fiscal year, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by the average total assets balance as of December 31 of the previous year and as of June 30 of the current year, respectively.

(5) Defined as annual net income for the years ended December 31, 2001, 2002 and 2003 divided by the average year-end total shareholders' equity balance for the preceding and current fiscal year, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by the average total shareholders' equity balance as of December 31 of the previous year and as of June 30 of the current year, respectively.

(6) Defined as net interest income divided by the average daily balances of interest-earning assets.

(7) Calculated by dividing the amount of NPLs by the amount of gross loans. NPLs primarily include loans for which the principal is overdue by three months or more or the most recent interest payment is overdue by six months or more, as defined by the MOF.

(8) Calculated by dividing the amount of surveillance loans by the amount of gross loans. Surveillance loans primarily include loans for which the principal or interest is overdue by three months or more, but less than six months overdue, which have yet to be classified as NPLs, as well as other impaired loans that are exempt from MOF classification of NPLs.

(9) Broad-based NPLs are defined as NPLs plus surveillance loans.

(10) Defined as net qualified capital divided by risk-based assets, as defined by MOF.

Summary Financial and Other Data Relating to E.Sun Bills Finance

The following table sets forth, as of and for the periods indicated, certain financial and other data of E.Sun Bills Finance. Please see "Selected Financial and Other Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — E.Sun Bills Finance" for more information concerning the financial condition and results of operations of E.Sun Bills Finance.

	As of and for the Year Ended December 31,				As of and for the Six Months Ended June 30,		
	2001	2002	2003		2003	2004	
	(in millions, except percentages)						
Income Statement Data:							
Net interest income	NT$ 125.4	NT$ 46.6	NT$ 66.9	US$ 2.0	NT$ 26.0	NT$ 279.3	US$ 8.3
Net fee income	150.3	160.9	154.6	4.6	88.7	56.5	1.7
Net gain on sales of securities	1,002.4	820.9	800.4	23.8	507.4	154.3	4.6
Other operating income	4.4	0.1	—	—	—	0.0	0.0
Total net operating revenue	1,282.5	1,028.5	1,021.9	30.4	622.1	490.1	14.6
Provisions/Reversal	(405.1)	(187.9)	10.6	0.3	(5.1)	16.0	0.4
Operating expense	(153.9)	(139.0)	(160.8)	(4.8)	(88.5)	(87.5)	(2.6)
Tax benefit (expense)	(354.7)	(130.7)	94.5	2.8	(46.4)	(105.8)	(3.1)
Net income	368.8	570.9	966.2	28.7	482.1	312.8	9.3
Balance Sheet Data:							
Current assets	NT$ 8,060.7	NT$ 8,269.5	14,864.9	441.6	14,355.0	62,290.5	1,850.6
Total assets	9,165.5	10,065.1	18,074.4	537.0	16,289.9	64,087.4	1,904.0
Bank loans	3,330.0	3,920.0	7,620.0	226.4	9,970.0	8,880.0	263.8
Bonds payable	—	—	3,000.0	89.1	—	5,000.0	148.5
Reserve for loss on guarantees and sale of government bonds	518.0	592.2	527.6	15.7	647.4	542.8	16.1
Total liabilities	4,037.6	4,634.6	12,075.6	358.8	10,775.0	58,414.5	1,735.4
Total shareholders' equity	5,127.9	5,430.5	5,998.9	178.2	5,514.8	5,672.9	168.5
Other Data:							
Return on average assets(1)	4.46%	5.94%	6.87%		7.32%	1.52%	
Return on average equity(2)	7.4%	10.8%	16.9%		17.6%	10.7%	
Operating expense/total net operating revenue	12.0%	13.5%	15.7%		14.2%	17.9%	
Bonds and securities sold under agreement to repurchase (repurchase price)(3)	NT$41,636.9	NT$39,998.1	NT$44,551.3	US$1,323.6	NT$42,441.0	NT$43,174.8	US$1,282.7
Bonds and securities purchased under agreement to resell (reselling price)(3)	2,290.4	2,219.0	151.1	4.5	1,659.3	1,416.0	42.1
Total guarantees	17,647.5	19,412.6	18,366.2	545.6	17,922.7	18,120.6	538.3
Reserve for guarantees/total guarantees(4)	2.2%	2.1%	2.3%		2.5%	2.4%	
Capital adequacy ratio(5)	18.01%	17.21%	14.90%		16.00%	13.72%	

(1) Defined as annual net income for the years ended December 31, 2001, 2002 and 2003 divided by the average year-end total assets balance for the preceding and current fiscal year, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by the average total assets balance as of December 31 of the previous year and as of June 30 of the current year, respectively.

(2) Defined as annual net income for the years ended December 31, 2001, 2002 and 2003 divided by the average year-end total shareholders' equity balance for the preceding and current fiscal year, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by the average total shareholders' equity balance as of December 31 of the previous year and as of June 30 of the current year, respectively.

(3) Based on repurchasing and reselling prices.

(4) Defined as reserve for loss on guarantees divided by total guarantees.

(5) Defined as net qualified capital divided by risk-weighted assets, as defined by MOF.

RISK FACTORS

Investing in the GDSs and the Common Shares represented thereby involves risks. You should carefully consider the risks described below before making an investment decision. You should also carefully consider all of the information contained in this Offering Memorandum, including our financial statements and related notes and those of our subsidiaries. You should note that we are governed in the ROC by a legal and regulatory environment that in some material respects may be different from that prevailing in other countries.

Risks Relating to E.Sun Financial

Our ability to service our debt and pay dividends depends on capital distributions from our subsidiaries which are subject to regulatory and other limits.

Since we are a holding company, we conduct no significant business operations on our own. As a result, we depend on dividends from our subsidiaries for substantially all of our revenues. We currently conduct all of our operations through our subsidiaries. Most of our assets are held by, and almost all of our earnings and cash flows are attributable to, such subsidiaries. Our liquidity, ability to pay interest and expenses and meet obligations, and ability to pay cash dividends on our Common Shares are dependent upon our ability to obtain a flow of funds from those subsidiaries.

Certain of our operating subsidiaries have a history of paying dividends in the past. Nevertheless, it is uncertain whether dividends will be paid to us from time to time, or at all. Whether or not dividends will be paid depends on various business considerations and regulatory limits. Generally, Taiwan corporations are required to set aside 10.0% of their annual income, less prior years' losses, if any, and applicable income tax, as a legal reserve. As a result, Taiwan corporations may generally only declare up to 90.0% of their current earnings in any year as dividends to their shareholders. Further, our subsidiaries are governed by banking, bills finance or securities regulations and their articles of incorporation, respectively, which further restrict their ability to pay dividends, including the following:

- each of E.Sun Bank and E.Sun Bills Finance is restricted from paying a dividend unless (1) it has allocated, for the current year, a legal reserve of 30.0% of its earnings (less losses of the previous years and taxes); (2) the cash portion of such dividend does not exceed 15.0% of its paid-in capital unless the legal reserve is 100.0% or more of its paid-in capital; and (3) it maintains a capital adequacy ratio of at least 8.0%; and

- E.Sun Securities is restricted from paying a dividend unless it has allocated 20.0% of its net income for the year to a special reserve.

There can be no assurance that these subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to us to enable us to meet our obligations, pay interest and expenses or declare dividends.

Under the ROC Banking Law and the Regulations Governing the Management of a Bank's Capital Adequacy, all banks in Taiwan are required to maintain a capital adequacy ratio of at least 8.0%. When a bank's capital adequacy ratio is above 6.0% but below 8.0%, distributions of cash dividends or other properties may not exceed 20% of the net income after covering losses of prior years. When a bank's capital adequacy ratio is under 6.0%, a bank's distribution of cash dividends or other properties is prohibited.

In addition, our ability to service our debt and pay dividends may be further subject to restrictions under indentures, loan covenants, and loan agreements, in each case, governing indebtedness we may incur. Furthermore, our subsidiaries may incur substantial indebtedness to third parties, the terms of which may restrict our ability to obtain funds from the applicable subsidiaries. For more details, see "Regulation of the Taiwan Financial Services Industry" and "Description of the Common Shares — Dividends and Distributions."

We may not be successful in leveraging the financial holding company structure to promote cross-selling activities, in part due to the regulatory environment.

One of the benefits of our financial holding company structure is the opportunities it creates for cross-selling activities that would enable us to expand our revenue and customer base. While we believe that E.Sun Bank provides a platform for us to successfully promote cross-selling activities, there can be no assurances that we will be successful. In addition, our ability to effectively use the information of one subsidiary for cross-selling purposes may be limited by certain regulatory uncertainties. For example, there are regulations governing cross-selling that permit us to use only a portion of the information we have available about our customers and, except for certain basic information, only permit us to use that information for cross-selling purposes with the consent of our customers. However, such regulations are vague and allow for a high level of discretion on the part of the regulators to review our cross-selling activities. If we are considered to have violated any cross-selling regulations, we may be required to decrease or suspend our cross-selling activities, which may have an adverse effect on our revenue and results of operations.

We may be unsuccessful in completing future acquisitions or in establishing strategic alliances.

We intend to pursue selective acquisitions and strategic alliances that can benefit from our competitive strengths and enhance our competitive advantages. Our ability to grow by acquisition or strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates, our ability to negotiate acceptable terms and our assessment of the characteristics of potential acquisition targets or strategic partners such as financial condition and results of operations, attractiveness of products and services, suitability of distribution channels, management ability and the degree to which the acquired operations can be integrated.

Completion of potential acquisitions is subject to a number of uncertainties, including access to capital once the proceeds of this Offering have been used, restrictions contained in our debt instruments and uncertainties of the ROC laws and regulations relating to mergers and acquisitions. The ROC Corporate Merger and Acquisition Law, the ROC Financial Institutions Merger Law and the amended ROC Securities and Exchange Law have only recently been enacted or amended and their application and interpretation have not yet been tested. As a result, any proposed acquisition by us or our subsidiaries may be delayed or prevented. See "Regulation of the Taiwan Financial Services Industry." In addition, our strategy to pursue strategic alliances to broaden our customer base and expand into overseas markets, particularly in Hong Kong and the People's Republic of China, may be subject to certain obstacles as a result of Taiwan's unique position in international relations. See "Risks Relating to Taiwan — Our business may be adversely affected by political risks associated with doing business in Taiwan."

Acquisitions and strategic alliances involve risks that could have a material adverse effect on our results of operations, including difficulties in integrating the operations and personnel of the acquired companies, problems in implementing the business objectives of a strategic alliance and diversion of management attention from the operation of the existing businesses. We cannot assure you that we will be able to identify suitable acquisition or strategic alliance candidates or complete the acquisitions or strategic alliances on satisfactory terms.

We may encounter difficulties in realizing cost savings, or achieving, within the anticipated time frame, expected strategic objectives and other benefits of KBB acquisition.

On June 3, 2004, we entered into an agreement to acquire substantially all assets and liabilities of KBB from the CDIC, an organization jointly established by the MOF and the Central Bank of China to safeguard the depositors' interest in financial institutions. The CDIC assumed control of KBB in January 2002 and disposed a majority of KBB's non-performing loans in June 2003. The success of the KBB acquisition depends, in part, on our ability to realize anticipated synergies, growth opportunities and cost savings as a result of this acquisition. The realization of these anticipated benefits may be blocked, delayed or reduced as a result of numerous factors, some of which are outside our control. These factors include:

- difficulties in integrating the management information system ("MIS") of KBB;
- unforeseen contingent risks or latent liabilities relating to the KBB acquisition that may become apparent in the future;
- difficulties in using the unused KBB bank branch licenses or relocating the existing KBB branches;
- difficulties in managing a larger business; and
- unforeseen labor disputes or strikes by the KBB employees employed by us.

Furthermore, the success of the KBB acquisition also depends on our ability to manage its remaining portfolio of broad-based NPLs of approximately NT$2.9 billion as of December 31, 2003. KBB's loan loss reserve coverage ratio, which measures loan loss reserve as a percentage of total broad-based NPLs, was 25.0% as of December 31, 2003, compared to the E.Sun Banks loan loss reserve coverage ratio of 62.6% as of June 30, 2004. In line with our risk management policies, we intend to make additional provisions in the range of approximately NT$0.8 billion to NT$1.3 billion in respect of KBB's NPLs to maintain E.Sun Bank's leading asset quality. We believe that the full amount of such additional provisions will be expensed as impaired goodwill in the quarter ending as of September 30, 2004. After such additional provisions and certain other adjustments, the negative fair value of KBB's net assets will exceed the government cash subsidy by approximately NT$6.0 billion to NT$6.5 billion. We expect to capitalize the remaining amount of such excess after the impairment for additional provisions as goodwill. Pursuant to the existing accounting rules, we expect to amortize the capitalized goodwill on a 5-year straight-line basis for the four months ending as of December 31, 2004 and thereafter, upon the implementation of new accounting rules as of January 1, 2005, subject the unamortized amount of the capitalized goodwill to annual goodwill impairment tests. The foregoing are our preliminary estimates and there can be no assurance that the amount of the impaired or capitalized goodwill will fall within our estimated range or that our independent appraiser or certified public accountants will not require us to alter the amount or classification of the impaired or capitalized goodwill upon their performance of the annual goodwill impairment test or audit of our financial statements, respectively, for the year ended December 31, 2004. Under the ROC Banking Law and the Regulations Governing the Management of a Bank's Capital Adequacy, goodwill arising from the KBB acquisition will reduce E.Sun Bank's Tier I capital by the amount of the goodwill. Our net income going forward and the capital adequacy ratio of E.Sun Bank may be adversely affected by the recognition, amortization and impairment of the goodwill.

The integration of KBB into E.Sun Bank will require significant attention from management. The diversion of management's attention and any difficulties associated with the integration could adversely affect our revenues and results of operations.

Interest rate volatility could significantly affect our financial condition and results of operations.

A significant portion of our assets consists of, and a significant portion of our revenue is derived from, assets that are monetary in nature and subject to interest rate risks. In addition, we and our subsidiaries engage in proprietary trading, mainly through positions in fixed-income and equity investments, and to some extent, in financial derivative instruments. These assets are subject to normal risks associated with proprietary investing activities, including the risk that a change in the level of one or more of the market prices, rates, indices, volatilities, correlations, liquidity or other market factors will result in losses for a specific position or portfolio. For example, E.Sun Bank's profitability depends to a large extent on its net interest income. Changes in interest rates, changes in the relationship between short-term and long-term interest rates, or changes in the relationship between different interest rate indices can affect the interest rate charged on interest-earning assets differently than the interest rate paid on interest-bearing liabilities. As of June 30, 2004, the total amount of interest-bearing liabilities of E.Sun Bank anticipated to be re-priced within one year exceeded the total amount of interest-earning assets anticipated to be re-priced in the same period by NT$20.9 billion, representing a negative cumulative one-year interest rate sensitivity gap equal to 6.8% of total interest-earning assets. Therefore, E.Sun Bank may experience decreases in net interest income in a rising interest rate environment. E.Sun Bank intends to offset the potential effects arising from a positive interest rate gap through proper management of its assets and liabilities.

Loan prepayments generally accelerate as interest rates fall. Prepayments in a declining interest rate environment will reduce E.Sun Bank's net interest income and adversely affect its earnings because the income it receives on its reinvested funds would generally be less. In addition, E.Sun Bills Finance's profitability is dependent, to a large extent, on its trading activities in fixed-income instruments and its investment portfolio, which consists mostly of fixed-income instruments. Net trading gains and net interest income accounted for 87.9%, 84.3%, 84.9% and 88.5% of E.Sun Bills Finance's total net operating revenue for the years ended December 31, 2001, 2002, 2003 and for the six months ended June 30, 2004 respectively. Changes in market interest rates, or changes in the relationship between different interest rate indices, can affect E.Sun Bills Finance's funding cost, the profitability of its trading activities and its portfolio returns. We are therefore subject to significant risk from changes in interest rates, which can affect our financial performance.

If we are not successful in competing in highly competitive markets, our results of operations may be adversely affected.

The financial services industry in Taiwan is highly competitive. We and each of our principal subsidiaries operate in highly competitive markets. Some of our competitors are better capitalized and have access to cheaper sources of funds. In the financial holding company industry, we compete against a total of 14 financial holding companies in Taiwan as of June 30, 2004, some of which may have greater resources than we do. In addition, as a financial holding company, we compete through our subsidiaries with each of the monoline competitor operating companies in its various businesses.

Although financial holding companies are expected to offer identifiable advantages such as efficient deployment of capital, cross-selling and increased brand awareness, over mono-line financial services companies, there can be no assurance that financial groups operating as holding companies will compete more effectively.

In the banking industry, there were 50 domestic banks and 34 credit co-operatives operating in Taiwan as of June 30, 2004. We compete principally with other commercial banks in the ROC as well as government-owned banks, specialized banks and branches of foreign banks operating in Taiwan. Historically, the banking industry was largely dominated by government-owned banks. Following a change in the political environment in 1988, the ROC government initiated a deregulation and privatization program, and from 1990 to 1992, granted 16 new banking licenses to encourage competition in the private sector. Since then, the new banks ("New Banks") have gained market share at the expense of government-owned banks, accounting for approximately 15.4% of the assets among all Taiwan domestic banks as of December 31, 2003. In 2003, the five largest banks in Taiwan accounted for more than one-third of Taiwan's bank deposits.

In the bills finance industry, we compete against the three oldest bills finance companies, which accounted for over one-third of the total trading volume of all 14 bills finance companies in Taiwan for the six months ended June 30, 2004, as well as 10 other new bills finance companies and a number of qualified banks. The bills finance industry is particularly competitive for smaller institutions due to the competition for a relatively small number of customers. In the secondary market, there are additional financial institutions competing directly with bills finance companies, creating an intensely competitive environment. In addition, bills finance companies offer simple product lines due to legal restrictions, resulting in high business concentration risks and strong competition for a limited number of quality clients.

We also compete against some of our foreign competitors who provide products that we, as a domestic financial services company, are not capable of providing or are otherwise precluded by law from providing. We compete across all of our businesses on the basis of price, product, geographic location and service. If we are unable to compete successfully in any of our principal businesses, our results of operations and financial condition would be materially adversely affected. In addition, due to the highly competitive and fragmented markets in which we and each of our subsidiaries compete, there has been, and will continue to be, a trend of consolidation in Taiwan's financial services industry. There can be no assurances that either we or any of our subsidiaries will not be the target of mergers and acquisitions activities or that we or our subsidiaries will be able to remain independent.

Our business and those of our principal subsidiaries may be harmed, and the price of the GDSs and/or the Common Shares represented thereby may be adversely affected by changes in general economic and business conditions resulting from terrorist activities, political unrest, military actions, war and other instabilities occurring outside Taiwan.

The terrorist attacks in the United States on September 11, 2001 disrupted securities markets worldwide, adversely affected economic conditions in the United States and elsewhere and have resulted in increased political and economic uncertainty worldwide. The further terrorist actions in Bali and Jakarta, Indonesia and Thailand have also increased political and economic uncertainty in parts of Asia. In addition, the military operations against Iraq in the early part of 2003 further disrupted the world financial markets and worldwide economic activity. Recently, on March 11, 2004, terrorist bombings in Madrid, Spain increased concern of continued terrorist activity. Political or economic developments related to these crises, activities or threats could adversely affect the economy of Taiwan and our business and those of our principal subsidiaries.

Decisions made by the company with respect to related party transactions may not be considered by shareholders to be in their best interests.

We have engaged from time to time in a variety of transactions with our related parties. Our policy and the ROC Financial Holding Company Act provide that transactions with related parties will be conducted on terms at least as favorable to us as we could obtain in a comparable arm's-length transaction with a person who is not a related party, and such transaction shall be approved by three-fourths of the board of directors in a board meeting in which two-thirds of the directors are present. We have entered into transactions with our related parties in the past and we may enter into additional transactions with our related parties in the future. We cannot assure you as to the terms of those transactions or that all of our transactions will be considered by shareholders to be in their best interests. See "Transactions with Related Parties."

All of our businesses are highly regulated and we may be adversely affected by future regulatory changes.

Although there have been liberalization and deregulation initiatives in recent years, the financial services industry — including banking, bills finance and securities — remains highly regulated in Taiwan. Our subsidiaries' principal business activities are regulated by various ROC government agencies, including the Securities and Futures Bureau, the Bureau of Monetary Affairs of FSC and the Central Bank of China as well as numerous other government agencies. Compliance with all of the regulations places limitations on our activities. Mergers and acquisitions of businesses are also highly regulated in Taiwan, and the applicable laws and regulations are subject to interpretation. As a result, any proposed merger or acquisition may be delayed, deterred or prevented. In addition, these laws and regulations may change from time to time and we cannot assure you that future legislative or regulatory changes, including deregulation, will not have a material adverse effect on our revenue and results of operations. Failure to comply with any of the laws and regulations to which we are subject could result in fines, suspension or expulsion, which could have a material adverse effect upon us. Additionally, deregulation could subject us to increased competitive pressures, which could have a material adverse effect upon us. Certain of the regulations to which each of our subsidiaries are subject to are described in the section entitled "Regulation of the Taiwan Financial Services Industry."

A downgrade in our credit ratings could limit our ability to market products, increase our borrowing costs and/or hurt our relationships with creditors or trading counterparties.

Our credit ratings, which are intended to measure our ability to meet our debt obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. The interest rates of our borrowings are largely dependent on our credit ratings. A downgrade of our credit ratings would likely increase our cost of borrowing and adversely affect our results of operations. Downgrading of our credit ratings could also limit our ability to raise capital or our subsidiaries' abilities to conduct business. For example, although E.Sun Bank has one of the highest credit ratings of all Taiwan domestic banks, a downgrade of its credit ratings may have a material adverse effect on its cost of borrowings and have a negative impact its results of operations.

Our risk management policies and procedures, and those of our subsidiaries, may leave us exposed to unidentified or unanticipated risks, which could negatively affect our businesses or result in losses.

Our hedging strategies and other risk management techniques, and those of our subsidiaries, may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some methods of managing risk are based upon observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicated. Other risk management methods depend upon an evaluation of information regarding markets, clients or other matters. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal or regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events. Although we have instituted these policies and procedures at the holding company and subsidiary levels, they may not be fully effective.

In addition, our risk management techniques, and those of our subsidiaries, may be subject to greater risks than financial institutions in other countries as a result of the fact that the Taiwan financial market lacks more advanced risk management instruments. As a result, active balance sheet management is difficult for E.Sun Bank. E.Sun Bank can only change its pricing strategy and reshape its portfolio gradually in response to market conditions. To the extent that this lack of advanced risk management instruments in the Taiwan financial market hinders E.Sun Bank in managing its risks, E.Sun Bank's results of operations may be adversely affected and consequently may have a negative impact on our revenue and net income.

Forecast financial information reported by us and certain of our subsidiaries pursuant to Securities and Futures Bureau requirements may not be reliable.

As a financial holding company in Taiwan that was listed in 2002, we are required by the Securities and Futures Bureau to report our annual financial forecasts until 2005 and may be required to report our annual financial forecasts subsequently if we are subject to the reporting requirements under certain circumstances pursuant to the rules and regulations of the Securities and Futures Bureau. In addition, each of E.Sun Bank and E.Sun Bills Finance is required to publicly report unaudited monthly income statement data separately. To the extent there is any significant variance of over 20% between our expected actual results in any period on a consolidated basis and the forecast for the corresponding period included in the annual forecast we have already published and the affected amount exceeds NT$30 million and 0.5% of our paid-in capital, we are required to revise our forecast and publish the revised forecasts as soon as practicable. To date, E.Sun Financial has not had to revise its financial forecasts.

We urge you not to rely on these forecasts as they are derived from many assumptions regarding our industries, investments and general market, political and economic conditions, many of which are beyond our control. In addition, we caution you that none of the information included in this Offering Memorandum has formed or will form the basis of our future forecasts. We do not expect to update you on any possible difference presented in the forecasts that we published in the past, and plan to publish in the future, from the information included in this Offering Memorandum, including forward-looking statements.

ROC legal and regulatory requirements could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests.

ROC regulatory and other restrictions may delay, deter or prevent a potential merger or sale of E.Sun Financial, even if our board of directors decides that it is in the best interests of the shareholders to merge or be sold. These restrictions may also delay sales or acquisitions of our subsidiaries.

ROC laws and regulations contain provisions that may delay, deter or prevent a takeover attempt that the shareholders might consider to be in their best interests. These provisions include the calling of special meetings by the shareholders. See "Regulation of the Taiwan Financial Services Industry" and "Description of the Common Shares."

We cannot guarantee that you will not be adversely affected in the event we merge with or are acquired by another company

We are part of an industry that is currently consolidating, and as a result we may merge with or be acquired by another company. In the event that we are acquired, our current management could be replaced and our corporate strategy and direction could change. We cannot guarantee that such events will not adversely affect the secondary market price of the GDSs or our Common Shares or any securities which the GDSs may represent following a merger.

An investor may not acquire beneficial ownership of more than specified percentages of our Common Shares, or otherwise gain control of us, without obtaining required regulatory approvals.

Under the ROC Financial Holding Company Act, any person or group of related persons proposing to hold more than 10%, 25%, 50% or 75% of a financial holding company must apply to FSC for approval. FSC may restrict the voting rights of the portions exceeding the above percentages if such approval is not obtained. A shareholder holding more than 10% of a financial holding company must meet the fit and proper requirements promulgated by FSC. A shareholder may not increase its shareholdings to exceed the percentages stated above unless the shareholder has been determined to be fit and proper by FSC. See "Description of the Common Shares — Shareholding Restrictions."

The ROC Financial Holding Company Act is a relatively new statute and interpretation of its provisions is currently unclear

The ROC Financial Holding Company Act was enacted on July 9, 2001 and became effective on November 1, 2001. As a result, the ROC Financial Holding Company Act has a very limited history with respect to the interpretation of its provisions. To date, there has been no significant experience in either the enforcement by interested parties of their rights with respect to a financial holding company under, or the application or interpretation of, the ROC Financial Holding Company Act.

We have a continuing obligation to support the operation of our subsidiaries, which may have an adverse effect on our financial condition and results of operations.

We, under certain circumstances, are obligated under the ROC Financial Holding Company Act to support the financial condition of our subsidiaries. Under the ROC Financial Holding Company Act, if the business of a banking subsidiary (including banks and bills finance companies), insurance subsidiary or securities subsidiary of a financial holding company has deteriorated to an extent that is likely to cause the affected subsidiary to become insolvent, or result in any damage to the interests of the depositors of such subsidiary, then the financial holding company is required to assist the subsidiary to return to normal operations. If the financial condition of any of our subsidiaries deteriorates significantly, we may be obligated to, among other things, provide new funding or financial or other support to such affected subsidiary.

Risks Relating to E.Sun Bank

E.Sun Bank's results of operations are significantly affected by the ability of its borrowers to repay their loans and the adequacy of its allowance for loan loss.

Lending money is an essential part of the banking business. Borrowers do not always repay their loans. The risk of non-payment is affected by credit risks of a particular borrower, changes in economic and industry conditions, the duration of the loan and, in the case of a collateralized loan, uncertainties as to the future value of the collateral. For the years ended December 31, 2002 and 2003, E.Sun Bank wrote off NT$8,949.3 million and NT$784.2 million, respectively, in net loans. As of June 30, 2004, 0.98% of E.Sun Bank's gross loans were classified as NPLs. As of such date, an additional 0.30% of E.Sun Bank's gross loans were reported as loans under surveillance (which primarily includes loans for which the principal or interest is overdue by three months or more but less than six months overdue that have yet to be classified as NPLs and other impaired loans that are exempted from MOF classification as NPLs). See "Description of Assets and Liabilities of E.Sun Bank — Asset Quality — Non-Performing Loans" for more information relating to loans under surveillance.

As of June 30, 2004, approximately 4.1% of E.Sun Bank's gross loans consisted of real estate and construction loans. In addition, approximately 8.3% of E.Sun Bank's total credit exposure was to revolving credit card debt. Generally, real estate and construction loans as well as revolving credit card debt present a greater risk of non-payment by a borrower than other types of loans. E.Sun Bank's significant exposure to these loans may make it more susceptible to the risk of non-payment than certain other banks in Taiwan.

There is no precise method of predicting loan and credit loss. E.Sun Bank cannot assure you that its allowance for loan and credit loss is or will be sufficient to absorb actual loss. An increase in E.Sun Bank's NPLs would have a material adverse effect on its financial condition and results of operations.

A decline in the real estate and construction market may result in losses or decreased profitability.

A portion of E.Sun Bank's loan portfolio is in real estate and construction loans. As of June 30, 2004, E.Sun Bank's total real estate and construction loans outstanding accounted for approximately 4.1% of its gross loan portfolio. Declines in real estate values could have an adverse effect on the results of operations of E.Sun Bank. In a declining real estate market, E.Sun Bank may experience a higher loan delinquency rate and higher broad-based NPL ratios. The real property securing NPLs may also decrease in value, and as a result, E.Sun Bank may not be able to recover the full amount of the loans extended.

The real estate underlying many of E.Sun Bank's commercial real estate and construction loans and the real estate securing the residential loans that it makes are concentrated in Taipei, Taiwan. Over the last several years, banks in Taiwan have increased their funding availability for commercial real estate projects in Taipei in response to the growth of Taipei's real estate market. However, these increases could result in over-building and a decline in real estate values. In addition, the concentration of E.Sun Bank's business and the concentration of its offices in Taipei expose it to geographic risks. E.Sun Bank's business and results of operations would be materially adversely affected if economic, political or business conditions worsened, or natural or other disasters struck Taipei.

E.Sun Bank's financial condition may be adversely affected if it is unable to attract sufficient deposits to fund its anticipated loan growth and to grow its business.

Most of E.Sun Bank's funding requirements are met through short-term funding sources, primarily in the form of deposits of customers. As of June 30, 2004, approximately 95.5% of E.Sun Bank's deposits had current maturities of one year or less or were payable on demand. In the past, a substantial portion of such deposits has been rolled over upon maturity and has been, over time, a stable source of funding for E.Sun Bank. No assurance can be given, however, that this practice will continue. To the extent that it is unable to attract and maintain the level of deposits to fund its loan growth, E.Sun Bank would need to raise additional funds. No assurance can be given that E.Sun Bank will succeed in obtaining these deposits on favorable terms, or at all. In addition, E.Sun Bank has to compete with 30 other domestic banks and 35 credit cooperatives in the Taiwan market. No assurance can be given that in this highly competitive environment, E.Sun Bank will be able to grow its business at the same rate it has maintained in the past.

The trading positions taken by E.Sun Bank as part of its short-term investments and proprietary trading activities may adversely affect its financial condition and results of operations.

In managing its treasury operations, E.Sun Bank engages in proprietary trading, mainly through maintaining positions in the fixed-income, short-term investment and equity markets. E.Sun Bank also maintains proprietary trading positions in financial derivative instruments. These assets are subject to the normal risks associated with proprietary investing activities, including the risk resulting from a change in the level of one or more of market prices, rates, indices, volatilities, correlations, liquidity or other market factors which may result in losses for a specific position or portfolio.

For the six months ended June 30, 2004, net gain on sale of securities accounted for approximately 2.84% of E.Sun Bank's total net operating revenue. In addition, as of June 30, 2004, E.Sun Bank's investments in securities purchased included approximately NT$1.4 billion of listed stock of Taiwan companies, prices of which can be volatile and have recently fluctuated quite significantly. No assurance can be given that E.Sun Bank's trading activities will continue to generate gain, or that those trading activities will not result in significant loss that would have an adverse effect on its financial condition and results of operations.

E.Sun Bank is subject to regulatory capital adequacy requirements

Under the ROC Banking Law and the Regulations Governing the Management of a Bank's Capital Adequacy, all banks in Taiwan are required to maintain a capital adequacy ratio of at least 8.0%. When a bank's capital adequacy ratio is above 6.0% but below 8.0%, distributions of cash dividends or other properties may not exceed 20% of the net income after covering losses of prior years. When a bank's capital adequacy ratio is under 6.0%, a bank's distribution of cash dividends or other properties is prohibited. A fine of between NT$2 million and NT$10 million will be levied on banks with a capital adequacy ratio of below 8.0%. When a bank fails to correct its violations within the period specified by the FSC, the FSC may impose additional fines on a daily basis, remove the responsible person of the bank, or revoke its banking license, depending on the seriousness of the violation. In addition, the FSC may impose any of the following sanctions on a bank depending on the seriousness of the violation:

- restrict the payment of directors' and supervisors' remuneration and other compensation;
- restrict any further investments by the bank;
- restrict the bank's ability to submit applications to open new branches;
- restrict the bank to apply or require the bank to cease operating any business likely to increase its risk-based assets;
- require the bank to dispose of shares in invested companies within a certain period; and
- require the bank to close certain of its branches within a certain period.

Failure to maintain capital adequacy ratio at or above the required level may adversely affect the financial conditions of E.Sun Bank.

E.Sun Bank is subject to banking fraud, in particular, credit card fraud, from time to time, which may adversely affect its business.

Since mid-2000, banks in Taiwan have been faced with increased credit card fraud as a result of certain organized criminal activities involving credit card forgery. E.Sun Bank believes that its exposure to credit card fraud was less widespread as compared to its peer banks, suffering actual losses in the amount of NT$68.1 million, NT$45.6 million, NT$57.5 million and NT$6.9 million for the years ended December 31, 2001, 2002 and 2003 and six months ended June 30, 2004, respectively. Banks in Taiwan, including E.Sun Bank, have introduced anti-fraud measures such as E.Sun Bank's in-house fraud detection program. Although to date E.Sun Bank's anti-fraud measures have been effective, no assurance can be given that this measure will continue to be effective in the prevention of future credit card forgery. Although E.Sun Bank has taken steps to monitor and prevent credit card fraud, any widespread occurrence of credit card fraud may have a material adverse effect on the results of operations or financial condition of E.Sun Bank.

Credit risk exposes E.Sun Bank to losses caused by financial or other problems experienced by third parties.

E.Sun Bank is exposed to the risk that third parties that owe it money, securities or other assets will not perform their obligations. These parties include E.Sun Bank's trading counterparties, customers, clearing agents, exchanges, clearing houses and other financial intermediaries, as well as issuers whose securities it holds. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from:

- holding securities of third parties;
- entering into swap or other derivative contracts under which counterparties have long-term obligations to make payments to E.Sun Bank;
- executing securities, futures, currency or commodity trades that fail to settle at the required time due to non-delivery by the counterparty or system failures by clearing agents, exchanges, clearing houses or other financial intermediaries; and
- extending credit to E.Sun Bank's customers through margin lending or other arrangements.

No assurance can be given that these arrangements will not have a material adverse effect on E.Sun Bank's results of operations and financial condition.

Guidelines for loan classification and provisioning in Taiwan may be less stringent than those in other countries.

The practice in Taiwan with respect to loan classification and provisioning, in certain circumstances, may be less stringent than those applicable to banks in the United States and other countries. This may result in particular loans being classified as performing loans — or in a category reflecting a lower degree of risk — than in those other countries. Also, the amount of E.Sun Bank's non-performing loans, as well as its reserves, may be lower than would be reported if E.Sun Bank were incorporated in another jurisdiction and were subject to more stringent requirements. See "Description of Assets and Liabilities of E.Sun Bank — Asset Quality — Non-Performing Loans."

E.Sun Bank has broad discretion over a large portion of the use of the proceeds of this Offering.

Consistent with its application to the Securities and Futures Bureau, E.Sun Bank intends to use the net proceeds of this Offering to strengthen its capital base in order to support business expansion and growth. Accordingly, subject to approval by its boards of directors and regulatory authorities, E.Sun Bank and its subsidiaries will have broad discretion over a large portion of the use of the proceeds of this Offering. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. Moreover, you will not have the opportunity to evaluate the economic, financial or other information on which E.Sun Bank bases future decisions on how to use the proceeds of this Offering. As a result, you may not agree with the use of the proceeds of this Offering.

Risks Relating to E.Sun Bills Finance

E.Sun Bills Finance's results of operations are significantly affected by the ability of its customers to meet their obligations and the adequacy of its allowance for impaired assets.

Provisions of guarantees, underwriting of commercial paper and repurchase transactions are an essential part of the bills finance business. Borrowers do not always honor their obligations. The risk of non-payment is affected by credit risks of a particular borrower, changes in economic and industry conditions, the duration of the receivables and, in the case of a collateralized receivable, uncertainties as to the future value of the collateral. As of June 30, 2004, E.Sun Bills Finance did not have any impaired credits for guarantees.

There is no precise method of predicting credit losses. E.Sun Bills Finance cannot assure you that its allowance for guarantee and credit losses is or will be sufficient to absorb actual losses. An increase in actual losses may have a material adverse effect on E.Sun Bills Finance's financial condition and results of operations.

E.Sun Bills Finance relies largely on short-term repurchase transactions and interbank borrowing to fund its longer-term activities.

E.Sun Bills Finance relies on repurchase transactions and interbank borrowing as its major sources of funding. Repurchase transactions pay fixed interest rates and have a short maturity, typically less than 30 days. As of June 30, 2004, repurchase transactions amounted to NT$43.1 billion and accounted for approximately 68.8% of E.Sun Bills Finance's funding source. A large part of E.Sun Bills Finance's repurchase transaction counterparties are corporations, investment funds and financial institutions. The quality of the bonds underlying the repurchase agreements is therefore important to ensure liquidity. As of June 30, 2004, approximately 67.1% of E.Sun Bills Finance's bills portfolio was guaranteed by other financial institutions. The regulatory limit for the aggregate outstanding balance of repurchase transactions and interbank borrowing is 14 times E.Sun Bills Finance's net asset value. As of June 30, 2004, the ratio of E.Sun Bills Finance's outstanding repurchase agreements and interbank borrowings relative to its net asset value was approximately 9.2 times.

Risks Relating to E.Sun Securities

E.Sun Securities' proprietary trading and underwriting businesses are highly cyclical and volatile, which may have a material adverse effect on the business of E.Sun Securities

E.Sun Securities' principal business activities — securities brokerage, securities trading and underwriting — are, by their nature, subject to volatility, primarily due to fluctuations in volumes and price levels of securities transactions generally, which, in turn, are affected by many national and international economic and political factors that cannot be predicted, including broad trends in business and finance, legislation and regulation affecting the Taiwan and international business and financial communities, currency values, market conditions and the level and volatility of interest rates. As a result, revenues and earnings may vary significantly from quarter to quarter and from year to year. In periods of low transaction volume, as occurred during much of 2002, E.Sun Securities' commission revenue — its primary source of income — may be adversely affected and margin account balances may be reduced, particularly if accompanied by a decrease in securities prices. In such circumstances, because certain expenses remain relatively fixed, levels of profitability would be adversely affected.

Risks Relating to Taiwan

Economic developments in Taiwan have a significant impact on the business of each of our subsidiaries.

Substantially all of our assets are located in Taiwan, and substantially all of our revenue is derived from our operations in Taiwan. Accordingly, our financial condition and results of operations and the market price of our Common Shares may be affected by changes in ROC governmental policies, taxation, inflation, interest rates, currency exchange rates, social instability and other political, economic, diplomatic or social developments in or affecting Taiwan that are not within our control. In particular, the economic and political environment in Taiwan is significantly affected by the economic and political environment throughout Asia. For example, in mid-1997, Taiwan, along with the rest of Asia, experienced a severe financial and economic downturn from which it has yet to fully recover. The downturn was evidenced by, among other things, significant corporate failures, instability in the financial sector, and liquidity concerns and volatility in the domestic financial and currency markets. Although Taiwan appears to have recovered from the Asian financial crisis in certain respects, there can be no assurance that Taiwan's economy will achieve full recovery or be immune in the future to conditions similar to those prevalent during the Asian financial crisis, or that those conditions, should they recur, will not adversely affect our financial condition or results of operations.

In addition, a significant depreciation of the NT dollar versus other currencies could have a material adverse effect on the performance of Taiwan's economy and industries, including the financial services industry. As a result, there can be no assurance that any significant depreciation in the value of the NT dollar would not have a material adverse effect on our financial condition or results of operations.

A recurrence of Severe Acute Respiratory Syndrome ("SARS") or other similar outbreaks may have an adverse effect on the economies and financial markets of certain Asian countries and may adversely affect our results of operations.

In the first half of 2003, China, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries encountered an outbreak of SARS, a highly contagious form of atypical pneumonia. The SARS outbreak that occurred in the first half of 2003 has had no significant impact on our business and those of our principal subsidiaries. There is no guarantee that an outbreak of SARS or other contagious epidemic will not occur again in the future and no guarantee that any future outbreak of SARS or similar contagious epidemic, or the measures taken by the ROC, Hong Kong, PRC or other countries' governments against such outbreaks, will not seriously interrupt our business and those of our principal subsidiaries.

The value of the GDSs and the Common Shares represented thereby may be adversely affected by the volatility of the Taiwan securities market.

The Taiwan securities market is smaller and more volatile than the securities markets in the United States and in certain European and other countries. The Taiwan Stock Exchange and the GreTai Securities Market have experienced substantial fluctuations in the prices and trading volumes of listed securities, and there are currently limits on the range of daily price movements on the Taiwan Stock Exchange and the GreTai Securities Market. From time to time, the ROC regulatory agencies have intervened in the Taiwan stock market during periods of extreme volatility. In the past decade, the Taiwan Stock Exchange Index peaked at 10,202.20 in February 2000, and reached a low of 3,446.26 in October 2001. During 2003, the Taiwan Stock Exchange Index peaked at 6,182.20 on November 6, 2003, and reached a low of 4,044.73 on April 28, 2003. On September 24, 2004, the Taiwan Stock Exchange Index closed at 5,892.21, and the daily closing value of our Common Shares was NT$20.40 per share. In addition, the Taiwan Stock Exchange and the GreTai Securities Market have experienced problems such as market manipulation, insider trading and payment defaults. The recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of Taiwan companies, including our Common Shares. For more information, please see "Appendix A — The Securities Market of the ROC."

Our business may be adversely affected by political risks associated with doing business in Taiwan.

The ROC has a unique international political status. The PRC asserts sovereignty over Taiwan. The government of the PRC does not recognize the legitimacy of the ROC government. Although significant economic and cultural relations have been established in the past decade between the ROC and the PRC, the PRC has refused to renounce the possibility that it may at some point use force to gain control over Taiwan. In recent years, relations between the ROC and the PRC have been strained. Certain past developments in relations between the ROC and the PRC have had, from time to time, an adverse effect on the value of the Taiwan Stock Exchange Index. In particular, the increasing influence of the Democratic Progressive Party, which has in the past formally advocated Taiwan's independence from the PRC, including the inauguration of Mr. Chen Shui-bian, a member of that party, as President of the ROC in May 2000 and the fact that Mr. Chen has been re-elected as President of the ROC in March 2004 presidential election, may increase political tensions and instability between the PRC and the ROC. These relations may also affect our results of operations and the market price and liquidity of our Common Shares represented by the GDSs.

We intend to expand our banking business in the greater China region by providing financial services to clients in Hong Kong and the PRC as well as Taiwan. However, our ability to find a suitable acquisition candidate or strategic partner may be limited by the unique political status of the ROC. In addition, the ROC government currently restricts certain types of investments by ROC companies in the PRC, including investments in the financial services industry in the PRC. We do not know when or if such laws and policies governing investment in the PRC will be amended, and we cannot assure you that any such amendments to the ROC investment laws and policies will permit us to make an investment that we consider beneficial to us in the PRC. As a result, our growth prospects may be adversely affected if we are limited in our ability to find a strategic partner or invest in the PRC due to the political situation between the ROC and the PRC.

We and our principal customers in Taiwan are vulnerable to a variety of natural disasters.

Taiwan is susceptible to earthquakes, typhoons, water shortages and other types of natural disasters which could directly or indirectly affect our business adversely. In the past three years, natural disasters have caused significant property damage and loss of life in Taiwan. Although we did not suffer significant losses due to recent natural disasters, a major earthquake or other natural disasters could severely disrupt the business operations of our customers in Taiwan as well as ourselves. In addition, since a substantial portion of E.Sun Bank's loans are secured by real estate located in Taipei, a major earthquake or the occurrence of other natural disasters in the Taipei metropolitan area could impair the value of the collateral and thereby negatively affect our financial condition and results of operations even if our operations are not directly affected.

Risks Relating to the Common Shares and the GDSs

You will not have the same voting rights as a holder of our Common Shares.

Holders of GDSs may exercise voting rights with respect to the Common Shares underlying their GDSs in the manner described in "Description of the Global Depositary Shares — Voting Rights." With respect to matters other than the election of Directors and Supervisors, holders of GDSs will not have voting rights attached to the Common Shares represented by the GDSs on an individual basis. If the Depositary receives voting instructions in a timely manner from holders of at least 51% of the GDSs outstanding at the relevant record date to vote in the same direction regarding one or more resolutions (excluding the election of Directors and Supervisors) to be proposed at the meeting, the Depositary will be deemed to have directed and authorized our Chairman or his designee, as the representative of the Depositary's nominee and the GDS holders and beneficial owners, to attend the meeting and vote all the Common Shares represented by the GDSs in accordance with the direction received from such GDS holders subject to certain conditions. If the Depositary has not received instructions in a timely manner from holders of at least 51% of the outstanding GDSs to vote in the same direction regarding any resolution, excluding the election of Directors and Supervisors, to be considered at the meeting, all the holders of GDSs will be deemed to have authorized and directed the Depositary's nominee to authorize and appoint our Chairman or his designee as the representative of the Depositary's nominee and the GDS holders and beneficial owners to attend and vote at the meeting all the Common Shares represented by the GDSs in any manner our Chairman or his designee may wish, which may not be in the interests of the holders of GDSs. The Depositary will notify our Chairman or his designee of the instructions for the election of Directors and Supervisors received from holders of GDSs and our Chairman or his designee will vote the Common Shares underlying the GDSs as to which the Depositary has received voting instructions in the manner so instructed, subject to any restrictions imposed by ROC laws and our Articles of Incorporation.

Restrictions on the ability to deposit our Common Shares into our GDR facilities may adversely affect the liquidity and price of our GDSs.

The ability to deposit the Common Shares into our GDR facilities is restricted by ROC law. A significant number of withdrawals of Common Shares underlying our GDSs would reduce the liquidity of the GDSs by reducing the number of GDSs outstanding. As a result, the prevailing market price of our GDSs may differ from the prevailing market price of our Common Shares on the TSE. Under current ROC law and the Deposit Agreements, no person or entity, including you and us, may deposit our Common Shares in our GDR facilities without specific approval of the ROC Securities and Futures Bureau unless:

- we pay stock dividends on our Common Shares;
- we make a free distribution of our Common Shares;
- you exercise pre-emptive rights in the event of capital increases for cash; or
- you purchase our Common Shares, directly or through the Depositary, on the TSE, or deliver our Common Shares held by you to the custodian for deposit into our GDR facilities.

The Depositary may issue GDSs against the deposit of Common Shares under the fourth bullet point above only if the total number of GDSs outstanding following the deposit will not exceed the number of GDSs previously approved by the ROC Securities and Futures Bureau, plus any additional GDSs issued pursuant to the events described in the first three bullet points above. Issuance of additional GDSs under this circumstance will be permitted to the extent that previously issued GDSs have been canceled.

In addition, in the case of a deposit of Common Shares requested under the fourth bullet point above, the Depositary will refuse to accept the Common Shares for deposit if such deposit is not permitted under any legal, regulatory or other restriction notified by us to the Depositary from time to time, which restriction may specify blackout periods during which deposits may not be made, minimum and maximum amounts and frequencies of deposit.

See "Description of the Global Depositary Shares — Issuance of GDSs Upon Deposit of Common Shares."

You may not be able to participate in rights offerings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. Under the Deposit Agreements, the Depositary will not offer rights to holders of GDSs unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act, with respect to a distribution to all holders of GDSs, or are registered under the provisions of the Securities Act. However, under the Deposit Agreements, we are under no obligation to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. Accordingly, holders of GDSs may be unable to participate in rights offerings by us and may experience dilution of their holdings as a result.

We are an ROC company and because the rights of shareholders under ROC law differ from those under the laws of some other jurisdictions, you may have more difficulties protecting your rights as a shareholder than shareholders of companies incorporated in certain other jurisdictions.

Our corporate affairs are governed by our Articles of Incorporation and by the laws governing corporations incorporated in the ROC. The rights of shareholders and the responsibilities of management and the members of the board of directors under ROC law are different from those applicable to a corporation incorporated in some other jurisdiction. Directors of ROC companies are required to conduct business faithfully and to act with the care of a good administrator. However, such duty of care as required of ROC companies' directors may not be the same as the fiduciary duty of directors of non-ROC companies. Therefore, public shareholders of ROC companies may have more difficulty in protecting their interest in connection with actions taken by management or members of the board of directors than they would as public shareholders of companies incorporated in certain other jurisdictions.

Non-ROC holders of GDSs who withdraw the Common Shares will be required to register with the Taiwan Stock Exchange and appoint a local custodian and agent and a tax guarantor in the ROC.

Under current ROC law, if you are a non-ROC person and wish to withdraw and hold underlying Common Shares from a depositary receipt facility, you will be required to register with the Taiwan Stock Exchange. You will also be required to appoint an eligible agent in the ROC to open a securities trading account and a TSCD book-entry account and a bank account, to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without meeting these requirements, the non-ROC withdrawing holder would be unable to hold or subsequently sell the underlying Common Shares withdrawn from the depositary receipt facility on the TSE or otherwise. There can be no assurance that such withdrawing holder will be able to register with the Taiwan Stock Exchange and open such accounts in a timely manner.

Non-ROC holders of GDSs withdrawing the Common Shares represented by GDSs are also required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent must meet certain qualifications set by the Ministry of Finance and, upon appointment, becomes a guarantor of such withdrawing holder's ROC tax obligations. Generally, evidence of the appointment of such agent and the approval of such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the proceeds from the sale of the withdrawn Common Shares. There can be no assurance that such withdrawing holder will be able to appoint and obtain approval for such agent in a timely manner.

Changes in exchange controls that restrict your ability to convert proceeds received from your ownership of GDSs may have an adverse effect on the value of your investment.

The imposition of foreign exchange controls may undermine your ability to convert proceeds received from your ownership of GDSs. Under current ROC law, the Depositary, without obtaining further approval from the CBC or any other governmental authority or agency of the ROC, may convert NT dollars into other currencies, including U.S. dollars, for:

- the proceeds of the sale of Common Shares represented by GDSs or the proceeds of the sale of Common Shares received as stock dividends which have been deposited into the depositary receipt facilities; and

- any cash dividends or distributions received from the Common Shares.

In addition, the Depositary may also convert into NT dollars incoming payments for purchases of Common Shares for deposit in the GDR facilities against the creation of additional GDSs. The Depositary is required to obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Common Shares. Although it is expected that CBC will grant this approval as a routine matter, we cannot assure you that in the future any approval will be obtained in a timely manner, or at all.

Under current ROC law, a GDS holder, after becoming a holder of Common Shares upon presentation of GDSs to the Depositary for cancellation and withdrawal of the deposited securities, without obtaining further approval from CBC, may convert from NT dollars into other currencies, including U.S. dollars, for:

- the proceeds of the sale of any underlying Common Shares withdrawn from the GDR facilities or the proceeds of the sale of any Common Shares received as stock dividends; and

- any cash dividends or distributions received.

- the subscription payment for rights offering.

However, such holder may be required to obtain foreign exchange approval from CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies of the proceeds from the sale of subscription rights for new Common Shares. In addition, under the ROC Foreign Exchange Control Law, the Executive Yuan of the ROC government may, without prior notice but subject to subsequent legislative approval, impose foreign exchange controls for certain periods of time in the event of, among other things, a material change in international economic conditions. We cannot assure you that foreign exchange controls or other restrictions will not be introduced in the future.

The value of your investment may be adversely affected by the volatility of the ROC securities market.

The ROC securities market is smaller and more volatile than certain securities markets in the United States, Europe and certain other countries. Our Common Shares trade on the TSE. As of August 31, 2004, the aggregate market capitalization of the TSE was NT$12.4 trillion. The TSE has had substantial fluctuations in the prices and volumes of sales of listed securities and there are currently limits on the range of daily price movements on the TSE. As of September 24, 2004, the TSE Index closed at 5,892.21. The TSE has experienced problems such as market manipulation, insider trading and payment default. Such market size, volatility and the recurrence of these or similar problems could adversely affect the market price and liquidity of the securities of ROC companies, including the Common Shares underlying the GDSs, in both domestic and international markets.

A liquid market for the GDSs may not develop.

Prior to this Offering, there has been no market for the GDSs. Morgan Stanley has advised us that it currently intends to make a market in the GDSs. However, Morgan Stanley is not obligated to make a market and may discontinue this market-making activity at any time without notice. Such market-making activity is limited by the anti-manipulation rules under the Securities Act and the Exchange Act. The GDSs and the Common Shares underlying such GDSs are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your GDSs in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. Similarly, neither the GDSs nor the Common Shares underlying the GDSs are registered under the Exchange Act. Application has been made to have the International GDSs listed on the Luxembourg Stock Exchange and to have the Rule 144A GDSs designated for trading on the PORTAL Market in the United States. However, there can be no assurance that we will obtain or be able to maintain such listings or that, if listed, a trading market will develop on such exchanges.

In connection with any such withdrawal or sale, the GDSs will be surrendered to the Depositary. Unless additional GDSs are issued, the effect of such transactions will be to reduce the number of outstanding GDSs and, if, a significant number of transactions are effected, to reduce the liquidity of the GDSs. See "Description of the Global Depositary Shares — Issuance of GDSs upon Deposit of Common Shares."

The GDSs and the Common Shares may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required. The Common Shares underlying the GDSs may only be publicly traded on the TSE. See "Transfer Restrictions."

The value of your investment may be reduced by possible future sales of GDSs or Common Shares by us or our shareholders.

Each of the Company, E.Sun Bank, certain of our directors, supervisors and executive officers has agreed that it, she or he (as the case may be) will not, nor will any entity controlled by it, her or him (as the case may be) or any person acting on its, her or his (as the case may be) behalf, during the 120 day period commencing from the date of this Offering Memorandum, subject to certain specified exceptions, without the prior written consent of Morgan Stanley, to offer, sell or otherwise dispose of any of the Common Shares or securities convertible into or exchangeable for Common Shares, including GDSs. See "Plan of Distribution" for a more detailed discussion of restrictions that may apply to future sales of our Common Shares or GDSs or securities convertible into the Common Shares or GDSs.

While we are not aware of any other plans by any major shareholders to dispose of significant numbers of Common Shares, we cannot assure you that one or more existing shareholders or owners of securities convertible or exchangeable into or exercisable for our Common Shares or GDSs will not dispose of significant numbers of Common Shares or GDSs. We cannot predict the effect, if any, that future sales of GDSs or Common Shares, or the availability of GDSs or Common Shares for future sale, will have on the market price of GDSs or Common Shares prevailing from time to time. Sales of substantial amounts of GDSs or Common Shares in the public market, or the perception that such sales may occur, could depress the prevailing market prices of our GDSs or Common Shares.

Further issuance of our Common Shares, including pursuant to stock dividends and employee stock bonuses, could dilute your holdings and associated rights with respect to the Common Shares.

Our Articles of Incorporation provide that, after deducting prior year's losses, paying outstanding taxes and setting aside legal reserves and special reserves (if any), the remaining portion of our net income, together with the retained earnings of previous years, shall be distributed to our shareholders as dividends, to our directors and supervisors as remuneration and to our employees as bonuses (including employees of our affiliated companies) in the manner and percentage prescribed in our Articles of Incorporation. See "Description of the Common Shares" and "Dividends."

Such distributions to our shareholders and employees may be made in the form of cash or stock. Such distributions, if in the form of new Common Shares, or further issuances of new Common Shares, will effectively dilute the holdings and associated rights of holders of our Common Shares.

A holder of GDSs or its designees requesting the withdrawal of the Common Shares represented by the GDSs may be required to provide certain information to us or the Depositary, and failure to provide such information may result in a delay of the withdrawal.

A holder of GDSs or its designees requesting the withdrawal of the Common Shares represented by the GDSs may be required to provide certain information to us or the Depositary, including the name and nationality of the person to be registered as the shareholder and the number of Common Shares to be acquired by such person and the number of Common Shares acquired by such person in the past through the date of the withdrawal of the Common Shares represented by the GDSs. Under applicable ROC laws, we are required to report to the Securities and Futures Bureau if the person to be registered as a shareholder (1) is a "related party" of ours as defined in the ROC Statement of Financial Accounting Standard No. 6, or (2) will hold, immediately following such withdrawal, more than 10% of the Common Shares represented by GDSs. Failure to provide such information may cause the delay of such withdrawal of the Common Shares represented by the GDSs.

SELLING SHAREHOLDER

The Selling Shareholder, E.Sun Bank, is selling up to an aggregate of 6,800,000 GDSs in the Offering. Immediately prior to this Offering, the Selling Shareholder owned approximately 7.3% of our outstanding capital stock. Immediately after this Offering, the Selling Shareholder will own approximately 0.7% of our outstanding capital stock.

The Selling Shareholder is a wholly owned subsidiary of the Company.

USE OF PROCEEDS

The Company will not receive any of the proceeds from the sale of any GDSs by the Selling Shareholder in this Offering. The Selling Shareholder is a wholly owned subsidiary of the Company.

We estimate that the net proceeds to be received by the Selling Shareholder from this Offering, after deducting the Manager's commissions and other estimated expenses of this Offering, will be no less than US$96.1 million. The Selling Shareholder intends to use the net proceeds to strengthen its capital base in order to support business expansion and growth.

The Selling Shareholder has broad discretion over a large portion of the use of the net proceeds and such use is subject to approval by its board of directors and, in some cases, by applicable regulatory authorities. See "Risk Factors — Risks Relating to E.Sun Bank — E.Sun Bank has broad discretion over a large portion of the use of the proceeds of this Offering."

EXCHANGE RATES

Fluctuations in the exchange rate between the NT dollar and the U.S. dollar will affect the U.S. dollar equivalent of the NT dollar price of our Common Shares on the Taiwan Stock Exchange.

The following table sets forth, for the periods indicated, information concerning the amount of NT dollars for which one U.S. dollar could be exchanged based on the noon buying rate for cable transfers in NT dollars as certified for customs purposes by the Federal Reserve Bank of New York.

	NT Dollar per U.S. dollar Noon Buying Rate			
	Average(1)	High	Low	Period End
	(NT$ per US$)			
Period				
1997	28.78	33.25	27.34	32.80
1998	33.55	35.00	32.05	32.27
1999	32.32	33.40	31.39	31.39
2000	31.26	33.20	30.35	33.17
2001	33.91	35.13	32.23	35.00
2002	34.53	35.16	32.85	34.70
2003	33.99	34.15	33.72	33.78
2004				
January	33.67	33.98	33.33	33.39
February	33.21	33.36	33.10	33.28
March	33.25	33.42	33.00	33.00
April	32.97	33.27	32.73	33.27
May	33.44	33.70	33.14	33.36
June	33.57	33.80	33.35	33.66
July	33.81	34.15	33.58	34.04
August	34.02	34.16	33.92	33.94
September (through September 23, 2004)	33.86	33.95	33.69	33.85

Source: Federal Reserve Statistical Release, Board of Governors of the Federal Reserve System.

(1) Annual averages are calculated from month-end rates. Monthly averages are averages of daily rates during the period.

We publish our financial statements in NT dollars. This Offering Memorandum contains translation of NT dollar amounts into U.S. dollars at specific rates solely for your convenience. Unless otherwise noted, all translations from NT dollars to U.S. dollars and from U.S. dollars to NT dollars in this Offering Memorandum were made at a rate of NT$33.66 to US$1.00, the noon buying rate of the U.S. Federal Reserve Bank of New York on June 30, 2004. No representation is made that the NT dollar or U.S. dollar amount referred to in this Offering Memorandum could have been or could be converted into U.S. dollars or NT dollars, as the case may be, at any particular rate or at all. On September 23, 2004, the noon buying rate of the U.S. Federal Reserve Bank of New York was NT$33.85 to US$1.00.

DIVIDENDS

We were formed as a financial holding company in Taiwan on January 28, 2002. We paid a stock dividend of NT$0.80 per Common Share on September 16, 2002. We did not pay any dividend in 2003. Our shareholders' meeting on June 11, 2004 resolved that a cash dividend in the amount of approximately NT$1.0 per Common Share and a stock dividend in the amount of approximately NT$0.3 per Common Share be paid from our 2003 retained earnings. The record date for the cash and stock dividend was September 3, 2004. Our dividend payments and distributions are generally governed by the ROC Company Law as well as our Articles of Incorporation. The ROC Company Law and our Articles of Incorporation restrict us from paying a dividend to holders of Common Shares unless we have current or retained earnings (excluding reserves). Our Articles of Incorporation provide that after we pay our income taxes, deduct prior year's losses, set aside any legal and when necessary, any special reserve, the remaining portion of our net income, together with the retained earnings of the previous years, shall be distributed as follows:

(i) 96% shall be distributed to the shareholders as dividends;

(ii) 1% shall be distributed to the directors and supervisors as remuneration; and

(iii) 3% shall be distributed to the employees (including employees of our affiliated companies) as bonuses.

However, our shareholders' meeting may, depending on our actual needs, determine to retain a part or the whole of such remaining portion from distribution. Dividends to holders of Common Shares will primarily be distributed in the form of stock. However, if our capital adequacy ratio is higher than the standard set by the competent authority, part of the distribution may be made in the form of cash; *provided* that cash dividends must not be less than 10% of the dividends distributed in the respective year. Nevertheless, if the cash dividends to be distributed is less than NT$0.1 per share, such dividends should be made in the form of stock.

Pursuant to the rules and regulations issued by MOF under the ROC Financial Holding Company Act, we are required to maintain the group capital adequacy ratio of the financial holding company at not less than 100%. The definition of group capital adequacy ratio is complex. See "Regulation of the Taiwan Financial Services Industry — Regulation of the Company — Financial Requirements." As a result, if we fail to meet the minimum group capital adequacy ratio of 100%, we may be subject to limitations on the payment of dividends. In addition, our operating subsidiaries in the banking, bills financing and securities businesses are subject to numerous regulatory restrictions and legal limitations on the payments of dividends. See "Risk Factors — Risks Relating to E.Sun Financial — Our ability to service our debt and pay dividends depends on capital distributions from our subsidiaries which are subject to regulatory and other limits." There can be no assurance that we will have the necessary capital, by virtue of receiving dividends from our operating subsidiaries or otherwise, to make dividend payments at any time, or from time to time.

CAPITALIZATION

The following table sets forth our short-term debt and total capitalization as of June 30, 2004 under ROC GAAP and as adjusted to give effect to the Offering and the receipt of the net proceeds thereof. There have not been any material changes in our capitalization since June 30, 2004.

You should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this Offering Memorandum.

	As of June 30, 2004			
	Actual		Adjusted	
	(in millions)			
Short-term debt[(1)]:	NT$ 5,019.4	US$ 149.1	NT$ 5,019.4	US$ 149.1
Long-term debt				
Bonds	NT$30,000.0	US$ 891.3	NT$30,000.0	US$ 891.3
Long-term debt	1,050.0	31.2	1,050.0	31.2
Total long-term debt	NT$31,050.0	US$ 922.5	NT$31,050.0	US$ 922.5
Stockholders' equity				
Capital stock	NT$25,963.8	US$ 771.4	NT$25,963.8	US$ 771.4
Reserve for capitalization	933.3	27.7	933.3	27.7
Capital surplus	3,936.5	116.9	5,147.3	152.9
Retained earnings	3,813.6	113.3	3,813.6	113.3
Unrealized loss on valuation of long-term investment	(74.9)	(2.2)	(74.9)	(2.2)
Cumulative foreign currency translation	3.3	0.1	3.3	0.1
Treasury stock	(2,796.6)	(83.1)	(753.2)	(22.4)
Total stockholders' equity	NT$31,779.0	US$ 944.1	NT$35,033.2	US$1,040.8
Total capitalization[(2)]	NT$62,829.0	US$1,866.6	NT$66,083.2	US$1,963.3

(1) Includes NT$600.0 million of short-term debt and NT$4,419.4 million of current portion of long-term debt as of June 30, 2004.

(2) Total of long-term debt and total shareholders' equity.

MARKET PRICE INFORMATION

Our Common Shares commenced trading on the Taiwan Stock Exchange on January 28, 2002. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily trading volume activity on the Taiwan Stock Exchange for our Common Shares and the highest and lowest of the daily closing values of the Taiwan Stock Exchange Index. On September 24, 2004, the closing price of our Common Shares on the Taiwan Stock Exchange was NT$20.40 per Common Share.

	Actual Closing Price Per Common Share		Average Daily Trading Volume	Taiwan Stock Exchange Index	
	High	Low	(in thousands)	High	Low
2002					
First Quarter (beginning January 28, 2002)	NT$12.73	NT$11.76	5,904.2	6,242.64	5,499.79
Second Quarter	14.07	11.90	10,157.8	6,462.30	5,071.76
Third Quarter	12.69	11.25	2,454.7	5,416.50	4,185.95
Fourth Quarter	15.40	10.80	12,138.0	4,823.67	3,850.04
2003					
First Quarter	19.10	15.40	34,210.8	5,078.80	4,260.45
Second Quarter	16.70	14.55	14,814.2	5,048.91	4,139.50
Third Quarter	18.00	16.00	11,862.8	5,757.91	5,017.78
Fourth Quarter	21.30	16.90	21,848.1	6,142.32	5,581.66
2004					
First Quarter	24.10	20.80	27,036.8	7,034.10	6,041.56
Second Quarter	23.60	19.10	9,674.9	6,880.18	5,482.96
Third Quarter					
July	20.20	18.60	4,182.8	5,836.91	5,325.68
August	21.00	18.90	5,451.9	5,813.39	5,316.87
September (through September 24, 2004)	20.80	19.70	23,886.4	5,970.18	5,761.14

Source: Bloomberg, L.P.

The Taiwan Stock Exchange has experienced substantial fluctuations in the prices of listed securities and there are currently limits on the range of daily price movements. For more information about the Taiwan Stock Exchange, see "Appendix A — The Securities Market of the ROC."

SELECTED FINANCIAL AND OTHER DATA

The following selected financial and other data for E.Sun Financial, E.Sun Bank and E.Sun Bills Finance should be read in conjunction with the financial statements of such entities, together with the related notes, included elsewhere in this Offering Memorandum.

The audited consolidated financial statements of E.Sun Financial as of and for the period from its establishment on January 28, 2002 to December 31, 2002, as of and for the year ended December 31, 2003, and as of and for the six months ended June 30, 2004; and the audited unconsolidated financial statements of E.Sun Bank and E.Sun Bills Finance as of and for the years ended December 31, 2001, 2002 and 2003, and as of and for the six months ended June 30, 2003 and 2004, together with the independent accountants' audit reports thereon, are included elsewhere in this Offering Memorandum.

Each of the financial statements of E.Sun Financial, E.Sun Bank and E.Sun Bills Finance has been prepared and presented in accordance with reporting requirements of the "Criteria Governing the Preparation of Financial Reports by Financial Holding Companies," "Criteria Governing the Preparation of Financial Reports by Securities Issuers" and other applicable ROC laws and regulations and in accordance with ROC GAAP, and such financial statements are not intended to present their financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in any country or jurisdiction, including the United States, other than those in the ROC.

The selected financial data for E.Sun Financial, E.Sun Bank and E.Sun Bills Finance have been derived from their respective financial statements without material adjustment. Solely for your convenience, these selected data are presented in a different format from the financial statements. Neither such data nor the format in which they are presented should be viewed as comparable to information prepared in accordance with U.S. GAAP or generally accepted accounting principles elsewhere.

E.Sun Financial

Selected Financial and Other Data

The following table sets forth, as of and for the periods indicated, certain financial and other data of E.Sun Financial.

	As of and for the Period from January 28 (Date of Establishment) to December 31,	As of and for the Year Ended December 31,		As of and for the Six Months Ended June 30,		
	2002	2003		2003	2004	
	(in millions, except percentages and per share data)					
Income Statement Data:						
Interest income	NT$ 12,368.4	NT$ 11,403.6	US$ 338.8	NT$ 5,555.1	NT$ 7,183.6	US$ 213.4
Interest expense	(5,719.5)	(3,962.2)	(117.7)	(2,140.2)	(1,988.5)	(59.1)
Net interest income	6,648.9	7,441.4	221.1	3,414.9	5,195.1	154.3
Fee income	1,118.1	1,874.6	55.7	727.0	1,265.1	37.6
Fee expense	(320.7)	(648.0)	(19.2)	(281.4)	(365.7)	(10.8)
Net fee income	797.4	1,226.6	36.5	445.6	899.4	26.8
Net gain on sales of securities	1,915.9	1,505.5	44.7	1,107.1	269.9	8.0
Net other operating income(1)	240.0	839.4	24.9	369.5	650.5	19.3
Total net operating revenue	9,602.2	11,012.9	327.2	5,337.1	7,014.9	208.4
Reversal (Provisions) for loan and other loss	(9,614.6)	(853.9)	(25.4)	75.1	(122.4)	(3.6)
Operating expense	(3,974.2)	(4,849.5)	(144.1)	(2,221.7)	(2,832.7)	(84.2)
Net operating income (loss)	(3,986.6)	5,309.5	157.7	3,190.5	4,059.8	120.6
Net non-operating income (expense)	(58.4)	(64.6)	(1.9)	(5.1)	(20.4)	(0.6)
Income (loss) before tax	(4,045.0)	5,244.9	155.8	3,185.4	4,039.4	120.0
Tax benefit (expense)	1,082.7	(715.9)	(21.2)	(753.3)	(937.9)	(27.9)
Consolidated net income (loss)	(2,962.3)	4,529.0	134.6	2,432.1	3,101.5	92.1
Less: net income of subsidiaries for the period from January 1, 2002 to January 27, 2002	129.2	0.0	0.0	0.0	0.0	0.0
Consolidated net income (loss)	NT$ (3,091.5)	NT$ 4,529.0	US$ 134.6	NT$ 2,432.1	NT$ 3,101.5	US$ 92.1
Balance Sheet Data:						
Net loans(2)	NT$170,775.3	NT$199,070.3	US$ 5,914.2	NT$178,728.0	NT$239,780.9	US$7,123.6
Total assets	284,428.7	334,461.4	9,936.5	305,310.5	435,980.9	12,952.5
Deposits(3)	222,335.0	241,716.0	7,181.1	221,895.9	267,490.5	7,946.8
Total liabilities	262,307.8	307,656.4	9,140.1	280,757.6	404,201.8	12,008.4
Total shareholders' equity	22,120.9	26,805.1	796.3	24,552.8	31,779.1	944.1

(1) Includes investment income (loss) from long-term equity investments and bond investments (corporate bonds and bank debentures).

(2) Includes loans, discounts and bills purchased after the deduction of allowance for possible losses.

(3) Includes deposits and remittances.

	As of and for the Period from January 28 (Date of Establishment) to December 31,	As of and for the Year Ended December 31,		As of and for the Six Months Ended June 30,		
	2002	2003		2003	2004	
		(in millions, except percentages and per share data)				
Other Data:						
Earnings per share.	NT$ (1.46)	NT$ 2.13	US$0.06	NT$ 1.15	NT$ 1.40	US$0.04
Book value per share[4] . . .	8.96	10.69	0.32	9.94	12.24	0.36
Return on average assets[5] .	(1.09%)	1.46%		1.65%	1.61%	
Return on average equity[6].	(14.0%)	18.5%		20.8%	21.2%	
Net interest income/total net operating revenue	69.2%	67.6%		64.0%	74.1%	
Net fee income/total net operating revenue	8.3%	11.1%		8.3%	12.8%	
Operating expense/total net operating revenue	41.4%	44.0%		41.6%	40.4%	
Double leverage ratio[7] . . .	106.6%	104.2%		105.2%	97.6%	
Group capital adequacy ratio[8]	108.1%	113.5%		102.9%	104.6%	
Consolidated shareholders' equity/total assets	7.78%	8.01%		8.04%	7.29%	
Common Share Data (in millions) at Period End:						
Shares issued	2,470.0	2,506.4		2,470.0	2,596.4	
Treasury stock[9]	(349.8)	(374.6)		(349.8)	(231.7)	
Shares outstanding[10]	2,120.2	2,131.8		2,120.2	2,364.7	
Weighted average number of shares outstanding	2,120.2	2,123.3		2,120.2	2,208.9	

(4) Calculated by dividing the total shareholders' equity by the number of shares issued.

(5) Defined as annual net income for the period ended December 31, 2002 and the year ended December 31, 2003 divided by total assets as of December 31, 2002 and the average year-end total assets balance for the preceding year and as of December 31, 2003, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by average total assets balance as of December 31 of the previous year and as of June 30 of the current year, respectively.

(6) Defined as annual net income for the period ended December 31, 2002 and the year ended December 31, 2003 divided by the total shareholders' equity balance as of December 31, 2002, and the average year-end total shareholders' equity balance for the preceding year and as of December 31, 2003, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by average total shareholders' equity balance as of December 31 of the previous year and as of June 30 of the current year, respectively.

(7) Defined as E.Sun Financial's unconsolidated long-term investments in subsidiaries divided by total shareholders' equity.

(8) Defined as E.Sun Financial's net qualified capital divided by E.Sun Financial's required capital, as defined by MOF.

(9) Represents treasury stock relating to long-term equity investments of E.Sun Bank and E.Sun Securities in E.Sun Financial as a result of the share exchange between E.Sun Bank, E.Sun Securities and E.Sun Financial and treasury stock to be re-issued to employees. The carrying values of these treasury stocks, which were both held by E.Sun Bank and E.Sun Securities, were NT$4,247.6 million and NT$2,796.6 million as of June 30, 2003 and June 30, 2004, respectively.

(10) After deduction of treasury shares.

E.Sun Bank

Selected Financial and Other Data

The following table sets forth, as of and for the periods indicated, selected financial and other data for E.Sun Bank.

	As of and for the Year Ended December 31,				As of and for the Six Months Ended June 30,		
	2001	2002	2003		2003	2004	
	(in millions, except percentages and number of credit cards, branches and employees data)						
Income Statement Data:							
Interest income	NT$ 14,418.7	NT$ 12,114.5	NT$ 11,057.5	US$ 328.5	NT$ 5,431.8	NT$ 6,508.6	US$ 193.4
Interest expense	(9,139.0)	(5,580.9)	(3,851.1)	(114.4)	(2,070.2)	(1,732.5)	(51.5)
Net interest income	5,279.7	6,533.6	7,206.4	214.1	3,361.6	4,776.1	141.9
Fee income	679.8	902.6	1,579.5	46.9	609.7	1,043.2	31.0
Fee expense	(202.0)	(310.3)	(632.7)	(18.8)	(275.6)	(350.2)	(10.4)
Net fee income	477.8	592.3	946.8	28.1	334.1	693.0	20.6
Net gains/(loss) on sales of securities	1,456.2	1,068.9	590.6	17.6	439.7	212.6	6.3
Net other operating income	424.3	221.4	665.3	19.7	364.1	1,804.7	53.6
Total net operating revenue	7,638.0	8,416.2	9,409.1	279.5	4,499.5	7,486.4	222.4
Reversal (Provisions) for loan loss and other losses	(2,092.6)	(9,414.0)	(845.6)	(25.1)	119.8	(132.4)	(3.9)
Operating expense	(2,963.3)	(3,667.8)	(4,354.9)	(129.4)	(2,009.8)	(2,375.6)	(70.6)
Total operating income (loss)	2,582.1	(4,665.6)	4,208.6	125.0	2,609.5	4,978.4	147.9
Net non-operating income/ (expense)	4.1	(74.5)	(17.9)	(0.5)	(5.4)	3.7	0.1
Pre-tax income (loss)	2,586.2	(4,740.1)	4,190.7	124.5	2,604.1	4,982.1	148.0
Tax benefit (expense)	(658.2)	1,229.3	(794.4)	(23.6)	(556.1)	(914.5)	(27.2)
Net income (loss)	NT$ 1,928.0	NT$ (3,510.8)	NT$ 3,396.3	US$ 100.9	NT$ 2,048.0	NT$ 4,067.6	US$ 120.8
Balance Sheet Data:							
Gross loans[1]	NT$180,859.2	NT$ 172,316.0	NT$201,240.1	US$5,978.6	NT$180,357.3	NT$241,711.8	US$ 7,181.0
Net loans[2]	179,345.2	170,775.3	199,070.3	5,914.2	178,728.0	239,780.9	7,123.6
Non-accrual loans[3]	5,057.6	2,137.7	1,677.2	49.8	2,106.1	1,741.0	51.7
NPLs[4]	5,123.5	2,382.9	2,381.2	70.7	2,434.5	2,357.1	70.0
Surveillance loans[5]	NA	1,801.1	821.0	24.4	1,158.1	725.2	21.5
Allowance for possible loss on loans	1,514.0	1,540.8	2,169.8	64.5	1,629.3	1,931.0	57.4
Securities purchased — net	36,751.8	38,885.9	36,262.5	1,077.3	50,365.5	51,943.5	1,543.2
Total assets	265,873.8	272,643.5	310,997.8	9,239.4	283,461.4	366,208.8	10,879.6
Deposits[6]	225,029.2	225,739.6	247,016.5	7,338.6	228,575.9	274,828.7	8,164.8
Total liabilities	243,070.3	254,730.1	289,688.5	8,606.3	263,500.2	343,249.6	10,197.6
Total shareholders' equity	22,803.5	17,913.4	21,309.4	633.1	19,961.2	22,959.1	682.1

	As of and for the Year Ended December 31,			As of and for the Six Months Ended June 30,	
	2001	2002	2003	2003	2004
	(in millions, except percentages and number of credit cards, branches and employees data)				
Other Data:					
Profitability:					
Return on average assets[7]	0.77%	(1.30%)	1.16%	1.47%	2.40%
Return on average equity[8]	8.8%	(17.2%)	17.3%	21.6%	36.8%
Overall interest rate spread[9]	2.84%	2.86%	2.88%	3.05%	2.69%
Net interest margin[10]	2.37%	2.79%	2.66%	2.60%	2.98%
Net fee income/total net operating revenue	6.3%	7.0%	10.1%	7.4%	9.3%
Operating expense/total net operating revenue	38.8%	43.6%	46.3%	44.7%	31.7%
Gross loans/deposits	80.4%	76.3%	81.5%	78.9%	87.9%
Asset Quality					
NPLs/gross loans[11]	2.83%	1.38%	1.18%	1.35%	0.98%
Surveillance loans/gross loans[12]	NA	1.05%	0.41%	0.64%	0.30%
Allowance for possible loss on loans/gross loans	0.84%	0.89%	1.08%	0.90%	0.80%
Allowance for possible loss on loans/NPLs	29.6%	64.7%	91.1%	66.9%	81.9%
Allowance for possible loss on loans/broad-based NPLs[13]	NA	36.8%	67.8%	45.4%	62.6%
Capital Adequacy					
Total Shareholders' equity/total assets	8.58%	6.57%	6.85%	7.04%	6.27%
Capital adequacy ratio[14]	11.01%	10.38%	9.97%	10.09%	9.61%
Others					
Number of credit cards in force (thousands)	1,021	1,709	2,066	1,831	2,175
Credit card market share[15]	4.23%	5.41%	5.46%	5.29%	5.34%
Number of branches and sub-branches	50	51	56	56	58
Number of employees	1,458	1,631	1,816	1,703	1,972

(1) Includes loans, discounts, bills purchased and overdue loans before the deduction of allowance for possible losses.
(2) Includes loans, discounts, bills purchased and overdue loans after the deduction of allowance for possible losses.
(3) Loans on which E.Sun Bank has stopped accruing interest and for which the most recent payment is overdue by more than six months.
(4) Primarily includes loans for which the principal is overdue by three months or more or the most recent interest payment is overdue by six months or more, as defined by MOF.
(5) Primarily includes loans for which the principal or interest is overdue by three months or more, but less than six months overdue, which have yet to be classified as NPLs, as well as other impaired loans that are exempt from MOF classification of NPLs.
(6) Includes deposits and remittances.
(7) Defined as annual net income for the years ended December 31, 2001, 2002 and 2003 divided by the average year-end total assets balance for the preceding and current fiscal year, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by the average total assets balance as of December 31 of the previous year and as of June 30 of the current year, respectively.
(8) Defined as annual net income for the years ended December 31, 2001, 2002 and 2003 divided by the average year-end total shareholders' equity balance for the preceding and current fiscal year, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by the average total shareholders' equity balance as of December 31 of the previous year and as of June 30 of the current year, respectively.
(9) Defined as the yield on the average daily balance of interest-earning assets less the cost of the average daily balance of interest-bearing liabilities.
(10) Defined as net interest income divided by the average daily balance of interest-earning assets.
(11) Calculated by dividing the amount of NPLs by the amount of gross loans.
(12) Calculated by dividing the amount of surveillance loans by the amount of gross loans. Surveillance loans primarily include loans for which the principal or interest is overdue by three months or more, but less than six months overdue, which have yet to be classified as NPLs, as well as other impaired loans that are exempt from MOF classification of NPLs.
(13) Broad-based NPLs are defined as NPLs plus surveillance loans.
(14) Defined as net qualified capital divided by risk-based assets, as defined by MOF.
(15) Represents market share based on number of credit cards in force as reported by MOF.

E.Sun Bills Finance

Selected Financial and Other Data

	As of and for the Year Ended December 31,				As of and for the Six Months Ended June 30,		
	2001	2002	2003		2003	2004	
	(in millions, except percentages)						
Income Statement Data:							
Net interest income	NT$ 125.4	NT$ 46.6	NT$ 66.9	US$ 2.0	NT$ 26.0	NT$ 279.3	US$ 8.3
Net fee income	150.3	160.9	154.6	4.6	88.7	56.5	1.7
Net gain on sales of securities	1,002.4	820.9	800.4	23.8	507.4	154.3	4.6
Other operating income	4.4	0.1	—	—	—	0.0	0.0
Total net operating revenue	1,282.5	1,028.5	1,021.9	30.4	622.1	490.1	14.6
Provisions/Reversal	(405.1)	(187.9)	10.6	0.3	(5.1)	16.0	0.4
Operating expense	(153.9)	(139.0)	(160.8)	(4.8)	(88.5)	(87.5)	(2.6)
Income before income tax	723.5	701.6	871.7	25.9	528.5	418.6	12.4
Tax benefit (expense)	(354.7)	(130.7)	94.5	2.8	(46.4)	(105.8)	(3.1)
Net income	368.8	570.9	966.2	28.7	482.1	312.8	9.3
Balance Sheet Data:							
Cash	NT$ 4,775.8	NT$ 4,124.6	NT$ 3,869.3	US$ 115.0	NT$ 4,828.3	NT$ 4,015.5	US$ 119.3
Call loans to banks	200.0	200.0	200.0	5.9	200.0	190.0	5.6
Short-term negotiable instruments	2,865.8	3,790.6	9,940.3	295.3	9,046.8	56,763.1	1,686.4
Current assets	8,060.7	8,269.5	14,864.9	441.6	14,355.0	62,290.5	1,850.6
Total assets	9,165.5	10,065.1	18,074.4	537.0	16,289.9	64,087.4	1,904.0
Bank loans	3,330.0	3,920.0	7,620.0	226.4	9,970.0	8,880.0	263.8
Bonds payable	—	—	3,000.0	89.1	—	5,000.0	148.5
Reserve for loss on guarantees and sale of government bonds	518.0	592.2	527.6	15.7	647.4	542.8	16.1
Total liabilities	4,037.6	4,634.6	12,075.6	358.8	10,775.0	58,414.5	1,735.4
Total shareholders' equity	5,127.9	5,430.5	5,998.9	178.2	5,514.8	5,672.9	168.5
Other Data:							
Return on average assets(1)	4.46%	5.94%	6.87%		7.32%	1.52%	
Return on average equity(2)	7.4%	10.8%	16.9%		17.6%	10.7%	
Operating expense/total net operating revenue	12.0%	13.5%	15.7%		14.2%	17.9%	
Bonds and securities sold under agreement to repurchase (repurchase price)	NT$41,636.9	NT$39,998.1	NT$44,551.3	US$1,323.6	NT$42,441.0	NT$43,174.8	US$1,282.7
Bonds and securities purchased under agreement to resell (reselling price)	2,290.4	2,219.0	151.1	4.5	1,659.3	1,416.0	42.1
Total guarantees	17,647.5	19,412.6	18,366.2	545.6	17,922.7	18,120.6	538.3
Reserve for guarantees/total guarantees(3)	2.2%	2.1%	2.3%		2.5%	2.4%	
Capital adequacy ratio(4)	18.01%	17.21%	14.90%		16.00%	13.72%	

(1) Defined as annual net income for the years ended December 31, 2001, 2002 and 2003 divided by the average year-end total assets balance for the preceding and current fiscal year, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by the average total assets balance as of December 31 of the previous year and as of June 30 of the current year, respectively.

(2) Defined as annual net income for the years ended December 31, 2001, 2002 and 2003 divided by the average year-end total shareholders' equity balance for the preceding and current fiscal year, respectively, and defined as annualized net income for the six months ended June 30, 2003 and June 30, 2004 divided by the average total shareholders' equity balance as of December 31 of the previous year and as of June 30 of the current year, respectively.

(3) Defined as reserve for loss on guarantees divided by total guarantees.

(4) Defined as net qualified capital divided by risk-weighted assets, as defined by MOF.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

E.Sun Financial

Overview

We were formed as a financial holding company on January 28, 2002 pursuant to the ROC Financial Holding Company Act. We have a limited operating history. Accordingly, the following discussion is presented with reference to the results of operations and financial condition of E.Sun Bank and E.Sun Bills Finance for the relevant historical periods, unless otherwise noted. Since the contribution of E.Sun Securities, E.Sun Venture Capital, E.Sun Insurance Brokers and E.Sun Securities Investment Trust to the total revenue, total assets and shareholders' equity of E.Sun Financial for the years ended December 31, 2002 and 2003 and six months ended June 30, 2004 was relatively immaterial, the results of operations and financial condition of E.Sun Securities, E.Sun Venture Capital, E.Sun Insurance Brokers and E.Sun Securities Investment Trust have not been included in this discussion.

The following discussion is based upon, and should be read in conjunction with, (1) the audited consolidated financial statements of E.Sun Financial as of and for the period from its establishment on January 28, 2002 to December 31, 2002 and as of and for the year ended December 31, 2003, (2) the audited consolidated financial statements of E.Sun Financial as of and for the six months ended June 30, 2003 and 2004, (3) the audited unconsolidated financial statements of E.Sun Bank and E.Sun Bills Finance as of and for the years ended December 31, 2001, 2002 and 2003 and (4) the audited unconsolidated financial statements of E.Sun Bank and E.Sun Bills Finance as of and for the six months ended June 30, 2003 and 2004, together with the independent accountants' audit reports thereon, all of which are included elsewhere in this Offering Memorandum. Because we have a limited operating history, you should not place undue reliance on our financial statements.

Liquidity and Capital Resources

We currently conduct substantially all of our operations through our subsidiaries. Substantially all of our assets are held by, and substantially all of our net income and cash flows are attributable to, our subsidiaries. As a result, our liquidity and ability to pay expenses and meet obligations, as well as our ability to pay cash dividends on our Common Shares, are dependent upon our ability to receive dividends from our subsidiaries. See "Risk Factors — Risks Relating to E.Sun Financial — Our ability to service our debt and pay dividends depends on capital distributions from our subsidiaries which are subject to regulatory and other limits."

We intend to finance our capital requirements and investments primarily through a combination of capital contributions and dividends from E.Sun Bank, E.Sun Bills Finance, E.Sun Securities, E.Sun Securities Investment Trust and our other subsidiaries, and from the proceeds from transactions in the international and domestic capital markets. We believe that our existing cash balance, together with dividends provided by our subsidiaries and borrowings under committed credit lines from banks, will provide sufficient funds to meet our operating and capital requirements and implement our corporate strategy.

We had total short-term debt of NT$5,019.4 million (US$149.1 million) as of June 30, 2004. See "Capitalization." We have no significant capital expenditure requirements.

We intend to manage our liquidity by balancing the needs for capital of each of our subsidiaries with the capital requirements of our strategy. While we expect that our subsidiaries will contribute cash to us from time to time, their ability to do so is not only dependent on their profitability but also governed by a number of different regulations that are subject to changes.

Capital Adequacy Requirements

As a financial holding company organized under the ROC Financial Holding Company Act, we are currently subject to group capital adequacy requirements. The definition of group capital adequacy ratio is complex. See "Regulation of the Taiwan Financial Services Industry — Regulation of the Company — Financial Requirements." Pursuant to the ROC Financial Holding Company Act and related regulations, we are required to have a group capital adequacy ratio of not less than 100%. We expect to meet or exceed all capital requirements, including group capital adequacy requirements, that are applicable to us. See "Special Note Regarding Forward-Looking Statements."

Inflation

We do not believe that inflation in Taiwan has materially affected our results of operations. Inflation in Taiwan was approximately negative 0.01%, negative 0.20% and negative 0.28% for the years ended December 31, 2001, 2002 and 2003, respectively.

Market Risks

Market risk is usually defined as the risk of loss in a financial instrument from an adverse movement in market prices or rates. The broadly defined categories of market risks include, among others, exposures to interest rates, foreign exchange rates and equity prices. The nature of the market risks that we face varies depending on the nature of the business. For example, interest rate risk is a market risk that E.Sun Financial, E.Sun Bank, E.Sun Bills Finance and E.Sun Securities are subject to whereas foreign exchange risk is a market risk that principally affects E.Sun Bank and equity price risk is a market risk that principally affects E.Sun Securities. Set forth below is a brief overview of the types of market risks that our subsidiaries are subject to.

Interest Rate Risk. A significant portion of our assets consists of, and a significant portion of our revenue is derived from, monetary assets, which subjects us to significant risk from changes in interest rates. Changes in interest rates could significantly affect us across all our businesses. We may use interest rate swap contracts to exchange fixed interest rate obligations for floating rate obligations and vice versa for a portion of our total interest rate risk.

Foreign Exchange Risk. For the year ended December 31, 2003 and the six months ended June 30, 2004, the percentage of our revenue and liabilities denominated in foreign currencies was immaterial. The primary currency to which we are exposed is the U.S. dollar. We attempt to limit our foreign exchange risk exposure to various currencies by matching our foreign currency assets and liabilities.

Equity Price Risk. A portion of our assets consists of, and a portion of our revenue has been derived from, short-term investments, trading securities, repurchase transactions and long-term investments. The performance of these assets may materially affect our financial condition and results of operations. A substantial portion of these investment assets comprises common stock issued by listed Taiwan companies. Such stocks have experienced significant price volatility. As of June 30, 2004, the aggregate carrying value of these investments in stocks on our balance sheet was approximately NT$2.0 billion.

Forecasted Financial Condition

As a financial holding company in Taiwan that is listed in 2002, we are required by the Securities and Futures Bureau to report our annual financial forecasts until 2005 and may be required to report our annual financial forecasts subsequently if we are subject to the reporting requirements under certain circumstances pursuant to the rules and regulations of the Securities and Futures Bureau. In addition, each of E.Sun Bank and E.Sun Bills Finance is required to publicly report unaudited monthly income statement data. To the extent there is variance over a prescribed limits of over 20% between our expected actual results in any period and the forecast for the corresponding period included in the annual forecast we have published and the affected amount exceeds NT$30 million and 0.5% of our paid-in capital, we are required to revise our forecast and publish a revised forecast as soon as practicable.

We urge you not to rely on these forecasts as they are derived from many assumptions regarding our industries, investments and general market, political and economic conditions, many of which are beyond our control. In addition, we caution you that the information presented in this Offering Memorandum has not formed and will not form the basis of our future forecasts.

E.Sun Bank

Overview

E.Sun Bank was established on January 16, 1992 and commenced its operations on February 21, 1992 as one of the 16 New Banks to receive banking licenses during the liberalization of the Taiwan financial services industry in the early 1990s. According to statistical data compiled by MOF, in the period from 1992 to 2003 (except in 2002, when E.Sun Bank took higher than normal provisions in concert with the industry-wide response to ROC government's policy initiatives encouraging increased provisions by banks in Taiwan), E.Sun Bank was one of the most profitable New Banks in Taiwan. E.Sun Bank also was ranked third in terms of total assets, total deposits and gross loans, respectively, among New Banks in Taiwan as of June 30, 2004. As of June 30, 2004, E.Sun Bank had approximately 2.2 million credit cards in force, making it the sixth largest issuer of credit cards among all banks in Taiwan. As of and for the six months ended June 30, 2004, E.Sun Bank had total assets, gross loans, total deposits, total shareholders' equity and net income of NT$366.2 billion, NT$241.7 billion, NT$274.8 billion, NT$23.0 billion and NT$4.1 billion, respectively. As of June 30, 2004, E.Sun Bank had the lowest broad-based NPL ratio among all the domestic commercial banks in Taiwan with a broad-based NPL ratio of 1.28% as compared to the industry average broad-based NPL ratio of 4.90%, as reported to MOF.

The gross loans of E.Sun Bank increased substantially to NT$241.7 billion (US$7.2 billion) as of June 30, 2004 from NT$201.2 billion as of December 31, 2003. This increase was primarily due to an increase in the mortgage loans to NT$110.7 billion (US$3.3 billion) as of June 30, 2004 from NT$87.4 billion as of December 31, 2003, an increase in the corporate loans to NT$102.1 billion (US$3.0 billion) as of June 30, 2004 from NT$88.1 billion as of December 31, 2003. In addition, the amount of revolving credit card debt increased to NT$22.2 billion (US$659.5 million) as of June 30, 2004 from NT$18.3 billion as of December 31, 2003.

Acquisition of KBB

On June 3, 2004, E.Sun Bank entered into an agreement pursuant to which E.Sun Bank agreed to assume substantially all assets and liabilities of KBB in exchange for a cash subsidy of NT$13,368.0 million from the Financial Restructuring Fund established by the ROC Executive Yuan to manage insolvent local financial institutions. E.Sun Bank assumed control of KBB on September 4, 2004 and on September 6, 2004 received 70% of the cash subsidy. We expect E.Sun Bank to receive the remaining 30% of the cash subsidy in November 2004, subject to an adjustment primarily for KBB's earnings/(losses) for the period from February 29, 2004, the reference date for the acquisition-related valuation, to September 4, 2004. The KBB earnings/(losses) arising from non-cash items for the same period, such as any provisions for loan losses made by KBB, will be excluded from the adjustment.

As of December 31, 2003, the date of KBB's latest audited financial statements provided to us, KBB had total assets of NT$42.6 billion and a negative shareholders' equity of NT$17.0 billion. The total loans (net of the loan loss reserve) and deposits of KBB were NT$20.6 billion and NT$53.3 billion, respectively, as of December 31, 2003. For the year ended December 31, 2003, KBB had a loss after tax of NT$7.8 billion, of which NT$7.6 billion was attributable to a one-time charge resulting from the sale of the NPLs in

June 2003. As of December 31, 2003, the remaining broad-based NPLs of KBB amounted to NT$2.9 billion and KBB maintained a loan loss reserve in the amount of NT$713.7 million (excluding the loss reserve for accounts receivables).

We currently estimate that the negative fair value of KBB's net assets will exceed the government cash subsidy by approximately NT$6.0 billion to NT$6.5 billion. Of this excess, approximately NT$0.8 billion to NT$1.3 billion will arise from additional provisions made in respect of KBB's NPLs. We intend to make such additional provisions in line with our risk management policies to maintain E.Sun Bank's leading asset quality. We believe that the full amount of such additional provisions will be expensed as impaired goodwill in the quarter ending September 30, 2004. The remaining excess after such impairment is expected to be capitalized as goodwill. Pursuant to the existing accounting rules, we expect to amortize the capitalized goodwill on a 5-year straight-line basis for the four months ending as of December 31, 2004 and thereafter, upon the implementation of new accounting rules as of January 1, 2005, subject the unamortized amount of capitalized goodwill to annual goodwill impairment tests. The foregoing are our preliminary estimates and there can be no assurance that the amount of the impaired or capitalized goodwill will fall within our estimated range or that our independent appraiser or certified public accountants will not require us to alter the amount or classification of the impaired or capitalized goodwill upon their performance of the annual goodwill impairment test or audit of our financial statements, respectively, for the year ended December 31, 2004. Under the ROC Banking Law and the Regulations Governing the Management of a Bank's Capital Adequacy, goodwill arising from the KBB acquisition will reduce E.Sun Bank's Tier I capital by the amount of the goodwill. Our net income going forward and E.Sun Bank's capital adequacy ratio may be adversely affected by the recognition, amortization and impairment of the goodwill.

Business and Operating Environment

E.Sun Bank's profitability and financial condition are affected by a number of factors which influence the business environment in which it operates. These factors include general economic conditions in Taiwan, interest rates, competition, conditions in Taiwan's securities markets, regulation, taxes and foreign exchange rates.

We expect that the following factors in particular could continue to affect the financial performance of E.Sun Bank:

- *Economic Climate.* Approximately 84.4% of E.Sun Bank's assets are denominated in New Taiwan dollars. Accordingly, the financial performance of E.Sun Bank's consumer and corporate business is closely linked to the state of the local economy in Taiwan. In particular, the economic environment in Taiwan is significantly affected by the economic environment throughout Asia. While there have been recent signs of an economic recovery in Taiwan, the local economy has generally been lagging since the Asian economic crisis began in mid-1997. Among other things, slowing economic growth rates, a sharp depreciation in the value of the New Taiwan dollar relative to the U.S. dollar and other foreign currencies, a significant decline in Taiwan's equity securities markets, and an increase in unemployment and bankruptcies may adversely affect our corporate and individual borrowers, which in turn could adversely affect the future results of operations and financial condition of E.Sun Bank.

- *Interest Rates.* A significant portion of E.Sun Bank's assets consists of, and a significant portion of our revenue is derived from, assets that are subject to interest rate risks. E.Sun Bank's profitability depends to a large extent on its net interest income. Changes in interest rates, changes in relationship between short-term and long-term interest rates, or changes in relationship between different interest rate indices can affect the interest rate charged on interest-earning assets differently than the interest rate paid on interest-bearing liabilities. As of June 30, 2004, the total amount of interest-bearing liabilities of E.Sun Bank anticipated to be re-priced within one year exceeded the total amount of interest-earning assets anticipated to be re-priced in the same period by NT$128.6 billion, representing a negative cumulative one-year interest rate sensitivity gap equal to 36.3% of total interest-earning assets.

- *Competition.* Due to Taiwan's highly competitive domestic banking industry and the increasing presence of foreign banks in Taiwan, E.Sun Bank has experienced an increase in pricing competition for products and services as other banks seek to build or maintain market shares. Further price-based competition could adversely affect the profitability of E.Sun Bank, particularly if that competition erodes E.Sun Bank's margins on high-yield products such as credit card revolving balances or prevents E.Sun Bank from grouping its portfolio of consumer loans.

Critical Accounting Policies

E.Sun Bank's financial statements are prepared in accordance with ROC GAAP. E.Sun Bank makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense as well as the disclosure of contingent liabilities as of the date of the financial statements. Actual results may differ from those estimates. E.Sun Bank has identified the following accounting policies as critical to an understanding of its business since the application of these policies requires significant management assumptions and estimates that could result in the reporting of materially different amounts if such assumptions and estimates prove to be unwarranted.

Non-Performing Loans

E.Sun Bank defines NPLs as overdue loans required to be reported to the FSC in accordance with the FSC guidelines, which include:

- in the case of short-term loans with bullet payments, loans with respect to which principal is three months or more overdue or interest is six months or more overdue;

- in the case of mid- and long-term installment loans, loans with respect to which interim payments of principal or interest are six months or more overdue or the final payment is three months or more overdue; and

- loans with respect to which E.Sun Bank has taken legal action for repayment or liquidation of collateral prior to the maturity of such loans.

Under the MOF's guidelines of January 2004, starting from July 1, 2005, NPLs will include (i) loans for which the most recent payment of principal or interest is overdue for three months and (ii) loans with respect to which the banks have initiated legal proceedings to recover payment or liquidate collaterals.

Under the MOF's guidelines, starting from June 2003, banks with NPL ratio of 5% or below will be entitled to more favorable treatment when applying to the MOF (now, the FSC) to move domestic branches, for approval of new business lines or setting up new ATMs or back offices, for approval to move or remove existing ATMs and back offices or to conduct business activities in the PRC. In addition to the foregoing, banks with NPL ratios of 2.5% or below will be entitled to more favorable treatment when apply to the FSC to set up new overseas and PRC branches, to switch existing branches to sub-branches, to invest in financial institutions related businesses and to conduct restricted mutual fund business.

Starting from year-end 2003, banks with NPL ratio above 5% will be subject to certain requirements and disciplinary actions, including orders by the FSC to improve their NPL ratios within a certain period, prohibitions from establishing new domestic or overseas branches and restrictions from paying remuneration to directors and supervisors. In addition to the foregoing, banks with NPL ratios above 15% will be subject to further requirements and disciplinary actions, including restrictions from engaging in high-risk businesses or taking deposits and borrowing money with high interest rates and being ordered to dissolve one or more branches.

In addition, the MOF in 2002 began to require banks in Taiwan to report the loans under surveillance, which include:

- in the case of mid- and long-term installment loans, loans with respect to which interim payments of principal or interest are more than three months (inclusive) but less than six months overdue;

- in the case of loans other than mid- and long-term installment loans, loans with respect to which interim payments of principal are three months or less overdue but the interim payments of interest are more than three months (inclusive) but less than six months overdue; or

- loans which meet the above criteria of NPLs to be reported to MOF but are exempt from such reporting requirement pursuant to MOF rules (which include, among others, restructured loans meeting the criteria set forth by MOF).

"Broad-based NPLs" refers to the aggregate amount of NPLs and surveillance loans of a bank.

Non-accrual loans ("NALs") are loans for which E.Sun Bank has stopped accruing interest. E.Sun Bank classifies its overdue loans as NALs if they are loans for which the most recent payment is overdue by more than six months.

From time to time, E.Sun Bank agrees, either alone or in conjunction with other lenders, to restructure the payment or other terms of a loan in order to assist customers to overcome temporary payment difficulties. The restructured terms usually include a reduction in the interest rate and, in certain cases, an extension of the payment schedule. As of June 30, 2004, total restructured loans meeting MOF criteria amounted to NT$205.2 million, consisting of NT$196.7 million corporate loans restructured and NT$8.5 million consumer loans restructured.

Provisions for Loan Loss

E.Sun Bank maintains a reserve for possible loan loss for exposures in its portfolio that represents the estimate of possible loss in the loan portfolio. Under MOF guidelines, the asset quality of the outstanding loans extended by banks is classified into four different categories: Class I (normal), Class II (substandard), Class III (doubtful) and Class IV (unrecoverable). Under MOF guidelines, E.Sun Bank must set aside a minimum specific allowance of 50.0% against loans of Class III and 100.0% against loans of Class IV. No specific allowance is required for Class II loans. For more information on loan classification guidelines of MOF, see "Description of Assets and Liabilities of E.Sun Bank — Asset Quality — Loan Classification" and "Regulation of the Taiwan Financial Services Industry."

Determining the classification of loans and the reserve for possible loan losses requires significant management judgment and the use of estimates. In classifying its loans and reserve for possible loan losses, E.Sun Bank considers relevant quantitative and qualitative factors, including the borrower's financial condition and earnings capabilities, the borrower's management and operation of business, the payment history of the loan, the status of any collateral or guarantees and the market conditions affecting the borrower. If actual events prove the estimates and assumptions used in determining the reserve for possible loan loss incorrect, E.Sun Bank may need to make additional provisions for loan loss.

E.Sun Bank reviews its reserve for loan loss monthly. Based on this review, it makes further provisions for loan loss which is charged to the current period. The amount of the provisions for any particular period is set at a level deemed prudent by management and is based on a number of factors, including the aggregate amount of E.Sun Bank's NPLs for the period, the adequacy of existing collateral, the amount of the current reserve after taking write-offs and recoveries into account, and general economic conditions. Loans which are written off decrease the reserve, while subsequent recoveries are reflected in the increase of reserve.

E.Sun Bank makes both general and specific loan loss provisions. General provisions are made by applying historical write-off rates for corporate loans, secured retail loans and unsecured retail loans to the total amount of performing loans in each of those categories. Specific provisions are made for individual NPLs after a case-by-case evaluation of each loan.

E.Sun Bank believes that the accounting estimate related to its provisions for loan loss is a "critical accounting policy" because it is highly susceptible to change from period to period as it requires E.Sun Bank to make assumptions about future default rates and losses relating to its loan portfolio. Changes in the operating and financial performance of customers and general economic conditions of the market may have an impact on the ability of the borrowers to repay the loans. As a result, any significant difference between E.Sun Bank's estimated loan loss (as reflected in the provisions for loan loss) and actual loan loss could require it to make additional provisions which, if significant, could have a material adverse effect on its net income.

E.Sun Bank's loan loss reserve coverage ratio, which measures loan loss reserve as a percentage of total broad-based NPLs, was approximately 62.6% as of June 30, 2004, compared to the industry average of approximately 24.5% as of the same date.

Write-Off Policies

E.Sun Bank seeks to maintain the overall quality of its asset portfolio by taking what it believes to be a prudent approach to writing off loans and credit card debt. The NPLs to be written off require the approval of the board of directors of E.Sun Bank.

E.Sun Bank's write-off policies for certain retail products are as follows: (1) personal unsecured loans and second mortgage loans are written off after such loans remain overdue for 180 days; (2) a credit card debt is written off after such debt remains overdue for 180 days; and (3) a cash card debt is written off after such debt remains overdue for 180 days. Corporate loans are generally written off within two years after principal and interest payments are overdue if such loans are considered uncollectible. However, in cases where a corporate borrower is considered to be experiencing only temporary difficulties and where full repayment is expected, write-off of the loan may be deferred for up to two additional years.

NPLs and NALs meeting the following criteria will, after deducting the recoverable portions, be written off:

- the loans cannot be fully recovered by the reason of disappearance, dissolution, composition, declaration of bankruptcy, or other reason of the borrowers;

- the appraised value of the collaterals of the loans or the properties of the borrowers or guarantors is too low, and E.Sun Bank may not have actual benefit from foreclosure or compulsory execution of the collaterals or the properties;

- the collaterals of the loans or the properties of the borrowers or guarantors have been auctioned several times without success and E.Sun Bank has no actual benefit from assuming the auctioned collaterals and properties; or

- such NPLs or NALs are two years overdue and are not recovered after enforcement.

In addition, NPLs or NALs are overdue for a period over six months but less than two years and are not recovered after enforcement may, after deducting the recoverable portions, be written off.

Income Recognition

Loans are recorded at principal amounts outstanding less allowances for loan loss. The interest income on loans is recognized on an accrual basis. When the loans become past due and are considered to be uncollectible, the principal and interest are transferred into NALs and the accrual of interest income ceases. Such interest income is recognized under "interest income" by E.Sun Bank when collected. Recovery of loans previously written off in the current period or prior year is recorded as a deduction of current provisions for loan loss.

Repurchase Contracts

Under a directive of the Ministry of Finance, E.Sun Bank historically treated sales of bonds and other short-term negotiable instruments under agreements to repurchase as outright sales, while recorded purchases of bonds and other short-term negotiable instruments under agreements to resell as assets. Pursuant to the newly promulgated Criteria Governing the Preparation of Financial Reports by Public Banks, commencing as of January 1, 2004, E.Sun Bank began to treat both transactions as financing activities.

Consistent with the industry practice, E.Sun Bills Finance historically (i) recorded sales of short-term negotiable instruments and bonds under agreements to repurchase at their carrying value, and recognized the gains or losses upon the sale of the instruments and (ii) recorded purchases of short-term negotiable instruments and bonds under agreements to resell at purchase cost, and recognized gains or losses from such transactions when the instruments are sold. Pursuant to the recently promulgated Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporations, commencing as of January 1, 2004, E.Sun Bank began to treat both transactions as financing activities.

Average Balance Sheets and Interest Rates

The following table sets forth, for the periods indicated, daily average balances and average interest rates of E.Sun Bank.

	As of and for the Year Ended December 31,					
	2001		2002		2003	
	Average Balance[1]	Rate	Average Balance[1]	Rate	Average Balance[1]	Rate
	(in millions, except percentages and ratios)					
Cash — negotiable certificates of deposit	NT$ 3,258.7	3.74%	NT$ 10,221.5	1.25%	NT$ 8,415.2	1.73%
Due from banks[2]	10,080.9	3.76	5,836.6	1.63	12,633.4	1.18
Due from Central Bank of China	6,356.2	3.69	7,455.7	2.41	7,713.8	1.74
Securities purchased[3]	28,251.0	6.85	32,947.6	4.14	41,010.9	2.59
Receivables of credit cards	8,591.1	16.07	12,459.7	17.57	19,356.3	14.87
Loans, bills and discounts	166,169.4	6.89	165,292.9	4.98	180,280.5	3.96
Long-term bond investments	—	—	—	—	1,646.5	3.11
Total interest-earning assets	NT$222,707.3	6.96	NT$234,214.0	5.20	NT$271,056.6	4.26
Due to banks	NT$ 2,760.2	4.59%	NT$ 5,950.8	1.84%	28,357.4	1.16%
Demand	14,322.0	1.50	18,282.3	0.74	23,076.4	0.26
Savings — demand	32,535.3	3.43	44,742.8	1.73	52,851.1	0.69
Time	81,668.3	4.38	74,309.6	2.45	68,817.9	1.53
Savings — time	78,028.5	4.57	75,850.1	2.92	78,478.4	1.87
Negotiable certificates of deposit	6,282.4	4.65	2,600.0	2.26	3,077.5	1.13
Bonds	2,027.4	3.91	7,700.7	3.34	11,045.5	3.21
Total interest-bearing liabilities	NT$217,624.1	4.12	NT$229,436.3	2.34	NT$265,704.2	1.38
Average interest-earning assets/average interest-bearing liabilities	1.02		1.02		1.02	
Overall interest rate spread[4]	2.84%		2.86%		2.88%	
Operating interest rate spread[5]	2.70%		2.60%		2.91%	
Net interest margin[6]	2.37%		2.79%		2.66%	

(1) Calculated based on balance sheet amounts at the end of the day.
(2) Includes the interest-earning portion of call loans and due from banks.
(3) Includes securities, principally government bonds and commercial paper.
(4) Defined as the average yield on interest-earning assets less the average cost of interest-bearing liabilities over the period.
(5) Defined as the average yield on interest-earning assets less the average cost of interest-bearing deposits over the period.
(6) Defined as net interest income divided by average interest-earning assets over the period.

The following table sets forth, for the periods indicated, daily average balance, interest income and expense and average interest rates of E.Sun Bank.

	As of and for the Six Months Ended June 30,			
	2003		2004	
	Average Balance(1)	Rate	Average Balance(1)	Rate
	(in millions, except percentages and ratios)			
Cash and Cash equivalents — due from banks	NT$ 1,181.8	0.28%	NT$ 2,618.4	0.93%
Due from the Central Bank of China and banks	15,402.9	1.79	12,961.9	1.52
Securities purchased(2)	52,571.3	3.12	52,521.1	1.56
Receivables for credit cards	17,580.8	15.23	24,218.2	14.32
Securities purchased under agreements to resell	—	—	2,175.0	0.74
Bills, discount and loans	171,913.2	4.25	218,394.9	3.41
Long-term bond investments	—	—	5,944.0	1.96
Other long-term investments	—	—	1,491.5	1.67
Total interest-earning assets	NT$258,650.0	4.60	NT$320,325.0	3.78
Securities sold under agreements to repurchase	—	—	NT$ 13,038.7	0.73%
Due to banks	NT$ 26,103.2	1.30%	25,988.4	1.06
Demand	20,857.8	0.37	28,677.6	0.17
Savings — demand	49,462.6	0.87	65,456.6	0.54
Time	70,715.5	1.70	73,295.1	1.20
Savings — time	78,500.6	2.05	74,745.7	1.45
Negotiable certificates of deposit	1,109.2	1.41	11,090.8	1.02
Bonds	10,000.0	3.20	21,558.4	2.60
Total interest-bearing liabilities	NT$256,748.9	1.56	NT$313,851.3	1.09
Average interest-earning assets/average interest-bearing liabilities	1.01		1.02	
Overall interest rate spread(3)	3.04%		2.69%	
Operating interest rate spread(4)	3.09%		2.80%	
Net interest margin(5)	2.60%		2.98%	

(1) Calculated based on balance sheet amounts at the end of the day.
(2) Includes securities, principally government bonds and commercial paper.
(3) Defined as the average yield on interest-earning assets less the average cost of interest-bearing liabilities over the period.
(4) Defined as the average yield on interest-earning assets less the average cost of interest-bearing deposits over the period.
(5) Defined as annualized net interest income divided by average interest-earning assets over the period.

Rate-Volume Analysis

E.Sun Bank's interest income and interest expense are affected by fluctuations both in interest rates and in volume of activity. E.Sun Bank's interest expense is also affected by the extent to which it funds its activities with low-interest or non-interest deposits (including the float on transactional services) and the extent to which it relies on borrowings.

The following table sets forth the effects of changing rates and volumes on interest income and expense of E.Sun Bank and therefore is not comparable to the other financial information provided in the tables set forth above in "Selected Financial and Other Data — E.Sun Bank." Information is provided with respect to (1) effects attributable to changes in rate (changes in rate multiplied by prior volume), (2) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (3) effects attributable to changes in rate and volume (changes in volume multiplied by changes in rate).

	For the Year Ended December 31,							
	2002 Compared to 2001				2003 Compared to 2002			
	Change Due to Rate	Change Due to Volume	Change Due to Rate & Volume	Total Change	Change Due to Rate	Change Due to Volume	Change Due to Rate & Volume	Total Change
	(in millions)							
Interest Income								
Due from banks	NT$ (214.7)	NT$ (159.6)	NT$ 90.4	NT$ (283.9)	NT$ (26.3)	NT$ 110.8	NT$ (30.6)	NT$ 53.9
Due from Central Bank of China	(81.4)	40.6	(14.1)	(54.9)	(50.0)	6.2	(1.7)	(45.5)
Loans	(3173.8)	(60.4)	16.7	(3,217.5)	(1,686.0)	746.4	(152.9)	(1,092.5)
Other interest-earning assets	(784.2)	1,331.1	(303.6)	243.3	(415.5)	979.3	(110.5)	453.3
Total interest-earning assets	NT$(4,254.1)	NT$1,151.7	NT$(210.6)	NT$(3,313.0)	NT$(2,177.8)	NT$1,842.7	NT$(295.7)	NT$(630.8)
Interest Expense								
Due to banks	NT$ (75.9)	NT$ 146.5	NT$ (87.7)	NT$ (17.1)	NT$ (40.5)	NT$ 412.3	NT$ (152.4)	NT$ 219.4
Deposits								
Demand deposits	(656.0)	459.2	(226.4)	(423.2)	(554.6)	185.8	(113.5)	(482.3)
Time deposits	(2,786.3)	(579.7)	233.4	(3,132.6)	(1,375.7)	(59.5)	21.6	(1,413.6)
Postal deposits	(192.4)	(11.8)	4.4	(199.8)	(118.0)	(4.3)	1.7	(120.6)
Other interest-bearing liabilities	(11.6)	221.8	(32.3)	177.9	(10.0)	111.7	(4.4)	97.3
Total interest-bearing liabilities	NT$(3,722.2)	NT$236.0	NT$(108.6)	NT$(3,594.8)	NT$(2,098.8)	NT$ 646.0	NT$(247.0)	NT$(1,699.8)
Net interest income	NT$ (531.9)	NT$915.7	NT$(102.0)	NT$ (281.8)	NT$ (79.0)	NT$ 1,196.7	NT$(48.7)	NT$ 1,069.0

	For the Six Months Ended June 30,			
	2004 Compared to 2003			
	Change Due to Rate	Change Due to Volume	Change Due to Rate & Volume	Total Change
	(in millions)			
Interest Income				
Cash and cash equivalents — due from banks	NT$ 7.7	NT$ 4.0	NT$ 9.3	NT$ 21.0
Due from Central Bank of China and banks	(41.6)	(43.7)	6.6	(78.7)
Loans	(1,444.1)	1,975.5	(390.4)	141.0
Other interest-earning assets	(706.7)	997.0	(163.2)	127.1
Total interest-earning assets	NT$(2,184.7)	NT$2,932.8	NT$(537.7)	NT$ 210.4
Interest Expense				
Due to banks	NT$ (62.7)	NT$ (1.5)	NT$ 0.3	NT$ (63.9)
Deposits				
Demand deposits	(203.9)	171.5	(69.1)	(101.5)
Time deposits	(837.3)	166.6	(53.1)	(723.8)
Postal deposits	(18.3)	(1.0)	0.1	(19.2)
Other interest-bearing liabilities	(130.0)	787.1	(319.8)	337.3
Total interest-bearing liabilities	NT$(1,252.2)	NT$1,122.7	NT$ (441.6)	NT$ (571.1)
Net interest income	NT$(932.5)	NT$1,810.1	NT$ (96.1)	NT$781.5

Results of Operations

The revenue of E.Sun Bank has been derived primarily from interest income and income and gains on sales of securities. Expenses of E.Sun Bank consist primarily of interest expense, provisions for loan loss, personnel expense, rent and fees paid to other financial intermediaries such as credit card processors.

The profitability of E.Sun Bank could be affected by a number of factors, including the effectiveness of its management and the performance of the overall Taiwan economy. In addition, E.Sun Bank's profitability and business could be affected by regulatory policies and constraints. For example, recent government interpretations of banking regulatory policies require E.Sun Bank, and other banks similarly situated, to adjust their treatment of NPLs.

The table below sets forth, for the periods indicated, certain financial data of E.Sun Bank.

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2001	2002	2003		2003	2004	
				(in millions)			
Interest Income:							
Loans	NT$11,808.2	NT$ 9,163.1	NT$7,103.5	US$211.0	NT$3,627.7	NT$3,703.0	US$110.0
Due from banks[(1)]	382.0	103.4	152.2	4.5	69.3	47.1	1.4
Due from Central Bank of China	247.5	179.8	134.1	4.0	70.0	63.5	1.9
Credit card lines	1,380.6	2,188.7	2,878.7	85.5	1,338.6	1,729.6	51.4
Other[(2)]	600.4	479.5	789.0	23.5	326.2	965.4	28.7
Total interest income	14,418.7	12,114.5	11,057.5	328.5	5,431.8	6,508.6	193.4
Interest Expenses:							
Deposit	(8,870.5)	(5,291.2)	(3,051.8)	(90.6)	(1,826.6)	(1,292.9)	(38.4)
Due to banks	(230.0)	(234.1)	(339.3)	(10.1)	(173.7)	(144.9)	(4.3)
Others	(38.5)	(55.6)	(460.0)	(13.7)	(69.9)	(294.7)	(8.8)
Total interest expense	(9,139.0)	(5,580.9)	(3,851.1)	(114.4)	(2,070.2)	(1,732.5)	(51.5)
Net interest income	5,279.7	6,533.6	7,206.4	214.1	3,361.6	4,776.1	141.9
Non-interest income							
Service fee income — net[(3)]	477.8	592.3	946.8	28.1	334.1	693.0	20.6
Net gain/(loss) on sales of trading securities	1,456.2	1,068.9	590.6	17.6	439.7	212.6	6.3
Investment income — net	257.0	55.7	24.3	0.7	35.5	1,334.2	39.6
Exchange gain — net	172.5	118.6	307.1	9.1	161.8	164.6	4.9
Other gain — net[(4)]	(5.2)	47.2	333.9	9.9	166.8	305.9	9.1
Total non-interest income	2,358.3	1,882.7	2,202.7	65.4	1,137.9	2,710.3	80.5
Income before operating expenses	7,638.0	8,416.3	9,409.1	279.5	4,499.5	7,486.4	222.4
Operating expenses[(5)]							
Business expense	(2,634.6)	(3,334.6)	(3,977.9)	(118.2)	(1,852.7)	(2,122.8)	(63.1)
General and administrative expense	(315.4)	(308.1)	(343.3)	(10.2)	(148.0)	(239.6)	(7.1)
Other	(13.3)	(25.1)	(33.7)	(1.0)	(9.1)	(13.2)	(0.4)
Total operating expense	(2,963.3)	(3,667.8)	(4,354.9)	(129.4)	(2,009.8)	(2,375.6)	(70.6)
Reversal/(Provisions) for loan loss and other losses	(2,092.6)	(9,414.0)	(845.6)	(25.1)	119.8	(132.4)	(3.9)
Operating income (loss)	2,582.1	(4,665.5)	4,208.6	125.0	2,609.5	4,978.4	147.9

(1) Includes call-loans from banks.
(2) Includes interest income from foreign exchange, factoring, foreign currency interest rate swaps and other derivative instruments.
(3) Re-classified to present service fee income on a net income basis solely for the convenience of readers and this presentation does not correspond to the presentation in the unconsolidated financial statements of E.Sun Bank included elsewhere in the Offering Memorandum.

(4) Re-classified to present other income on a net income basis solely for the convenience of readers and this presentation does not correspond to the presentation in the unconsolidated financial statements of E.Sun Bank included elsewhere in the Offering Memorandum.

(5) Re-classified to exclude interest expense (which has been presented separately), service fee expense (which has been netted off with service fee income) and provision for loan losses (which has been presented separately) solely for the convenience for readers and this presentation does not correspond to the presentation in the unconsolidated financial statements of E.Sun Bank included elsewhere in the Offering Memorandum.

The table below sets forth, for the period indicated, the net fee income of E.Sun Bank:

	For the year ended December 31,				For the six months ended June 30,		
	2001	2002	2003		2003	2004	
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions)						
Credit card fees	227.8	280.1	704.7	20.9	313.8	454.6	12.9
Remittance fees	58.6	64.7	77.9	2.3	36.3	43.1	1.3
Mutual fund and trust fees	46.1	84.9	239.4	7.1	27.8	238.8	7.1
Custodian fees	23.8	43.7	51.1	1.5	23.5	28.1	0.8
Unsecured personal loan fees	40.2	51.5	42.0	1.2	25.6	14.9	0.5
Syndication fees	23.0	40.3	61.7	1.8	18.1	31.9	0.9
ATM fees/(expenses)	(16.4)	(29.7)	(43.6)	(1.3)	(21.9)	(2.0)	(0.1)
Other fees/(expenses)	74.7	56.9	(186.4)	(5.5)	(89.1)	(116.4)	(2.8)
Total net fee income	477.8	592.4	946.8	28.0	334.1	693.0	20.6

Six Months Ended June 30, 2004 and June 30, 2003

Interest Income. Interest income increased 19.8% to NT$6,508.6 million (US$193.4 million) for the six months ended June 30, 2004 from NT$5,431.8 million for the six months ended June 30, 2003, primarily due to three factors including (i) a substantial increase in the volume of corporate loans and mortgage loans, which more than offset the impact of a general decline in market interest rates, (ii) a substantial increase in interest income from credit card lines and (iii) a reclassification of net gains arising from repurchase transactions to interest income pursuant to a change in the accounting treatment of such transactions as financing. Average interest-earning assets increased 23.8% to NT$320,325.0 million (US$9,516.5 million) for the six months ended June 30, 2004 from NT$258,650.0 million for the six months ended June 30, 2003. The yield on interest-earning assets decreased 82 basis points to 3.78% for the six months ended June 30, 2004 from 4.60% for the six months ended June 30, 2003. The increase in interest income from credit card lines was primarily due to an increase in the amount of average outstanding credit card debt, which increased to NT$24,218.2 million (US$719.5 million) for the six months ended June 30, 2004 from NT$17,580.8 million for the six months ended June 30, 2003. For the six months ended June 30, 2004, NT$400.5 million (US$11.9 million) of net gains arising from bonds repurchase transactions was reclassified as interest income pursuant to the accounting change.

Interest Expense. Interest expense decreased 16.3% to NT$1,732.5 million (US$51.5 million) for the six months ended June 30, 2004 from NT$2,070.2 million for the six months ended June 30, 2003, primarily due to a decrease in the average cost of interest-bearing liabilities as a result of the general decline in market interest rates. Average interest-bearing liabilities increased 22.2% to NT$313,851.3 million for the six months ended June 30, 2004 from NT$256,748.9 million for the six months ended June 30, 2003. The cost of interest bearing liabilities decreased 47 basis points to 1.09% for the six months ended June 30, 2004 from 1.56% for the six months ended June 30, 2003, primarily due to a general decline in deposit interest rates.

Net Interest Income. As a result of the foregoing, the net interest income increased 42.1% to NT$4,776.1 million (US$141.9 million) for the six months ended June 30, 2004 from NT$3,361.6 million for the six months ended June 30, 2003.

Net Interest Margin. Net interest margin increased 38 basis points to 2.98% for the six months ended June 30, 2004 from 2.60% for the six months ended June 30, 2003. The increase in net interest margin for the six months ended June 30, 2004 was primarily due to (i) a shift in E.Sun Bank's product mix toward high-margin products such as credit cards and cash cards and (ii) a reclassification of net gains arising from repurchase transactions to interest income pursuant to a change in the accounting treatment of such transactions as financing.

Net Fee Income. Net fee income increased 107.4% to NT$693.0 million (US$20.6 million) for the six months ended June 30, 2004 from NT$334.1 million for the six months ended June 30, 2003, due primarily to a substantial increase in (i) net commissions on distribution of mutual funds and investment trusts, reflecting E.Sun Bank's continued emphasis on promoting fee-based products, and (ii) net fee income from credit cards business, which resulted from the increase in the volume of credit card transactions. The increase in fee income was partially offset by an increase in fee expense, which increased to NT$350.2 million (US$10.4 million) for the six months ended June 30, 2004 from NT$275.6 million for the six months ended June 30, 2003, primarily due to an increase in credit card and cash card service costs in connection with an increase of the number of credit cards and cash cards in force. The net fee income to total net operating revenue ratio increased to 9.3% for the six months ended June 30, 2004 from 7.4% for the six months ended June 30, 2003.

Net Gain/(Loss) on Sales of Securities. Net gain on sales of securities decreased 51.6% to NT$212.6 million (US$6.3 million) for the six months ended June 30, 2004 from NT$439.7 million for the six months ended June 30, 2003, primarily due to the reclassification of net gains arising from repurchase transactions to interest income pursuant to a change in the accounting treatment of such transactions as financing.

Net Other Operating Income. Net other operating income consists of gain from foreign exchange, income from long-term investments and income from derivatives trading. Net other operating income increased 395.7% to NT$1,804.7 million (US$53.6 million) for the six months ended June 30, 2004 from NT$364.1 million for the six months ended June 30, 2003. The increase in net other operating income for the six months ended June 30, 2004 was primarily due to a one-time gain of NT$1,182.0 million from long-term investment as the result of the exercise of certain exchangeable bonds issued by E.Sun Bank.

Operating Expense. Total operating expense increased 18.2% to NT$2,375.6 million (US$70.6 million) for the six months ended June 30, 2004 from NT$2,009.8 million for the six months ended June 30, 2003, primarily due to the increase in marketing and selling expenses in connection with the promotional campaigns for E.Sun Bank's credit cards and mortgage loans and an increase in the number of employees in connection with the growth of E.Sun Bank's businesses. The operating expense to total net operating revenue ratio decreased to 31.7% for the six months ended June 30, 2004 from 44.7% for the six months ended June 30, 2003.

Provisions for Loan and Other Losses. The provisions for loan and other losses increased to NT$132.4 million (US$3.9 million) for the six months ended June 30, 2004 from a reversal of NT$119.8 million for the six months ended June 30, 2003, primarily due to an increase in provisions for new loans to NT$844.6 million (US$25.1 million) for the six months ended June 30, 2004 from NT$20.2 million for the six months ended June 30, 2003, partially offset by an increase in the recovery of write-offs to NT$712.2 million (US$21.2 million) for the six months ended June 30, 2004 from NT$140.0 million for the six months ended June 30, 2003. The allowance for loan loss to gross loans ratio decreased to 0.80% for the six months ended June 30, 2004 from 0.90% for the six months ended June 30, 2003.

Net Non-Operating Income/(Expense). E.Sun Bank generated a net non-operating income of NT$3.7 million (US$0.1 million) for the six months ended June 30, 2004 compared to a net non-operating expense of NT$5.4 million for the six months ended June 30, 2003.

Income Before Tax. Income before tax increased 91.3% to NT$4,982.1 million (US$148.0 million) for the six months ended June 30, 2004 from an income before tax of NT$2,604.1 million for the six months ended June 30, 2003.

Taxation. Tax expense increased 64.4% to NT$914.5 million (US$27.2 million) for the six months ended June 30, 2004 from NT$556.1 million for the six months ended June 30, 2003 primarily due to the increase in income before tax and the reclassification of income arising from repurchase transactions to the taxable interest income account for the six months ended June 30, 2004 from the previously tax-free capital gains account for the six months ended June 30, 2003. The effective tax rate was 18.4% for the six months ended June 30, 2004, compared to 21.4% for the six months ended June 30, 2003.

Net Income. Net income increased 98.6% to NT$4,067.6 million (US$120.8 million) for the six months ended June 30, 2004 from NT$2,048.0 million for the six months ended June 30, 2003, primarily due to the increase in net interest income and other operating income. Return on average assets increased to 2.40% for the six months ended June 30, 2004 from 1.47% for the six months ended June 30, 2003. In addition, the return on average equity increased to 36.8% for the six months ended June 30, 2004 from 21.6% for the six months ended June 30, 2003.

Years ended December 31, 2003 and December 31, 2002

Interest Income. Interest income decreased 8.7% to NT$11,057.5 million (US$328.5 million) in 2003 from NT$12,114.5 million in 2002, due to a decrease in the interest income from loans as a result of the general decline in market interest rates and partially offset by a substantial increase in interest income from credit card lines as a result of increasing amount of average credit card debt and an increase in the average amount of outstanding consumer loans, particularly the mortgage loans from 2002 to 2003. Average interest-earning assets increased 15.7% to NT$271,056.6 million (US$8,052.8 million) in 2003 from NT$234,214.0 million in 2002. The yield on interest-earning assets decreased 94 basis points to 4.26% in 2003 from 5.20% in 2002.

Interest Expense. Interest expense decreased 31.0% to NT$3,851.1 million (US$114.4 million) in 2003 from NT$5,580.9 million in 2002, primarily due to a decrease in the average cost of interest-bearing liabilities as a result of the general decline in market interest rates, partially offset by an increase in the deposit base primarily from negotiable certificates of deposit, demand deposits and savings demand deposits. Average interest-bearing liabilities increased 15.8% to NT$265,704.2 million (US$7,893.8 million) in 2003 from NT$229,436.3 million in 2002. The cost of interestbearing liabilities decreased 96 basis points to 1.38% in 2003 from 2.34% in 2002, primarily due to a general decline in deposit interest rates.

Net Interest Income. As a result of the foregoing, the net interest income increased 10.3% to NT$7,206.4 million (US$214.1 million) in 2003 from NT$6,533.6 million in 2002.

Net Interest Margin. Net interest margin decreased 13 basis points to 2.66% in 2003 from 2.79% in 2002. The decrease in net interest margin in 2003 was primarily due to a drop in yields on assets in a declining interest rate environment, partially offset by an increase in the amount of outstanding consumer loans and a decrease in interest rates paid to depositors.

Net Fee Income. Net fee income increased 59.9% to NT$946.8 million (US$28.1 million) in 2003 from NT$592.3 million in 2002, primarily due to a substantial increase in fee income from credit cards and credit card penalties. The increase in fee income from credit cards and credit card penalties was primarily a result of the increase in the volume of transactions. The net fee income to total net operating revenue ratio increased to 10.1% in 2003 from 7.0% in 2002.

Net Gain/(Loss) on Sales of Securities. Net gain on sales of securities decreased 44.7% to NT$590.6 million (US$17.6 million) in 2003 from NT$1,068.9 million in 2002, primarily due to a reduction in trading gains and interest derived from fixed-income securities as a result of the decreasing magnitude of interest rate decline.

Net Other Operating Income. Net other operating income consists of gain from foreign exchange, income from long-term investments and income from derivatives trading. Net other operating income increased 200.4% to NT$665.3 million (US$19.7 million) in 2003 from NT$221.4 million in 2002. The increase in net other operating income in 2003 was primarily due to the gains from certain interest rate swap entered into in 2003 in connection with the issuance of certain domestic financial debentures.

Operating Expense. Total operating expense increased 18.7% to NT$4,354.9 million (US$129.4 million) in 2003 from NT$3,667.8 million in 2002, primarily due to the increase in marketing expenses in connection with the promotional campaigns for E.Sun Bank's credit cards, the establishment of the credit card travel center and an increase in the number of employees in connection with the growth of E.Sun Bank's businesses. The operating expense to total net operating revenue ratio increased to 46.3% in 2003 from 43.6% in 2002.

Provisions for Loan and Other Losses. The provisions for loan and other losses decreased 91.0% to NT$845.6 million (US$25.1 million) in 2003 from NT$9,414.0 million in 2002, primarily due to E.Sun Bank's higher than normal provisions in 2002 in concert with the industry-wide response to ROC government's policy initiatives encouraging increased provisions by banks in Taiwan and significant recoveries in 2003 of certain write-offs taken by us in 2002. The allowance for loan loss to gross loans ratio increased to 1.08% in 2003 from 0.89% in 2002.

Net Non-Operating Income/(Expense). Net non-operating expense decreased 76.0% to NT$17.9 million (US$0.5 million) in 2003 from NT$74.5 million in 2002, primarily due to a decrease in the loss on disposal of collaterals in connection with certain loans.

Income Before Tax. E.Sun Bank generated an income before tax of NT$4,190.7 million (US$124.5 million) in 2003 compared to a loss before tax of NT$4,740.1 million in 2002.

Taxation. E.Sun Bank had a tax expense of NT$794.4 million (US$23.6 million) in 2003, compared to a tax benefit of NT$1,229.3 million that resulted from the aggressive write-offs of NPLs in 2002.

Net Income. E.Sun Bank generated a net income of NT$3,396.3 million (US$100.9 million) in 2003, compared to a net loss of NT$3,510.8 million in 2002, primarily due to a decrease in the provisions for loan loss and other loss. As a result, the return on average assets reversed to a positive 1.16% in 2003 from negative 1.30% in 2002. In addition, the return on average equity reversed to a positive 17.3% in 2003 from negative 17.2% in 2002.

Years Ended December 31, 2002 and December 31, 2001

Interest Income. Interest income decreased 16.0% to NT$12,114.5 million in 2002 from NT$14,418.7 million in 2001, due to a decrease in the average yield on interest-earning assets as a result of the general decline in market interest rates and partially offset by a substantial increase in interest income from credit card lines from 2001 to 2002. Average interest-earning assets increased 5.2% to NT$234,214.0 million in 2002 from NT$222,707.3 million in 2001. The yield on interest-earning assets decreased 139 basis points to 5.20% in 2002 from 6.96% in 2001.

Interest Expense. Interest expense decreased 38.9% to NT$5,580.9 million in 2002 from NT$9,139.0 million in 2001, primarily due to a decrease in the average cost of interest-bearing liabilities as a result of the general decline in market interest rates, partially offset by a slight increase in the deposit base primarily from demand deposits and savings demand deposits. Average interest-bearing liabilities increased 5.43% to NT$229,436.3 million in 2002 from NT$217,624.1 million in 2001. The cost of interest-bearing liabilities decreased 178 basis points to 2.34% in 2002 from 4.12% in 2001, primarily due to a general decline in deposit interest rates.

Net Interest Income. As a result of the foregoing, the net interest income increased 23.7% to NT$6,533.6 million in 2002 from NT$5,279.7 million in 2001.

Net Interest Margin. Net interest margin increased 32 basis points to 2.79% in 2002 from 2.37% in 2001. The increase in net interest margin in 2002 was primarily due to a decrease in interest rates paid to depositors, which more than offset a drop in yields on assets in a declining interest rate environment and a shift in E.Sun Bank's product mix toward high-margin products such as credit cards and cash cards.

Net Fee Income. Net fee income increased 24.0% to NT$592.3 million in 2002 from NT$477.8 million in 2001, due to a substantial increase in fee income from credit cards and credit card penalties, and slight increases from foreign exchange fees, acceptance fees, fees on management small loans, guarantee fees, custodian fees and commissions on distribution of mutual funds and fees from referrals of life insurance products, reflecting E.Sun Bank's continued emphasis on promoting fee-based products. The increase in fee income from credit cards was primarily a result of the increase in the volume of transactions. The increase in fee income was partially offset by an increase in service fee expense which increased to NT$310.3 million in 2002 from NT$202.0 million in 2001 due to an increase in credit card and cash card service costs in connection with an increased of the number of credit cards in force. The net fee income to total net operating revenue ratio increased to 7.0% in 2002 from 6.3% in 2001.

Net Gain/(Loss) on Sales of Securities. Net gain on sales of securities decreased 26.6% to NT$1,068.9 million in 2002 from NT$1,456.2 million in 2001, primarily due to a decline in interest rates resulting in a decrease in the yield for certain fixed-income securities.

Net Other Operating Income. Net other operating income consists of gain from foreign exchange, income from long-term investments and income from derivatives trading. Net other operating income decreased 47.8% to NT$221.4 million in 2002 from NT$424.3 million in 2001. The decrease in net other operating income in 2002 was primarily due to the formation of the financial holding company in which E.Sun Bank, E.Sun Bills Finance and E.Sun Securities became subsidiaries. As a result, E.Sun Bank no longer recognized income from its long-term investments in E.Sun Bills Finance and E.Sun Securities in 2002.

Operating Expense. Total operating expense increased 23.8% to NT$3,667.8 million in 2002 from NT$2,963.3 million in 2001, primarily due to the increase in marketing expenses in connection with the promotion of E.Sun Bank's co-branded credit cards with certain department stores and retail banking business and an increase in the number of employees in connection with the growth of E.Sun Bank's businesses and the opening of a branch in Hong Kong and additional branches in Taiwan. The operating expense to total net operating revenue ratio increased to 43.6% in 2002 from 38.8% in 2001.

Provisions for Loan and Other Losses. The provisions for loan and other losses increased 349.9% to NT$9,414.0 million in 2002 from NT$2,092.6 million in 2001, primarily due to E.Sun Bank's effort to strengthen asset quality through aggressive write-offs. E.Sun Bank views the higher than normal provisions in 2002 as an one-time event and anticipates regular provisions going forward. The allowance for loan loss to gross loans ratio increased to 0.89% in 2002 from 0.84% in 2001.

Net Non-Operating Income/(Expense). E.Sun Bank generated a net non-operating expense of NT$74.5 million in 2002 compared to a net non-operating income of NT$4.1 million in 2001, primarily due to a loss on disposal of collaterals in connection with certain loans.

Income Before Tax. Income before tax decreased to a loss of NT$4,740.1 million in 2002 from an income before tax of NT$2,586.2 million in 2001.

Taxation. E.Sun Bank had a tax benefit of NT$1,229.3 million in 2002 from a tax expense of NT$658.2 million in 2001 due to tax benefits earned as a result of aggressive write-offs in 2002.

Net Income. Net income decreased to a net loss of NT$3,510.8 million in 2002 from NT$1,928.0 million in 2001, primarily due to the provision of NT$9,414.0 million. As a result, there was a decrease in the return on average assets to a negative 1.30% in 2002 from positive 0.77% in 2001. In addition, the return on average equity decreased to a negative 17.2% in 2002 from positive 8.8% in 2001.

Financial Condition

Assets

Total Assets

Total assets increased 29.2% to NT$366,208.8 million (US$10,879.6 million) as of June 30, 2004 from NT$283,461.4 million as of June 30, 2003, primarily due to an increase in consumer loans and corporate loans.

Total assets increased 14.1% to NT$310,997.8 million (US$9,239.4 million) as of December 31, 2003 from NT$272,643.5 million as of December 31, 2002, primarily due to the growth in loans and credit card receivables and debt.

Total assets increased 2.5% to NT$272,643.5 million as of December 31, 2002 from NT$265,873.8 million as of December 31, 2001, primarily due to the growth in deposits with the Central Bank of China, partially offset by a slight decrease in loans. The increase in total assets in 2002 reflected a moderate increase in current assets, particularly cash and cash equivalents and account receivables.

Loans and Allowance for Loan Loss

Gross loans increased 34.0% to NT$241,711.8 million (US$7,181.0 million) as of June 30, 2004 from NT$180,357.3 million as of June 30, 2003. This increase was primarily due to an increase in consumer loans and corporate loans for the six months ended June 30, 2004. Allowance for loan loss increased 18.5% to NT$1,931.0 million (US$57.4 million) as of June 30, 2004 from NT$1,629.3 million as of June 30, 2003. E.Sun Bank wrote off NT$712.4 million (US$21.2 million) of loans for the six months ended June 30, 2004 compared to NT$369.6 million of loans for the six months ended June 30, 2003.

Gross loans increased 16.8% to NT$201,240.1 million (US$5,978.6 million) as of December 31, 2003 from NT$172,316.0 million as of December 31, 2002. This increase was primarily due to the increase in consumer loans, particularly mortgage loans in 2003. Allowance for loan loss increased 40.8% to NT$2,169.8 million (US$64.5 million) as of December 31, 2003 from NT$1,540.8 million as of December 31, 2002. E.Sun Bank wrote off NT$784.2 million (US$23.3 million) of loans in 2003 compared to NT$8,949.3 million of loans in 2002.

Gross loans decreased 4.7% to NT$172,316.0 million as of December 31, 2002 from NT$180,859.2 million as of December 31, 2001. This decrease was primarily due to the write off of NPLs in connection with E.Sun Bank's aggressive write-off policy in 2002. Allowance for loan loss increased 1.8% to NT$1,540.8 million as of December 31, 2002 from NT$1,514.0 million as of December 31, 2001. E.Sun Bank wrote off NT$8,949.3 million of net loans in 2002 compared to NT$2,081.6 million of loans in 2001.

Liabilities

Total Liabilities

Total liabilities increased 30.3% to NT$343,249.6 million (US$10,197.6 million) as of June 30, 2004 from NT$263,500.2 million as of June 30, 2003, primarily reflecting increases in interest-bearing deposits and interbank borrowings.

Total liabilities increased 13.7% to NT$289,688.5 million (US$8,606.3 million) as of December 31, 2003 from NT$254,730.1 million as of December 31, 2002, primarily reflecting increases in interest-bearing deposits, interbank borrowings and the issuance of NT$5.0 billion in aggregate principal amount of financial debentures for the year ended December 31, 2003.

Total liabilities increased 4.8% to NT$254,730.1 million as of December 31, 2002 from NT$243,070.3 million as of December 31, 2001, primarily reflecting increases in interest-bearing deposits, interbank borrowings and the issuance of NT$5.0 billion in aggregate principal amount of financial debentures for the year ended December 31, 2002.

Deposits

Deposits increased 20.2% to NT$274,828.7 million (US$8,164.8 million) as of June 30, 2004 from NT$228,575.9 million as of June 30, 2003. Of E.Sun Bank's interest-bearing deposits as of June 30, 2004, consumer deposits accounted for 56.6% and corporate deposits accounted for 43.4% and other deposits accounted for the remaining balance.

Deposits increased by 9.4% to NT$247,016.5 million (US$7,338.6 million) as of December 31, 2003 from NT$225,739.6 million as of December 31, 2002. Of E.Sun Bank's interest-bearing deposits as of December 31, 2003, consumer deposits accounted for 60.8% and corporate deposits accounted for 39.2% and other deposits accounted for the remaining balance.

Deposits increased slightly by 0.3% to NT$225,739.6 million as of December 31, 2002 from NT$225,029.2 million as of December 31, 2001. Of E.Sun Bank's interest-bearing deposits as of December 31, 2002, consumer deposits accounted for 58.6% and corporate deposits accounted for 41.4% and other deposits accounted for the remaining balance.

E.Sun Bank's policy is to maintain a loan-to-deposit ratio of less than 85.0%. The loan-to-deposit ratio for any period equals the sum of the daily average loans and credit card debt for the period divided by the daily average deposits for the period. The gross loan-to-deposit ratio was 80.4%, 76.3%, 81.5% and 87.9% for 2001, 2002, 2003 and as of June 30, 2004, respectively.

Contingent Liabilities and Commitment

As of June 30, 2004, contingent liabilities and commitments amounted to NT$34.4 billion, which included approximately NT$12.0 billion in commitments to repurchase bonds and securities and NT$6.2 billion in guarantees issued. We anticipate that not all of the above commitments will be utilized before the agreed upon expiration or other termination clauses. The amount of unused commitments therefore does not necessarily represent future funding requirements. As of June 30, 2004, the majority of the credit commitments expired within one year. Further, E.Sun Bank's guarantee agreements generally have expiration periods of up to one year.

E.Sun Bills Finance

E.Sun Bills Finance derives most of its revenue from (1) gains from the trading of fixed-income securities, such as corporate bonds, including convertible bonds, financial debentures and bills, which include commercial paper, negotiable certificates of deposit and treasury bills issued by the ROC government, (2) fee income from guaranteeing, underwriting and certifying bills and (3) interest income from investments in fixed-income securities. Expense generally consists of interest expense, fee expense, provisions for guarantee and trading loss, and operating expense.

The following table sets forth, as of and for the periods indicated, certain financial data of E.Sun Bills Finance.

	For the Year Ended December 31,				As of and for the Six Months Ended June 30,		
	2001	2002	2003		2003	2004	
				(in millions)			
Net interest income	NT$ 125.4	NT$ 46.6	NT$ 66.9	US$2.0	NT$ 26.0	NT$279.3	US$ 8.3
Net fee income	150.3	160.9	154.6	4.6	88.7	56.5	1.7
Net gain on trading securities	1,002.4	820.9	800.4	23.8	507.4	154.3	4.6
Other operating income	4.4	0.1	—	—	—	0.0	0.0
Total net operating revenue	1,282.5	1,028.5	1,021.9	30.4	622.1	490.1	14.6
Provisions/Reversal	(405.1)	(187.9)	10.6	0.3	(5.1)	16.0	0.4
Operating expense	(153.9)	(139.0)	(160.8)	(4.8)	(88.5)	(87.5)	(2.6)
Net income	368.8	570.9	966.2	28.7	482.1	312.8	9.3

Results of Operations

Six Months Ended June 30, 2004 and June 30, 2003

Total Net Operating Revenue. Total net operating revenue decreased 21.2% to NT$490.1 million (US$14.6 million) for the six months ended June 30, 2004 from NT$622.1 million for the six months ended June 30, 2003.

- *Net Interest Income.* Interest income increased 559.6% to NT$564.6 million (US$16.8 million) for the six months ended June 30, 2004 from NT$85.6 million for the six months ended June 30, 2003, primarily due to a reclassification of part of net gains resulting from repurchase transactions to interest income pursuant to a change in the accounting treatment of such transactions as financing. Interest expense increased 378.7% to NT$285.3 million (US$8.5 million) for the six months ended June 30, 2004 from NT$59.6 million for the six months ended June 30, 2003, primarily due to a reclassification of expenses resulting from repurchase transactions to interest expense pursuant to a change in the accounting treatment of such transactions as financing. As a result of the foregoing, the net interest income increased 974.2% to NT$279.3 million (US$8.3 million) for the six months ended June 30, 2004 from NT$26.0 million for the six months ended June 30, 2003.

- *Net Fee Income.* Fee income consists primarily of fee income on guarantee fee, fee income from underwriting activities and fee income on certification fee. Net fee income decreased 36.3% to NT$56.5 million (US$1.7 million) for the six months ended June 30, 2004 from NT$88.7 million for the six months ended June 30, 2003, primarily due to a decrease in guarantee, certification and underwriting activities in the market. Guarantee fee income decreased 4.0% to NT$38.4 million (US$1.1 million) for the six months ended June 30, 2004 from NT$40.0 million for the six months ended June 30, 2003. Certification fee income decreased 18.6% to NT$4.8 million (US$0.1 million) for the six months ended June 30, 2004 from NT$5.9 million for the six months ended June 30, 2003. Fee income from underwriting activities decreased 58.3% to NT$19.3 million (US$0.6 million) for the six months ended June 30, 2004 from NT$46.3 million for the six months ended June 30, 2003.

- *Net Gain on Sale of Short-Term Negotiable Instruments.* Net gain on sale of short-term negotiable instruments decreased 69.6% to NT$154.3 million (US$4.6 million) for the six months ended June 30, 2004 from NT$507.4 million for the six months ended June 30, 2003, primarily due to reclassification of part of net gains resulting from repurchase transactions to interest income pursuant to a change in the accounting treatment of such transactions as financing.

Provisions. Provisions consist primarily of provisions for guarantee and provisions for trading loss. The provisions account recorded a reversal of NT$16.0 million (US$0.4 million) for the six months ended June 30, 2004 compared to NT$5.1 million for the six months ended June 30, 2003, primarily due to lower discretionary provisions taken for the six months ended June 30, 2004. Pursuant to internal guidelines, E.Sun Bills Finance sets aside at least 1% of the amount guaranteed as provisions for guarantee, 10% of its net trading gains on government bonds as provisions for trading loss in respect of government bonds until the balance of the provisions reaches an amount equal to NT$200 million. In addition, E.Sun Bills Finance makes full provisions for credits deemed uncollectible and at least 50% provisions for credits with high uncollectibility.

Operating Expense. Operating expense consists of selling, general and administrative expense. Operating expense was NT$87.5 million (US$2.6 million) for the six months ended June 30, 2004, as compared with NT$88.5 million for the six months ended June 30, 2003.

Income Before Income Tax. As a result of the foregoing, income before income tax decreased 20.8% to NT$418.6 million (US$12.4 million) for the six months ended June 30, 2004 from NT$528.5 million for the six months ended June 30, 2003.

Taxation. Tax expense increased 128.0% to NT$105.8 million (US$3.1 million) for the six months ended June 30, 2004 from NT$46.4 million for the six months ended June 30, 2003, primarily due to increased income tax as a result of reclassification of net gains resulting from repurchase transactions to interest income/(losses) account pursuant to a change in the accounting treatment of such transactions as financing. The effective tax rate was 25.3% for the six months ended June 30, 2004 compared to 8.8% for the six months ended June 30, 2003. The low effective tax rate for the six months ended June 30, 2003 was primarily due to an reversal of tax provision in 2002 for an expected change in tax treatment of interest on government fixed-income treasuries that did not materialize.

Net Income. As a result of the foregoing, net income decreased 35.1% to NT$312.8 million (US$9.3 million) for the six months ended June 30, 2004 from NT$482.1 million for the six months ended June 30, 2003.

Years Ended December 31, 2003 and December 31, 2002

Total Net Operating Revenue. Total net operating revenue was NT$1,021.9 million (US$30.4 million) in 2003, compared to NT$1,028.5 million in 2002.

- *Net Interest Income.* Interest income increased 4.5% to NT$178.0 million (US$5.3 million) in 2003 from NT$170.4 million in 2002, primarily due to a general increase in the outstanding balance of short-term negotiable instruments and long-term bonds on our balance sheet. Interest expense decreased 10.3% to NT$111.1 million (US$ 3.3 million) in 2003 from NT$123.8 million in 2002, primarily due to a general decline in the cost of funds as a result of the decline in the interest rate of inter-bank loans. As a result of the foregoing, the net interest income increased 43.6% to NT$66.9 million (US$2.0 million) in 2003 from NT$46.6 million in 2002.

- *Net Fee Income.* Fee income consists primarily of fee income on guarantee fee, fee income from underwriting activities and fee income on certification fee. Net fee income decreased 3.9% to NT$154.6 million (US$4.6 million) in 2003 from NT$160.9 million in 2002, primarily due to a decrease in underwriting activities. Guarantee fee income increased 1.9% to NT$74.4 million in 2003 from NT$73.0 million in 2002. Certification fee income increased 7.5% to NT$11.5 million in 2003 from NT$10.7 million in 2002. Fee income from underwriting activities decreased 7.8% to NT$77.0 million in 2003 from NT$83.5 million in 2002.

- *Net Gain on Sale of Short-Term Negotiable Instruments.* Net gain on sale of short-term negotiable instruments decreased 2.5% to NT$800.4 million (US$23.8 million) in 2003 from NT$820.9 million in 2002, primarily due to the decrease in the volume of transactions of government bonds as a result of the slowdown in the market.

Provisions. Provisions consist primarily of provisions for guarantee and provisions for trading loss. The provisions account recorded a reversal of NT$10.6 million (US$0.3 million) in 2003 from a provision of NT$187.9 million in 2002, primarily due to lower discretionary provisions taken in 2003.

Operating Expense. Operating expense consists of selling, general and administrative expense. Operating expense increased 15.7% to NT$160.8 million (US$4.8 million) in 2003 from NT$139.0 million in 2002. The increase in operating expense was primarily due to an increase in expenses for employee salaries and benefits.

Income before income tax. As a result of the foregoing, total operating income increased 24.2% to NT$871.7 million (US$25.9 million) in 2003 from NT$701.6 million in 2002, primarily due to the decrease in provisions to nil in 2003.

Taxation. Tax expense reversed to a tax benefit of NT$94.5 million (US$2.8 million) in 2003 from a tax expense of NT$130.7 million in 2002, primarily due to a reversal in 2003 of the substantial increase in tax expense that were taken in 2002 for an expected change in tax treatment of interest on government fixed-income treasuries that did not materialize.

Net Income. As a result of the foregoing, net income increased 69.2% to NT$966.2 million in 2003 from NT$570.9 million in 2002.

Years Ended December 31, 2002 and December 31, 2001

Total Net Operating Revenue. Total net operating revenue decreased 19.8% to NT$1,028.5 million in 2002 from NT$1,282.5 million in 2001.

- *Net Interest Income.* Interest income decreased 39.8% to NT$170.4 million in 2002 from NT$282.9 million in 2001, primarily due to a decrease in the average yield on interest-earning assets as a result of the general decline in market interest rates. Interest expense decreased 21.4% to NT$123.8 million in 2002 from NT$157.5 million in 2001, primarily due to a general decline in deposit interest rates. As a result of the foregoing, the net interest income decreased 62.9% to NT$46.6 million in 2002 from NT$125.4 million in 2001.

- *Net Fee Income.* Fee income consists primarily of fee income on guarantee fee, fee income from underwriting activities and fee income on certification fee. Net fee income increased 7.1% to NT$160.9 million in 2002 from NT$150.3 million in 2001, primarily due to an increase in guarantee fee income, certification fee income and fee income from underwriting activities. Guarantee fee income increased 3.0% to NT$73.0 million in 2002 from NT$70.9 million in 2001, primarily due to an increase in the volume of guarantee transactions. Certification fee income increased 9.2% to NT$10.7 million in 2002 from NT$9.8 million in 2001. Fee income from underwriting activities increased 6.6% to NT$83.5 million in 2002 from NT$78.3 million in 2001, primarily due to an increase in underwriting activities, notwithstanding the decline of the general market conditions.

- *Net Gain on Sale of Short-Term Negotiable Instruments.* Net gain on sale of short-term negotiable instruments decreased 18.1% to NT$820.9 million in 2002 from NT$1,002.4 million in 2001, primarily due to the decrease in the volume of transactions of government bonds as a result of the slowdown in the market.

Provisions for Loan Loss and Other Losses. Provisions for loan loss and other losses consist primarily of provisions for guarantee and provisions for trading loss. Provisions for loan loss and other losses decreased 53.6% to NT$187.9 million in 2002 from NT$405.1 million in 2001, primarily due to lower trading gain in 2002.

Operating Expense. Operating expense consists of selling, general and administrative expense. Operating expense decreased 9.7% to NT$139.0 million in 2002 from NT$153.9 million in 2001. The decrease in operating expense was primarily due to the decrease in the business tax expense as a result of a decrease in operating revenue in 2002, and the decrease in employee costs as a result of a reduction in the numbers of employees.

Income Before Income Tax. As a result of the foregoing, income before income tax decreased 3.0% to NT$701.6 million in 2002 from NT$723.5 million in 2001.

Taxation. Tax expense declined 63.2% to NT$130.7 million in 2002 from NT$354.7 million in 2001, primarily due to a substantial increase in tax expense in 2001 as a result of an expected change in tax treatment of interest on government fixed-income treasuries. The effective tax rate was 18.6% in 2002 compared to 49.0% in 2001.

Net Income. As a result of the foregoing, net income increased 54.8% to NT$570.9 million in 2002 from NT$368.8 million in 2001.

Financial Condition

Assets

E.Sun Bills Finance had total assets of NT$64,087.4 million (US$1,904.0 million) as of June 30, 2004, compared with total assets of NT$16,289.9 million as of June 30, 2003. The increase in total assets was primarily due to substantial increase in trading securities, particularly treasury bills and government bonds. Such substantial increase in trading securities is reflected in an increase in current assets, which increased 333.9% to NT$62,290.5 million (US$1,850.6 million) as of June 30, 2004 from NT$14,355.0 million as of June 30, 2003.

E.Sun Bills Finance had total assets of NT$18,074.4 million (US$537.0 million) as of December 31, 2003, compared with total assets of NT$10,065.1 million as of December 31, 2002. The increase in total assets was primarily due to substantial increase in trading securities, particularly negotiable certificates of deposit, and partially offset by a decrease in cash. Such increase in trading securities in 2003 is reflected in an increase in current assets, which increased 79.8% to NT$14,864.9 million (US$441.6 million) as of December 31, 2003 from NT$8,269.5 million as of December 31, 2002.

E.Sun Bills Finance had total assets of NT$10,065.1 million as of December 31, 2002, compared with total assets of NT$9,165.5 million as of December 31, 2001. The increase in total assets was primarily due to the growth in trading securities, particularly treasury bills and government bonds, and partially offset by a decrease in time deposits and pledged time deposits. Such increase in total assets in 2002 reflected a slight increase in current assets, which increased 2.6% to NT$8,269.5 million as of December 31, 2002 from NT$8,060.7 million as of December 31, 2001.

Liabilities

E.Sun Bills Finance had total liabilities of NT$58,414.5 million (US$1,735.4 million) as of June 30, 2004, compared with total liabilities of NT$10,775.0 million as of June 30, 2003. The increase was primarily due to the securities sold under agreement to repurchase in the amount of NT$43,132.3 million (US$1,281.4 million) as of June 30, 2004 as compared to nil as of June 30, 2003, and partially offset by a decrease in bank loans, which decreased to NT$8,880.0 million (US$263.8 million) as of June 30, 2004 from NT$9,970.0 million as of June 30, 2003, and a decrease in reserve for loss, which decreased to NT$542.8 million (US$16.1 million) as of June 30, 2004 from NT$647.4 million as of June 30, 2003.

E.Sun Bills Finance had total liabilities of NT$12,075.6 million (US$358.8 million) as of December 31, 2003, compared with total liabilities of NT$4,634.6 million as of December 31, 2002. The increase was primarily due to an increase in bank loans, which increased to NT$7,620.0 million (US$226.4 million) as of December 31, 2003 from NT$3,920.0 million as of December 31, 2002 and an increase in bonds payable to NT$3,000.0 million (US$89.1 million) as of December 31, 2003 from nil as of December 31, 2002, and partially offset by a decrease in reserve for loss, which decrease to NT$527.6 million (US$15.7 million) as of December 31, 2003 from NT$592.2 million as of December 31, 2002.

E.Sun Bills Finance had total liabilities of NT$4,634.6 million as of December 31, 2002, compared with total liabilities of NT$4,037.6 million as of December 31, 2001. The increase was primarily due to an increase in bank loans, which increased to NT$3,920.0 million as of December 31, 2002 from NT$3,330 million as of December 31, 2001, and an increase in reserve for loss, which increased to NT$592.2 million as of December 31, 2002 from NT$518.0 million as of December 31, 2001.

Contingent Liabilities and Commitment

As of June 30, 2004, contingent liabilities and commitments included NT$43.2 billion in commitments to repurchase bonds and securities and NT$18.1 billion in guarantees issued. We anticipate that not all of the above commitments will be utilized before the agreed upon expiration or other termination clauses. The amount of unused commitments therefore does not necessarily represent future funding requirements. As of June 30, 2004, the majority of the credit commitments expired within one year. Further, E.Sun Bills Finance's guarantee agreements generally have expiration periods of up to one year.

DESCRIPTION OF ASSETS AND LIABILITIES OF E.SUN BANK

Total Credit Exposure

As of June 30, 2004, E.Sun Bank had gross loans of NT$262.1 billion (US$7.8 billion). Total consumer loans increased to NT$158.3 billion (US$4.7 billion) as of June 30, 2004, as compared to NT$105.1 billion as of June 30, 2003, primarily due to an increase in E.Sun Bank's mortgage portfolio and a substantial increase in revolving credit card debt. E.Sun Bank's mortgage portfolio and credit card debt increased during this period as a result of focus on expanding its mortgage and credit card business. E.Sun Bank intends to increase its mortgage loan portfolio in the future as the real estate market in Taiwan recovers. Total corporate loan exposure remained relatively constant during the three year period ended December 31, 2003 but increased to NT$102.1 billion (US$3.0 billion) as of June 30, 2004.

As of December 31, 2003, KBB had gross loans of NT$21.3 billion (US$0.6 billion).

In addition to corporate loans, E.Sun Bank also extends credit to its corporate customers through guarantees and acceptances. In accordance with ROC GAAP, guarantees are recorded as off-balance sheet liabilities, while acceptances are recorded as on-balance sheet accounts receivable. Guarantees and acceptances increased at a compounded annual rate of 3.68% between December 31, 2001 and December 31, 2003 to NT$7.5 billion. Guarantees and acceptances are both included in total credit exposure for MOF reporting purposes. In addition to guarantees, E.Sun Bank has other contingent liabilities that are recorded as off-balance sheet items, including letters of credit, repurchase agreements and bills for collection.

E.Sun Bank extends various forms of credit, including consumer and corporate loans, guarantees and acceptances, which collectively represent each of E.Sun Bank's total credit exposure as reported to MOF. As of June 30, 2004, E.Sun Bank's total credit exposure was NT$269.2 billion.

The following table sets forth, as of the dates indicated, certain data on E.Sun Bank's total credit exposure as reported to MOF, including consumer loans by product, corporate loans, guarantees and acceptances, and the combined information.

	As of December 31,							As of June 30,		
	2001		2002		2003			2004		
	(in millions, except percentages)									
Loans and Other Credit Data:										
Mortgage loans	NT$ 64,083	33.0%	NT$ 61,020	32.2%	NT$ 87,392	US$2,596.3	38.9%	NT$110,734	US$3,289.8	41.1%
Personal loans(1)	20,664	10.6	19,842	10.5	22,110	656.9	9.8	25,364	753.5	9.4
Revolving credit card debt(2)	7,229	3.7	13,159	6.9	18,291	543.4	8.0	22,211	659.9	8.3
Total consumer loans	91,976	47.3	94,021	49.6	127,793	3,796.6	56.7	158,309	4,703.2	58.8
Corporate — NT dollar	74,630	38.4	65,010	34.3	65,586	1,948.5	29.2	74,678	2,218.6	27.7
Corporate — foreign exchange currencies	15,826	8.1	23,178	12.2	22,466	667.4	10.0	27,413	814.4	10.2
Total corporate loans	90,456	46.5	88,188	46.5	88,052	2,615.9	39.2	102,091	3,033.0	37.9
Total loans(3)	182,432	93.8	182,209	96.1	215,845	6,412.5	95.9	260,400	7,736.2	96.7
NALs(4)	5,058	2.6	2,138	1.1	1,677	49.8	0.7	1,741	51.7	0.6
Gross loans	187,490	96.4	184,347	97.2	217,522	6,462.3	96.6	262,141	7,787.9	97.4
Guarantees	6,503	3.3	4,912	2.6	6,594	195.9	2.9	6,199	184.2	2.3
Acceptances	509	0.3	340	0.2	943	28.0	0.5	833	24.7	0.3
Total guarantees and acceptances	7,012	3.6	5,252	2.8	7,537	223.9	3.4	7,032	208.9	2.6
Total credit exposure	NT$194,502	100.0%	NT$189,599	100.0%	NT$225,059	US$6,686.2	100.0%	NT$269,173	US$7,996.8	100.0%

(1) Includes cash cards and automobile loans.

(2) Includes revolving credit card debt, mail loans and other loan products for credit card customers. Revolving credit card debt is accounted for as an accounts receivable on E.Sun Bank's balance sheet.

(3) The amount of total loans and related numbers set out for the relevant periods does not correspond with the amount set out in the unconsolidated financial statements of E.Sun Bank as the amount expressed herein exclude the portion of NPLs attributable to credits and include revolving credit card debt.
(4) NALs as classified by E.Sun Bank are loans on which an interest or principal payment is overdue by more than six months.

Interest Rates on Loans

The following table sets forth, for the periods indicated, the average interest rates charged on E.Sun Bank's consumer loan portfolio and corporate loan portfolio.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2001	2002	2003	2003	2004
	(percent per annum)				
Type of Consumer Loans:					
Mortgage loans	6.5%	4.4%	2.8%	3.5%	2.8%
Personal loans (excluding cash cards)	8.6	7.9	6.4	7.1	5.5
Revolving credit card debt	19.0	19.7	19.7	19.7	19.7
Cash cards	—	18.3	18.3	18.3	18.3
Type of Corporate Loans:					
Corporate — NT dollar	—	4.1	3.3	3.6	2.9
Corporate — foreign exchange currencies	5.9	3.3	2.5	2.7	2.4

Customer Concentration

Under MOF's policies pursuant to the ROC Banking Law, Taiwan banks are restricted from maintaining financial exposure to any single person or related persons in excess of certain prescribed percentages of the bank's total net worth. The amount of the percentage limitation is based on whether the customer is a government-owned entity, corporate entity or an individual, and whether the loans are secured or unsecured. In addition to MOF's exposure limits on customers, E.Sun Bank's credit policies have prescribed limits, which are, in certain cases, stricter than those mandated by the MOF.

As of June 30, 2004, no loan exposure to a single customer or a single customer group, which is defined as a customer and all of its related persons, exceeded 0.9% of E.Sun Bank's total credit exposure. E.Sun Bank's loan exposures to its ten largest single customers, as of June 30, 2004, did not in the aggregate exceed 5.3% of E.Sun Bank's total credit exposure. In addition, E.Sun Bank's loan exposures to its ten largest customer groups, as of June 30, 2004, did not in the aggregate exceed 6.1% of E.Sun Bank's total credit exposure.

E.Sun Bank extends loans of varying principal amounts. As of June 30, 2004, 48.9% of E.Sun Bank's total loans comprised loans with principal amounts of less than NT$5.0 million. Loans under NT$5.0 million consist primarily of consumer loans, while loans greater than NT$5.0 million consist primarily of corporate loans.

The following table sets forth, as of the dates indicated, certain data on E.Sun Bank's total loans (excluding NALs, bills and discounts) by principal amount.

	As of December 31,					As of June 30,		
	2001	2002	2003			2004		
	(in millions, except percentages)							
Principal Amount:								
Up to NT$1 million.	NT$ 12,437	NT$ 16,330	NT$ 23,397	US$ 695.1	11.8%	NT$ 28,106	US$ 835.0	11.8%
Over NT$1 million and up to NT$5 million	51,038	49,553	70,998	2,109.3	35.9	88,481	2,628.7	37.1
Over NT$5 million and up to NT$10 million	17,016	13,638	17,027	505.8	8.6	22,115	657.0	9.3
Over NT$10 million and up to NT$50 million	30,607	24,656	27,402	814.1	13.9	32,522	966.2	13.6
Over NT$50 million and up to NT$100 million	14,617	13,361	12,770	379.4	6.5	14,693	436.5	6.2
Over NT$100 million and up to NT$500 million	34,424	37,090	35,854	1,065.2	18.2	42,062	1,249.6	17.7
Over NT$500 million.	15,064	14,422	10,106	300.2	5.1	10,210	303.3	4.3
Total loans[(1)]	NT$175,203	NT$169,050	NT$197,554	US$5,869.1	100.0%	NT$238,189	US$7,076.3	100.0%

(1) Total loans, bills and discounts are as stated in E.Sun Bank's financial statements, excluding bills, for the period indicated.

Loans by Maturity

As of June 30, 2004, approximately 25.5% of E.Sun Bank's total loans had maturities of one year or less. Substantially all of E.Sun Bank's short-term loans are renewed at maturity, subject to relevant loan review procedures. E.Sun Bank actively manages the maturity profile of its loan portfolio as part of the management of its exposure to changes in market interest rates and its funding and liquidity requirements. Although E.Sun Bank has a significant amount of loans with maturities of more than one year, substantially all of E.Sun Bank's loans have been either floating rate loans or loans that re-price within a period of less than one year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — E.Sun Bank."

The following table sets forth, as of the dates indicated, certain data on E.Sun Bank's total loans (excluding NALs, bills and discounts) by maturity.

	As of December 31,					As of June 30,		
	2001	2002	2003			2004		
	(in millions, except percentages)							
Maturity:								
Due in 3 months or less	NT$ 36,515	NT$ 32,244	NT$ 27,144	US$ 806.4	13.7%	NT$ 29,130	US$ 865.4	12.2%
Due between 3 months and less than 6 months	13,805	13,636	11,581	344.1	5.9	14,665	435.7	6.2
Due between 6 months and less than 1 year	16,080	10,980	12,353	367.0	6.3	16,960	503.8	7.1
Due 1 year or more	108,803	112,190	146,476	4,351.6	74.1	177,434	5,271.4	74.5
Total loans[(1)]	NT$175,203	NT$169,050	NT$197,554	US$5,869.1	100.0%	NT$238,189	US$7,076.3	100.0%

(1) Total loans, bills and discounts are as stated in E.Sun Bank's financial statements, excluding bills, for the period indicated.

Secured Loans by Collateral Type

As of June 30, 2004, the amount of E.Sun Bank's total loans fully secured by collateral was approximately NT$139.8 billion, or 58.7% of total loans. E.Sun Bank typically obtains a first priority security interest in collateral, although E.Sun Bank may, in limited circumstances, accept a junior ranked security interest. The types of collateral accepted by E.Sun Bank include real estate, marketable securities, deposits and other appraisable items, with real estate constituting the most prevalent type of collateral. Typically, E.Sun Bank uses a qualified in-house appraisal team, which applies various valuation methodologies to appraise collateral. For movable assets, E.Sun Bank may use external appraisers when necessary. In most cases, E.Sun Bank's appraisal of real estate collateral is recorded at a discount to market, typically between 60% to 80% of market value. Publicly-traded securities used as collateral are usually valued at 60% of the lower of (x) the previous day's closing price or (y) the average closing price of the last three months. Non-publicly traded securities used as collateral are usually valued no more than 60% of the par value of the securities if (x) the paid-in capital exceeds NT$100 million and the capital profit ratio exceeds 6% or (y) paid-in capital exceeds NT$2 billion.

E.Sun Bank monitors the value of its borrowers' collateral and performs appraisal valuations to determine the value of such collateral. The frequency of such appraisal valuations depends on the collateral type. For example, listed equity securities are appraised on a daily basis whereas real estate properties are appraised every two years after the appraisal conducted at the time the borrower applies for extension of credit line or repayment schedule or applies for new loans secured by the same real estate properties. At any time when E.Sun Bank believes there has been a significant drop in the value of the collateral, E.Sun Bank will reassess and mark-to-market the value of the collateral. E.Sun Bank typically requires borrowers whose collateral value declines to a certain level to provide E.Sun Bank with additional collateral or to repay a portion or the entire amount of the loan.

The following table sets forth, for the periods indicated, certain data on the amount of E.Sun Bank's loans secured by each type of collateral and the valuation of such collateral. Loans that are not secured by collateral are classified as unsecured whereas partially secured loans are reflected in the table to the extent of the loan amounts secured by the values of their respective collateral.

	For the Year Ended December 31, 2003			For the Six Months Ended June 30, 2004		
	Amount		%	Amount		%
	(in millions, except percentages)					
Collateral Type:						
Real estate	NT$105,445	US$3,132.7	53.4%	NT$129,876	US$3,858.4	54.5%
Securities	1,210	35.9	0.6	965	28.7	0.4
Deposit receipt	471	14.0	0.2	512	15.2	0.2
Others(1)	7,543	224.1	3.8	8,474	251.8	3.6
Total secured	114,669	3,406.7	58.0	139,827	4,154.1	58.7
Unsecured	82,885	2,462.4	42.0	98,362	2,922.2	41.3
Total loans(2)	NT$197,554	US$5,869.1	100.0%	NT$238,189	US$7,076.3	100.0%

(1) Includes collateral consisting of guarantees issued by companies and guarantees by the Small and Medium Business Credit Guarantee Fund.

(2) Total loans, bills and discounts are as stated in E.Sun Bank's financial statements, excluding bills, for the period indicated.

Corporate Loan Exposure

Loans to the financial industry (which includes financial institutions and investment companies), electronics and trading and retail sectors constitute E.Sun Bank's three largest areas of concentration, representing 20.7%, 15.0% and 14.0%, respectively, of E.Sun Bank's total corporate loans as of June 30, 2004. Although there are no MOF policies limiting industry concentration, E.Sun Bank has internal policies on maintaining a diversified portfolio. However, due to an increase in credit link loan exposure to foreign banks, E.Sun Bank has steadily increased its exposure to the financial industry from 2001 to the first half of 2004. E.Sun Bank reports its industry concentration exposure to the Central Bank of China on a monthly basis. E.Sun Bank sets internal guidelines annually limiting its exposure to certain sectors and monitors such exposure periodically.

The following table sets forth, as of the dates indicated, certain data on each of E.Sun Bank's total corporate loan exposure, classified in accordance with the Central Bank of China industry classification.

	As of December 31,							As of June 30,		
	2001		2002		2003			2004		
	Amount	%	Amount	%	Amount		%	Amount		%
	(in millions, except percentages)									
Industry:										
Services	NT$41,426	45.8%	NT$42,516	48.2%	NT$41,537	US$1,234.0	47.1%	NT$ 46,430	US$1,379.4	45.5%
Financial	12,035	13.3	20,455	23.2	19,361	575.2	22.0	21,188	629.5	20.7
Trading and retail	9,355	10.4	9,159	10.4	11,617	345.1	13.2	14,244	423.2	14.0
Real estate and construction	19,735	21.8	11,602	13.1	9,373	278.5	10.6	10,001	297.1	9.8
Telecommunication/Internet	301	0.3	1,300	1.5	1,186	35.2	1.3	997	29.6	1.0
Manufacturing	24,055	26.6	23,088	26.2	29,111	864.9	33.1	36,834	1,094.3	36.1
Electronics	8,588	9.5	7,952	9.0	10,930	324.7	12.4	15,284	454.1	15.0
Steel	3,615	4.0	3,228	3.7	4,198	124.7	4.8	4,927	146.4	4.8
Petrochemicals	1,528	1.7	1,723	1.9	2,193	65.1	2.5	2,580	76.6	2.5
Textiles	1,463	1.6	840	1.0	844	25.1	1.0	1,311	38.9	1.3
Other manufacturing	8,861	9.8	9,345	10.6	10,946	325.2	12.4	12,732	378.3	12.5
Government enterprises	13,420	14.8	7,240	8.2	2,460	73.1	2.8	2,457	73.0	2.4
Others	11,555	12.8	15,344	17.4	14,944	444.0	17.0	16,370	486.3	16.0
Total corporate loans	NT$90,456	100.0%	NT$88,188	100.0%	NT$88,052	US$2,615.9	100.0%	NT$102,091	US$3,033.0	100.0%

Asset Quality

Loan Classification

Under the current MOF guidelines, the asset quality of the outstanding loans extended by banks is classified into four categories. These classifications are used for reporting purposes and to calculate the minimum amount for loan loss provisions. The four categories of loans and the criteria for each category are as follows:

Class	Category	Classification
I	Normal	Normal loans with no payment difficulties.
II	Substandard	Loans experiencing payment difficulties but can be recovered in full.
III	Doubtful	Loans experiencing payment difficulties and the recovery of the total amount due is doubtful.
IV	Unrecoverable	Loans experiencing payment difficulties and the recovery of the total amount due is extremely unlikely.

In classifying its loans pursuant to current MOF guidelines, E.Sun Bank considers relevant quantitative and qualitative factors, including the borrower's financial condition and earnings capabilities, the borrower's management and operation of business, the payment history of the loan, the status of any collateral or guarantees and the market conditions affecting the borrower.

Under the current MOF guidelines, E.Sun Bank must set aside a minimum specific allowance of 50.0% against loans of Class III and 100.0% against loans of Class IV. No specific allowance is required for loans of Class II.

In January 2004, MOF issued new guidelines regarding loan classification and provision. Under the new guidelines, after July 1, 2005, banks will be required to reclassify their loans into five categories (from the current four categories) based on asset quality. Banks will also be required to set aside a minimum specific allowance of 2% of "Special Mention" loans, 10% of "Substandard" loans, 50% of "Doubtful" loans and 100% of "Unrecoverable" loans. The new categories of loans and the criteria for each category are as follows:

Class	Category	Classification
I	Normal	Normal loans with no payment difficulties.
II	Special Mention	Fully-secured loans with respect to which principal or interest payments are overdue for more than one month but less than 12 months; unsecured loans with respect to which principal or interest payments are overdue for more than one month but less than three months; or loans not yet matured with the counterparty defaulting in other credits.
III	Substandard	Fully-secured loans with respect to which principal or interest payments are overdue for 12 months or more; or unsecured loans with respect to which principal or interest payments are overdue for more than three months but less than six months.
IV	Doubtful	Unsecured loans with respect to which principal or interest payments are overdue for more than six months but less than 12 months.
V	Unrecoverable	Unsecured loans with respect to which principal or interest payments are overdue for 12 months or more, or the recovery of which is extremely unlikely.

The following table sets forth, as of the dates indicated, the NT dollar amount of outstanding loans in each of the above Classes I, II, III and IV in E.Sun Bank.

	As of December 31,							As of June 30,		
	2001		2002		2003			2004		
	Amount	%	Amount	%	Amount		%	Amount		%
	(in millions, except percentages)									
Categories:										
Class I.	NT$168,923	93.4%	NT$168,138	97.6%	NT$198,038	US$5,883.5	98.4%	NT$238,628	US$7,089.4	98.7%
Class II	10,052	5.6	4,006	2.3	2,792	83.0	1.4	2,885	85.7	1.2
Class III.	1,616	0.9	135	0.1	365	10.8	0.2	168	5.0	0.1
Class IV.	268	0.1	37	0.0	45	1.3	0.0	31	0.9	0.0
Gross loans	NT$180,859	100.0%	NT$172,316	100.0%	NT$201,240	US$5,978.6	100.0%	NT$241,712	US$7,181.0	100.0%

As of June 30, 2004, 0.1% and 0.0% of E.Sun Bank's gross loans were classified in the Class III and Class IV loan categories, respectively. As of December 31, 2003, 0.2% and 0% of E.Sun Bank's gross loans were classified in the Class III and Class IV loan categories, respectively. Class III and Class IV loans decreased to NT$199 million as of June 30, 2004 from NT$410 million as of December 31, 2003.

Non-Performing Loans

E.Sun Bank defines NPLs as overdue loans required to be reported to MOF in accordance with MOF guidelines, which include:

- in the case of short-term loans with bullet payments, loans with respect to which principal is three months or more overdue or interest is six months or more overdue;

- in the case of mid- and long-term installment loans, loans with respect to which interim payments of principal or interest are six months or more overdue or the final payment is three months or more overdue; or

- loans with respect to which E.Sun Bank has taken legal action for repayment or liquidation of collateral prior to the maturity of such loans.

Under MOF's guidelines of January 2004, starting from July 1, 2005, NPLs will include (i) loans for which the most recent payment of principal or interest is overdue for three months and (ii) loans with respect to which a bank has initiated legal proceedings to recover payment or liquidate collateral.

As of June 30, 2004, E.Sun Bank's NPLs totaled NT$2.4 billion, or 0.98% of gross loans.

In 2002, in an attempt to further strengthen its assets quality and to reduce its broad-based NPL ratio, E.Sun Bank wrote off NT$8,949.3 million in loans.

In 2003, KBB wrote off NT$6.0 billion of NPLs. In addition, KBB disposed a substantial majority of its NPLs in the face amount of NT$32.7 billion (including NT$10.6 billion of loans that were previously written-off) in June 2003. As of December 31, 2003, KBB had NT$2.9 billion of broad-based NPLs remaining on its balance sheet. In line with our risk management policies, we intend to make additional provisions in the range of approximately NT$0.8 billion to NT$1.3 billion in respect of KBB's NPLs.

In addition, MOF recently required banks in Taiwan to report the loans under surveillance, which include:

- in the case of mid- and long-term installment loans, loans with respect to which interim payments of principal or interest are more than three months (inclusive) but less than six months overdue;
- in the case of loans other than mid- and long-term installment loans, loans with respect to which interim payments of principal are three months or less overdue but the interim payments of interest are more than three months (inclusive) but less than six months overdue; or
- loans which meet the above criteria of NPLs to be reported to MOF but are exempt from such reporting requirement pursuant to MOF rules (which include, among others, restructured loans meeting the criteria set forth by MOF).

Under the MOF's guidelines, starting from June 2003, banks with NPL ratio of 5% or below will be entitled to more favorable treatment when applying to the MOF to move domestic branches, for approval of new business lines or setting up new ATMs or back offices, for approval to move or remove existing ATMs and back offices or to conduct business activities in the PRC. In addition to the foregoing, banks with NPL ratios of 2.5% or below will be entitled to more favorable treatment when apply to the MOF to set up new overseas and PRC branches, to switch existing branches to sub-branches, to invest in financial institutions related businesses and to conduct restricted mutual fund business.

Starting from year-end 2003, banks with NPL ratio above 5% will be subject to certain requirements and disciplinary actions, including orders by the MOF to improve their NPL ratios within a certain period, prohibitions from establishing new domestic or overseas branches and restrictions from paying remuneration to directors and supervisors. In addition to the foregoing, banks with NPL ratios above 15% will be subject to further requirements and disciplinary actions, including restrictions from engaging in high-risk businesses or taking deposits and borrowing money with high interest rates and being ordered to dissolve one or more branches.

NALs are loans on which E.Sun Bank has stopped accruing interest. E.Sun Bank classifies its overdue loans as NALs if they are loans for which the most recent payment is overdue by more than six months. In addition, loans in respect of which the most recent payment is overdue by less than six months may be classified as an NAL at the discretion of the individual loan officer. As of June 30, 2004, E.Sun Bank's NALs totaled NT$1.7 billion, or 0.72% of gross loans.

E.Sun Bank's write-off policies for certain consumer products are as follows: (1) personal unsecured loans and second mortgage loans are written off after such loans remain overdue for 180 days; (2) a credit card debt is written off after such debt remains overdue for 180 days; and (3) a cash card debt is written off after such debt remains overdue for 180 days. Corporate loans are generally written off within two years after principal and interest payments are overdue if such loans are considered uncollectible.

NPLs or NALs meeting the following criteria will, after deducting the recoverable portions, be written off:

- the loans cannot be fully recovered by the reason of disappearance, dissolution, composition, declaration of bankruptcy, or other reason of the borrowers;
- the appraised value of the collateral of the loans or the properties of the borrowers or guarantors is too low, and E.Sun Bank may not have actual benefit from foreclosure or compulsory execution of the collateral or the properties;
- the collateral of the loans or the properties of the borrowers or guarantors have been auctioned several times without success and E.Sun Bank has no actual benefit from assuming the auctioned collateral and properties; or
- such NPLs or NALs are two years overdue and are not recovered after enforcement.

In addition, NPLs or NALs are overdue for a period over six months but less than two years and are not recovered after enforcement may, after deducting the recoverable portions, be written off.

E.Sun Bank continually evaluates the asset quality of its loan portfolio and periodically provides allowance for potential loan loss. The following table sets forth, for the periods indicated, changes in E.Sun Bank's allowance for loan and other losses and certain credit quality ratios for the periods indicated.

	As of and for the Year Ended December 31,				As of and for the Period Ended June 30,	
	2001	2002	2003		2004	
	(in millions, except percentages)					
Asset Quality Data:						
Beginning NPLs	NA	NT$ 5,123	NT$ 2,383	US$70.8	NT$ 2,381	US$ 70.7
Plus: New NPL	NA	7,846	2,526	75.0	1,353	40.2
Less: Restructured loans	NA	(17)	—	—	—	—
Less: Payment received	NA	(1,620)	(1,744)	(51.8)	(665)	(19.8)
Less: Gross write-offs	NA	(8,949)	(784)	(23.3)	(712)	(21.1)
Ending NPLs	NT$ 5,123	NT$ 2,383	NT$ 2,381	US$ 70.7	NT$ 2,357	US$ 70.0
Allowance for possible loss on loans — beginning balance	NT$ 1,610	NT$ 1,514	NT$ 1,541	US$45.8	NT$ 2,170	US$64.5
Plus (less): (Reversal of provisions) Provisions for loan loss	1,945	8,818	(392)	(11.7)	(238)	(7.1)
Less: Gross write-offs	(2,082)	(8,949)	(784)	(23.3)	(712)	(21.1)
Plus: Recoveries	41	158	1,808	53.7	711	21.1
Effects of exchange rate changes	—	—	(3)	(0.0)	—	—
Allowance for possible loss on loans — ending balance	1,514	1,541	2,170	64.5	1,931	57.4
Allowance for receivables and reserve for guarantees(1)	277	398	453	13.4	411	12.2
Allowance for possible loss on loans and other losses	NT$ 1,791	NT$ 1,939	NT$ 2,623	US$77.9	NT$ 2,342	US$ 69.6
Gross loans(2)	NT$180,859	NT$172,316	NT$201,240	US$5,978.6	NT$241,712	US$7,181.0
Total credit exposure	194,502	189,599	225,059	6,686.2	269,173	7,996.8
NALs	5,058	2,138	1,677	49.8	1,741	51.7
NPLs	5,123	2,383	2,381	70.7	2,357	70.0
Surveillance loans	NA	1,801	821	24.4	725	21.5
Broad-based NPLs(3)	NA	4,184	3,202	95.1	3,082	91.6
Net write-offs/(recoveries)(4)	2,041	8,791	(1,024)	(30.4)	1	0.0
Asset Quality Ratios:						
NAL ratio(5)	2.80%	1.24%	0.83%		0.72%	
NPL ratio(6)	2.83%	1.38%	1.18%		0.98%	
Surveillance loans ratio(7)	NA	1.05%	0.41%		0.30%	
Provisions for loan loss/gross loans	1.08%	5.12%	(0.19)%		(0.10)%	
Gross write-offs to gross loans(8)	1.15%	5.19%	0.39%		0.29%	
Gross write-offs to NPLs(9)	40.6%	375.5%	32.9%		30.2%	
Allowance for possible loss on loans/gross loans	0.84%	0.90%	1.09%		0.80%	
Allowance for possible loss on loans and other losses/total credit exposure	0.92%	1.02%	1.17%		0.87%	
Allowance for possible loss on loans/NPLs	29.6%	64.7%	91.1%		81.9%	
Allowance for possible loss on loans/broad-based NPLs	NA	36.8%	67.8%		62.6%	

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(1) Consists of allowance for accounts receivable and interest receivable and reserve for guarantees.
(2) Includes loans, discounts, bills purchased and overdue loans before the deduction of allowance for possible losses.
(3) Defined as NPLs plus surveillance loans.
(4) Represents gross write-offs, net of recoveries.
(5) Defined as NALs divided by gross loans.
(6) Defined as NPLs divided by gross loans.
(7) Defined as surveillance loans divided by gross loans.
(8) Defined as gross write-offs for the period divided by the gross loans.
(9) Defined as gross write-offs for the period divided by the NPLs.

E.Sun Bank's total NPLs decreased substantially to NT$2,383 million in 2002 from NT$5,123 million in 2001 primarily due to an one-time write-off of NT$8,949 million in loans in 2002. Consumer NPLs as a percentage of total NPLs has decreased to 31.5% for the first half of 2004 from 49.2% for the year ended December 31, 2003, primarily due to E.Sun Bank's decision to write off more of its corporate NPLs relative to consumer NPLs. The following table sets forth, for the periods indicated, certain data on E.Sun Bank's NPLs by customer as categorized by corporate and consumer NPLs.

	As of December 31,							As of June 30,		
	2001		2002		2003			2004		
	Amount	%	Amount	%	Amount		%	Amount		%
	(in millions, except percentages)									
NPLs by Customers:										
Corporate NPLs	NT$1,580	30.8%	NT$ 756	31.7%	NT$1,210	US$35.9	50.8%	NT$1,614	US$47.9	68.5%
Consumer NPLs	3,543	69.2	1,627	68.3	1,171	34.8	49.2	743	22.1	31.5
Total NPLs	NT$5,123	100.00%	NT$2,383	100.00%	NT$2,381	US$70.7	100.0%	NT$2,357	US$70.0	100.00%

The following table sets forth, for the dates indicated, information on E.Sun Bank's ten largest NPLs.

	As of December 31, 2003			As of June 30, 2004		
	NPLs Outstanding		% of NPLs Outstanding	NPLs Outstanding		% of NPLs Outstanding
	(in millions, except percentages)					
Customer A	NT$ 775	US$23.0	32.6%	NT$ 538	US$16.0	22.8%
Customer B	121	3.6	5.1	278	8.3	11.8
Customer C	57	1.7	2.4	229	6.8	9.7
Customer D	56	1.7	2.4	196	5.8	8.3
Customer E	48	1.4	2.0	121	3.6	5.1
Customer F	38	1.1	1.6	57	1.7	2.4
Customer G	34	1.0	1.4	33	1.0	1.4
Customer H	32	1.0	1.3	28	0.8	1.2
Customer I	31	0.9	1.3	28	0.8	1.2
Customer J	28	0.8	1.2	25	0.7	1.1
Ten largest NPLs	NT$1,220	US$36.2	51.3%	NT$1,533	US$45.5	65.0%

The following table sets forth, for the dates indicated, the types of property, if any, by which E.Sun Bank's NPLs are collateralized. As of June 30, 2004, the value of the collaterals pledged in respect of the NPLs was equal to NT$2,087 million, or 88.5% of the NPL loan amount.

	As of December 31, 2003			As of June 30, 2004		
	(in millions, except percentages)					
Breakdown of NPLs Based on Collateral:						
Real estate	NT$1,985	US$59.0	83.3%	NT$1,994	US$59.2	84.6%
Machinery	—	—	—	—	—	—
Securities	57	1.7	2.4	—	—	—
Others	92	2.7	3.9	93	2.8	3.9
Unsecured	247	7.3	10.4	270	8.0	11.5
Total NPLs	NT$2,381	US$70.7	100.0%	NT$2,357	US$70.0	100.0%

Aging Analysis of Loans

The following table sets forth, for the periods indicated, an aging schedule of E.Sun Bank's loan portfolio indicating the number of days that either an interest or principal payment is overdue.

	As of December 31,							As of June 30,		
	2001		2002		2003			2004		
	Amount	%	Amount	%	Amount		%	Amount		%
	(in millions, except percentages)									
Loan Aging Schedule:										
0 days–89 days	NT$170,814	94.4%	NT$169,107	98.1%	NT$199,045	US$5,913.4	98.9%	NT$239,512	US$7,115.6	99.1%
90 days–179 days	2,175	1.2	1,046	0.6	528	15.7	0.3	480	14.3	0.2
180 days or more	7,870	4.4	2,163	1.3	1,667	49.5	0.8	1,720	51.1	0.7
Gross loans[(1)]	NT$180,859	100.0%	NT$172,316	100.0%	NT$201,240	US$5,978.6	100.0%	NT$241,712	US$7,181.0	100.0%

(1) Include loan, discount and overdue loans before the deduction of allowance for possible losses.

Restructured Loans

As of June 30, 2004, E.Sun Bank had NT$205.2 million of restructured loans which are currently not classified as NPLs.

The following table sets forth, as of the dates indicated, data on E.Sun Bank's restructured and rescheduled loans.

	As of December 31, 2003			As of June 30, 2004		
	Amount		Number of Accounts	Amount		Number of Accounts
	(in millions)			(in millions)		
Corporate loans	NT$242	US$7.2	3	NT$197	US$5.9	3
Consumer loans	9	0.3	6	8	0.2	7
Total restructured loans	NT$251	US$7.5	9	NT$205	US$6.1	10

Sale of Certain Loans

To further improve the asset quality of its loan portfolio and to better manage its NPLs, E.Sun Bank sold to Taiwan Asset Management Co. NPLs with an original face value of NT$1.4 billion in March 2003. There can be no assurance that any of E.Sun Bank's loans will be sold to in the future and, if NPLs are sold, there can be no assurance that the price received will not result in additional losses.

Short-term Investments

E.Sun Bank's short-term investments increased 3.0% to NT$51.9 billion as of June 30, 2004 from NT$50.4 billion as of June 30, 2003. The increase in short-term investments was primarily due to increased investments in overseas securities to NT$22.1 billion as of June 30, 2004 from NT$15.5 billion as of June 30, 2003.

According to ROC GAAP, short-term investments are carried at the lower of amortized cost or market value. The following table sets forth, as of the dates indicated, certain data on E.Sun Bank's short-term investment portfolio.

	As of December 31,							As of June 30,		
	2001		2002		2003			2004		
	Amount	%	Amount	%	Amount		%	Amount		%
	(in millions, except percentages)									
Type of Investment:										
Overseas securities . . .	NT$ 9,300	25.3%	NT$ 12,000	30.9%	NT$ 20,953	US$ 622.5	57.8%	NT$22,111	US$ 656.9	42.6%
Commercial paper[1] . .	7,420	20.2	8,355	21.5	919	27.3	2.5	649	19.3	1.2
Government bond	12,894	35.1	6,526	16.8	5,877	174.6	16.2	16,006	475.5	30.8
Marketable equity securities[2]	3,461	9.4	3,715	9.5	3,007	89.4	8.3	3,169	94.2	6.1
Corporate bond and bank debentures . . .	3,799	10.3	1,426	3.7	506	15.0	1.4	208	6.2	0.4
Certificates of deposit .	—	—	6,950	17.8	5,000	148.5	13.8	9,800	291.1	18.9
Total	36,874	100.3	38,972	100.2	36,262	1,077.3	100.0	51,943	1,543.2	100.0
Allowance for decline in market value	(122)	(0.3)	(86)	(0.2)	—	—	—	—	—	—
Total short-term investments, net . .	NT$36,752	100.0%	NT$38,886	100.0%	NT$36,262	US$1,077.3	100.0%	NT$51,943	US$1,543.2	100.0%

(1) Includes bank acceptances and commercial paper (excluding commercial paper purchased for resale).
(2) Includes common stock and mutual funds.

Long-term Investments

In addition to short-term investment portfolio, E.Sun Bank holds other securities for long-term investment. E.Sun Bank has acquired directly and indirectly significant and, in some instances, controlling interests in other companies. Long-term investment decisions are made by E.Sun Bank based on business factors as well as the prospects of the companies involved. Long-term investment decisions require the approval of the board of directors of E.Sun Bank.

As of June 30, 2004, E.Sun Bank's long-term investments in listed stocks were NT$2,464.6 million. For the six months ended June 30, 2004, E.Sun Bank had NT$98.3 million in unrealized losses on its long-term investments.

Funding

As commercial banks were prohibited from issuing corporate bonds prior to the 2000 amendments to the ROC Banking Law, deposits have traditionally been the principal source of E.Sun Bank's funding for use in lending and other general business purposes. E.Sun Bank's other sources of funding include interbank placements (borrowings) from the interbank markets.

The following table sets forth, as of the dates indicated, certain data on the outstanding balances of E.Sun Bank's deposits by type.

	As of December 31,							As of June 30,		
	2001		2002		2003			2004		
	Amount	%	Amount	%	Amount		%	Amount		%
	(in millions, except percentages)									
Type of Deposit:										
Checking	NT$ 2,308	1.0%	NT$ 2,609	1.2%	NT$ 3,050	US$ 90.6	1.2%	NT$ 3,357	US$ 99.7	1.2%
Demand	18,188	8.1	24,044	10.6	30,473	905.3	12.3	34,613	1,028.3	12.6
Savings — demand	39,256	17.4	47,282	20.9	59,528	1,768.5	24.1	66,124	1,964.5	24.1
Savings — time	78,464	34.9	76,890	34.1	76,989	2,287.3	31.2	72,674	2,159.0	26.4
Time	82,240	36.6	73,609	32.6	67,797	2,014.2	27.5	87,154	2,589.2	31.7
Negotiable certificates of deposits	4,530	2.0	1,255	0.6	9,145	271.7	3.7	10,875	323.1	4.0
Remittances	43	0.0	51	0.0	34	1.0	0.0	32	1.0	0.0
Total deposits	NT$225,029	100.0%	NT$225,740	100.0%	NT$247,016	US$7,338.6	100.0%	NT$274,829	US$8,164.8	100.0%

As of June 30, 2004, substantially all of E.Sun Bank's deposits had current maturities of one year or less or were payable on demand. However, a substantial portion of such deposits has been rolled over upon maturity or has been maintained by E.Sun Bank. Deposits have been a stable source of funding for E.Sun Bank. There can be no assurance, however, that deposits will continue to be rolled over in the future, and, to the extent that such deposits are not rolled over, E.Sun Bank will be required to obtain other sources of funding. See "Risk Factors — Risks Relating to E.Sun Bank — E.Sun Bank's financial condition may be adversely affected if it is unable to attract sufficient deposits to fund its anticipated loan growth and to grow its business."

The following table sets forth, as of the dates indicated, certain data on the respective amount of deposits of E.Sun Bank by maturity.

	As of December 31,							As of June 30,		
	2001		2002		2003			2004		
	Amount	%	Amount	%	Amount		%	Amount		%
	(in millions, except percentages)									
Maturity:										
Due in 3 months or less	NT$15,582	6.9%	NT$ 14,852	6.6%	NT$ 64,887	US$1,927.7	26.2%	NT$ 67,539	US$2,006.5	24.6%
Due between 3 months and 6 months	147,408	65.5	137,714	61.0	113,083	3,359.6	45.8	127,675	3,793.1	46.4
Due between 6 months and 1 year	54,940	24.4	63,276	28.0	55,219	1,640.5	22.4	67,349	2,000.8	24.5
Due after 1 year	7,099	3.2	9,898	4.4	13,827	410.8	5.6	12,266	364.4	4.5
Total deposits	NT$225,029	100.0%	NT$225,740	100.0%	NT$247,016	US$7,338.6	100.0%	NT$274,829	US$8,164.8	100.0%

Following the lifting of regulatory restrictions on the issuance of bonds by banking institutions, E.Sun Bank issued subordinated debt of NT$2 billion and senior debt of NT$3 billion in August 2001 and subordinated debts of NT$1.7 billion in June 2002, and subordinated debt of NT$1.3 billion and senior debt of NT$2 billion in August 2002 with maturity ranging between 5 and 7 years. As of June 30, 2004, NT$5.0 billion of subordinated debt remained outstanding.

E.Sun Bank's board of directors has resolved in a meeting held on February 12, 2004 to, at its sole discretion, issue financial debentures in an amount up to NT$10 billion. The issuance of the entire NT$10 billion of financial debentures has been approved by the MOF. As of June 30, 2004, financial debentures in the amount of NT$5.0 billion have been issued and remain outstanding. E.Sun Bank may or may not issue any of the remaining NT$5 billion of financial debentures that have been approved by its board of directors.

Capital Adequacy

Under MOF's current regulations, capital adequacy is measured by risk-weighted capital ratios. Risk-weighted capital ratios are calculated as the percentage of the amount of Tier I and qualified Tier II and qualified and used Tier III capital less the sum of the book value of: (1) the investment in other banks qualified as Tier I capital and qualified Tier II and qualified and used Tier III capital held by E.Sun Bank for more than one year and (2) long-term investments in other enterprises, divided by risk-weighted assets.

Tier I capital is the core capital, which is the sum of common shares, non-cumulative perpetual preferred shares, non-cumulative subordinated debentures without a maturity date, advanced capital surplus, capital reserve (excluding reserve for fixed asset revaluations), legal and special reserves, retained earnings and losses less operating revenue and insufficient provisions for NPLs, the sum of minority interests and adjusted equity minus goodwill and treasury stock.

Tier II capital is the sum of cumulative perpetual preferred shares, cumulative subordinated debentures without a maturity date, reserve on fixed assets revaluations, 45% of unrealized long-term equity investment gain, operating reserve and allowance for loan loss (excluding those for specific losses), certain long-term subordinated debenture and non-perpetual preferred shares with a maturity of at least five years and convertible bonds. Qualified Tier II capital means the Tier II capital which can support credit risks and market risks.

Tier III capital comprises certain short-term subordinated debenture and non-perpetual preferred shares with a maturity of at least two years. Qualified and used Tier III capital means the Tier III capital which is actually used to support market risks.

Under MOF regulations prior to January 1, 2002, E.Sun Bank was not required to deduct operating reserve and insufficient allowance for loss from its retained earnings as Tier I capital nor treasury stock from its sum of minority interest and adjusted equity as Tier I capital. In addition, under the previous MOF regulations, unrealized gain on investment of securities were classified as Tier III capital. In addition, under the MOF regulations effective since December 9, 2003, non-cumulative subordinated debentures without a maturity date is required to be classified as Tier I capital and cumulative subordinated debentures without a maturity is required to be classified as Tier II capital.

Under MOF's current regulations, all banks in the ROC are required to maintain a total capital adequacy ratio of at least 8.0%. In addition, if a bank does not observe the above restrictions, a fine in the range from NT$2 million to NT$10 million may be imposed on the bank in breach of such regulations. If the capital adequacy ratio is between 6.0% and 8.0%, the distribution of dividends may not exceed 20.0% of earnings after tax and covering losses from previous years. If the capital adequacy ratio is below 6.0%, the distribution of dividends is entirely prohibited and MOF may take other action. E.Sun Bank's capital adequacy ratio was 9.61% as of June 30, 2004 and KBB's capital adequacy ratio was negative 91.76% as at December 31, 2003. E.Sun Bank's capital adequacy ratio will be adversely impacted by recognition, amortization and impairment of the goodwill arising from KBB acquisition. See "Business — Organizational Structure and Principal Subsidiaries — Recent Developments — Acquisition of KBB."

Under MOF guidelines, the risk-weighted capital adequacy ratio is the ratio of net qualified capital to risk-weighted assets. The total amount of the risk-weighted assets is the sum of (1) credit risk-weighted assets and (2) market risk capital assets, multiplied by 12.5. See "Regulation of the Taiwan Financial Services Industry" for a more detailed discussion of the regulations affecting E.Sun Bank.

The following table sets forth, as of the dates indicated, a summary of E.Sun Bank's capital base and its capital adequacy ratios.

	As of December 31,				As of June 30,	
	2001(1)	2002(2)	2003(2)		2004(3)	
	(in millions, except percentages)					
Tier I Capital:						
Common stock	NT$ 18,175	NT$ 18,175	NT$ 18,175	US$ 540.0	NT$ 18,175	US$ 540.0
Capital surplus	326	326	233	6.9	233	6.9
Legal reserve	2,535	3,113	—	—	1,019	30.3
Special reserve	109	31	—	—	—	—
Retained earnings (deficit)	2,189	(3,237)	3,396	100.9	4,125	122.5
Sum of minority interest and adjustment on equity	(530)	(495)	(495)	(14.7)	(593)	(17.6)
Less: Goodwill	—	—	—	—	—	—
Tier I capital	22,804	17,913	21,309	633.1	22,959	682.1
45% of unrealized gain in long-term investment securities	—	—	—	—	—	—
Allowance for loan loss(4)	555	1,694	2,256	67.0	2,059	61.2
Preferred shares and subordinated debt	2,000	5,000	4,400	130.7	4,060	120.6
Tier II capital	2,555	6,694	6,656	197.7	6,119	181.8
Tier III capital	—	—	—	—	—	—
Total Tier I, II, III capital	25,359	24,607	27,965	830.8	29,078	863.9
Less: Long-term investments(5)	4,665	4,755	4,738	140.8	3,048	90.6
Total capital	NT$ 20,694	NT$ 19,852	NT$ 23,227	US$ 690.0	NT$ 26,030	US$ 773.3
Total qualified capital(6)	NT$ 20,694	NT$ 19,852	NT$ 23,227	US$ 690.0	NT$ 26,030	US$ 773.3
Total risk-weighted assets	187,965	191,279	233,069	6,924.2	270,730	8,043.1
Capital adequacy ratio	11.01%	10.38%	9.97%		9.61%	

(1) Includes the data of E.Sun Bank and E.Sun Bank's material long-term investments in the financial sector as permitted under MOF guidelines.
(2) Based on the capital adequacy guidelines effective on January 1, 2002.
(3) Based on the new capital adequacy guidelines effective on December 9, 2003.
(4) Allowances for loan loss — general.
(5) Represents the sum of the book value of: (1) the investment in other financial institutions qualified as Tier I capital and qualified Tier II and qualified and used Tier III capital held by E.Sun Bank for more than one year and (2) long-term investments in other enterprises.
(6) Excludes amounts of Tier II capital that are not qualified and Tier III capital that are not qualified and used.

Risk Management

The primary objective of E.Sun Bank's risk management policies and practices is to maximize earnings and return on capital with acceptable and controllable levels of credit risk, liquidity risk, market risk, operational risk and legal risk. Risk management at E.Sun Bank is integrated with the management of risk in E.Sun Financial as a whole. The board of directors of E.Sun Bank places a high priority on risk management and risk control and seeks to maintain the highest quality of risk management and risk control and to apply to the most up-to-date and reliable methods available in order to protect itself and the interests of its clients and shareholders. We believe that the risk control system should enable management to effectively measure, monitor and report risks. The principal risks relevant for E.Sun Bank are liquidity risk, credit risk, market risk, operational risk and legal risk.

Asset and Liability Management Committee

Currently, E.Sun Bank's risk management process is overseen by E.Sun Bank's Asset and Liability Management Committee. The functions of the Asset and Liability Management Committee include:

- evaluating domestic and overseas economic and financial markets and establishing corresponding strategies;

- reviewing and establishing the asset-liability structure and overall risk profile;

- reviewing and monitoring the asset and liability management and due performance; and

- reviewing other relevant major asset and liability management issues.

The chairman of the Asset and Liability Management Committee is served by E.Sun Bank's President who is also responsible for selecting the other members of the committee. E.Sun Bank's Asset and Liability Management Committee consists of one executive secretary, who is concurrently our executive Deputy President, and an executive group. The Asset and Liability Management Committee is empowered to establish various working groups as necessary, with the approval by the President of E.Sun Bank.

Liquidity Risk

The purpose of liquidity risk management is to provide E.Sun Bank with available funds to meet its present and future financial obligations and to take advantage of appropriate market opportunities as they arise. Liquidity obligations arise from withdrawals of deposits, repayments of borrowings at maturity, extensions of credit and working capital needs.

E.Sun Bank seeks to manage its liquidity risk across all classes of assets and liabilities with the goal that even under adverse conditions, it has access to necessary funds on a timely basis and at reasonable cost. Liquidity is maintained by holding sufficient quantities of liquid assets to meet actual or potential demands for funds from depositors and borrowers. Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of the funds E.Sun Bank can confidently generate within that period. As part of its liquidity risk management, E.Sun Bank focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

The liquidity policy of E.Sun Bank focuses on cash flow management, interbank funding capacity and the maintenance of sufficient liquid assets. The primary tool for monitoring liquidity is the maturity mismatch analysis. This analysis includes behavioral assumptions concerning, among other things, customer loans and advances, customer deposits and reserve assets.

In addition, E.Sun Bank seeks to maintain an adequate level of liquid assets it can use in the event of a liquidity crisis. Banks in Taiwan are required to maintain a cash reserve fund based on the amount of deposits received from customers. This reserve fund is placed on deposit with the Central Bank of China at a nominal interest rate. Borrowings from commercial banks and other financial institutions are made primarily at call rates in the interbank market for liquidity purposes. E.Sun Bank also borrows for this purpose from other financial institutions, whose lending rates are usually higher than those available in the interbank market. Liquid assets for this purpose include marketable securities, commercial paper and bank acceptances, treasury bills, government bonds and net short-term interbank loans.

E.Sun Bank has access to diverse funding sources, including customer deposits, borrowings in the domestic and foreign interbank markets and borrowings through the swap and repurchase markets. Additional foreign currency liquidity is available through foreign currency deposits from the offshore banking unit.

E.Sun Bank uses economic profit rather than accounting profit as the benchmark by which to price products, including loans, and to evaluate the performance of products, portfolios and business units. E.Sun Bank allocates revenue to products through funds transfer pricing that measures the cost of funds. It also allocates expense to products through an activity-based cost framework. E.Sun Bank is developing new models to allocate capital in line with risks in order to further strengthen its ability for risk-based pricing and risk-adjusted performance measurement.

Credit Risk

Credit risk represents the loss that E.Sun Bank would incur if a counterparty fails to perform its contractual obligations. The objectives of E.Sun Bank's credit risk management are to improve its asset quality and generate stable profits while reducing risk through a diversified and balanced loan portfolio. The Chief Risk Officer of E.Sun Financial is also responsible for the counterparty credit limits for E.Sun Bank. E.Sun Bank has credit management systems to monitor current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. For more information on E.Sun Bank's credit administration and policy, see "Business — E.Sun Bank — Credit Administration and Policy."

Market Risk

Market risk is the risk of loss due to adverse changes in the level of volatility or prices in financial markets. These risks are inherent to positions in foreign exchange, equity and interest rate markets. These risks can be a result of positions in the trading as well as the banking books of E.Sun Bank.

Interest Rate Risk. Exposure to interest rate movements arises where there is a mismatch among rate sensitive assets, liabilities and off-balance sheet items. The resultant gap may cause net interest income to be affected by changes in the prevailing level of interest rates. The primary sources of structural interest rate risk for E.Sun Bank are yield curve risks, which can be squared with third parties.

The risk management unit of the Treasury Division of E.Sun Bank is responsible for measuring and managing the interest rate exposure of the treasury portfolio. For structural interest rate risk, the primary focus is to achieve a desired overall interest rate profile, which may change over time based on management's long-term view of interest rates and economic conditions. The risk manager reviews the composition of assets and liabilities, including interest rate mismatch positions (e.g., posted rate loans versus posted rate deposits, fixed-rate applications versus fixed-rate sources, and long-term applications versus long-term sources), and uses simulations to project net interest income in a range of interest rate scenarios. From these scenarios, senior management can develop appropriate strategies to shape E.Sun Bank's risk-return profile.

E.Sun Bank's primary means of measuring its exposure to fluctuations in interest rates is gap and interest rate sensitivity analysis, which provides a static view of the re-pricing characteristics of balance sheet positions. An asset or liability is considered to be interest rate sensitive if re-pricing is required within a specified period of time. The interest rate gap is prepared by scheduling all assets and liabilities according to anticipated re-pricing. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities for that re-pricing period. A gap is considered negative where interest rate sensitive liabilities for a particular period exceed interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to adversely affect net interest income, while a positive gap would tend to result in an increase in net interest income; the opposite would be true during a period of falling interest rates.

Although gap analysis is useful in identifying possible interest rate exposure, it is a static measurement as of a particular date which does not precisely quantify the potential impact of interest rate changes on E.Sun Bank's future earnings or cash flows. Moreover, gap analysis does not take into consideration (1) pre-payment tendencies of interest rate sensitive assets, (2) deposit, funding or borrowing preferences in fluctuating rate environments or (3) re-pricing time lags for floating rate assets and liabilities, among other items that affect earnings and cash flows.

The following table sets forth, for the date indicated, E.Sun Bank's gap analysis.

	As of June 30 2004			
	Interest-earning Assets	**Interest-bearing Liabilities**	**Interest Gap**	**Cumulative Gap as a Percentage of Total Interest-earning Assets (%)**
	(in millions, except percentages)			
3 months or less	NT$ 196,588	NT$ 88,374	NT$108,214	42.0%
More than 3 months and up to 6 months	17,604	114,453	(96,849)	4.4
More than 6 months and up to 1 year	4,468	42,834	(38,366)	(10.5)
Over 1 year	38,817	35,511	3,306	(9.2)
Total	NT$257,477	NT$281,172	NT$ (23,695)	(9.2)

Foreign Exchange Risk. E.Sun Bank manages its foreign exchange risk by matching its foreign currency assets and liabilities. E.Sun Bank trades in currencies and derivative instruments, primarily spot, forward exchange contracts and currency swaps, as part of its management of its asset and liability positions. The principal goal of these trading activities is to manage the impact of currency exchange fluctuations on E.Sun Bank's financial position. Traders are subject to counterparty, per trade, stop loss and total exposure limits.

The risk management unit of the Treasury Division of E.Sun Bank monitors changes in and matches the foreign currency assets and liabilities in order to reduce exposure to currency fluctuations. The effect of exchange rate changes on foreign currency assets and liabilities is currently marked-to-market on a daily basis. Risks relating to exchange rate fluctuations are also managed through E.Sun Bank's foreign exchange desk. Foreign exchange dealing is primarily in the NT dollar/U.S. dollar market.

Operational Risk

Operational risk is the risk of loss resulting from employees' negligence or from malfunctioned or inadequate internal operation systems. E.Sun Bank's policy is to manage operational risks through clear governance, an embedded operational risk management system, and the implementation of comprehensive operational risk identification, measurement, monitoring and mitigation processes. All business managers are responsible for establishing specific internal policies, procedures and controls and for continuously monitoring and controlling the operational risks. The operational risk management framework is further supported by various specialized departments such as the Legal Division of E.Sun Bank. In addition, E.Sun Bank's Auditing Division performs independent periodic investigations to the quality of the system of internal controls and procedures of business units and recommends actions to solve any identified weaknesses.

Legal Risk

Legal risk represents the loss caused by the violation of applicable laws or regulations. E.Sun Bank attempts to manage legal risk by establishing clear internal governance procedures, and implementing legal risk identification, measurement and monitoring processes. The Legal Division of E.Sun Bank and the managers of various business units have the initial responsibility for supervising personnel for compliance with the applicable laws and regulations as well as implementing the control standards established by the Asset and Liability Management Committee of E.Sun Financial.

Value at Risk Analysis

E.Sun Bank uses daily "value at risk" ("VaR") to measure market risk. The VaR is a statistically estimated maximum amount of loss that can occur for a day. E.Sun Bank uses a 99% confidence level to measure the daily VaR. VaR is a commonly used market risk management technique. However, this approach has its limitations. As a statistical model, VaR estimates possible losses over a certain period at a particular confidence level which are determined by using past market movement data. Past market movement, however, is not necessarily a good indicator of future events. Furthermore, the time periods used for the model, generally one or ten days, are assumed to be a necessary time period to liquidate the relevant underlying positions.

BUSINESS

Overview

We believe we are one of the leading financial holding companies in Taiwan in terms of asset quality and customer service. We have built a strong brand name that is widely recognized in Taiwan and have cultivated a unique corporate culture that distinguishes us from many of our peer companies. We focus on providing a broad range of high-quality, competitive, innovative financial products and services to our consumer and corporate customers through our three principal subsidiaries: E.Sun Bank, E.Sun Bills Finance, and E.Sun Securities. In addition, through our flagship company, E.Sun Bank, we believe we have been able to deliver strong financial performance while maintaining industry-leading asset quality and prudent credit risk management policy.

In 2003, after conducting a comprehensive review of our operations and in pursuit of a customer-centric organization structure, we reorganized our subsidiaries' various businesses into five product-oriented business platforms, principally consumer banking, credit card, corporate banking, wealth management and treasury products, and established a group-wide management information system serving all business platforms. We believe that such reorganization of our operations will enable us to provide services to our customers more efficiently and to better marshal our resources and cross-sell financial products and services to our group customer base. In January 2004, we entered into a long-term bancassurance agreement with Prudential for distributing standard insurance products and certain insurance products that are tailor-made for the Taiwan market in Taiwan. We believe this strategic partnership will significantly strengthen our insurance distribution business and enhance the depth of our wealth management product offerings. The recent acquisition of the government-restructured KBB will be key to our future growth as it will increase our domestic branch network immediately from 54 branches to 99 branches and further to up to 114 branches, with up to 67 branches in the greater Taipei area, by the end of 2006. We believe such expansion in distribution network will broaden our customer reach and revenue base.

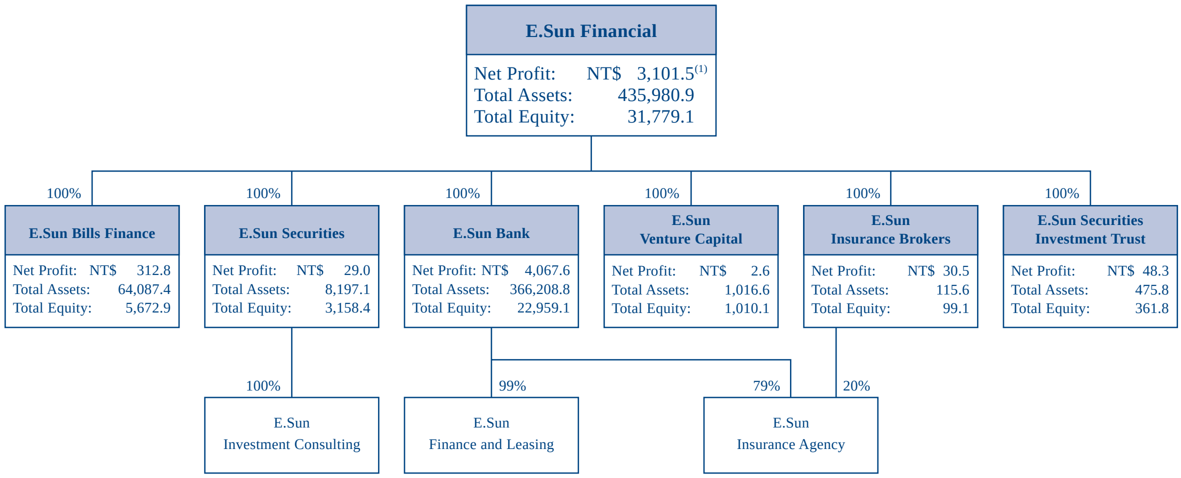
Our goal is to become a leading financial institution in Taiwan renowned for superior customer service, strong asset quality, reliable operations, professionalism and integrity. We have chosen "E.Sun," or "Yushan" in Chinese, the highest mountain in Taiwan, as our name to represent our aspiration for excellence. We also place a strong emphasis on cultivating a corporate culture that encourages teamwork, leadership and the hiring of talented and well-qualified people.

We were formed on January 28, 2002 pursuant to the ROC Financial Holding Company Act. The ROC Financial Holding Company Act permits financial institutions to be reorganized under a single financial holding company structure so that the ownership of different operating companies may be consolidated. We believe that the establishment of E.Sun Financial will further promote the integration of business units and personnel and other resources within the E.Sun Financial group and thereby provide customers with more comprehensive and high-quality financial products and services.

Our Common Shares are listed on the Taiwan Stock Exchange and trade under the stock code "2884." As of September 24, 2004, our market capitalization, based on the closing price of NT$20.40 per Common Share on the Taiwan Stock Exchange, was NT$51.0 billion (US$1.5 billion).

Organizational Structure and Principal Subsidiaries

Set forth below is an organizational chart depicting our principal subsidiaries as of June 30, 2004:



(1) Amounts in millions.

E.Sun Bank

E.Sun Bank was formed when its current Chairman Mr. Yung-Jen Huang brought together a group of financial professionals with the goal of forming and managing a first-class professional bank. E.Sun Bank commenced its operations on February 21, 1992 as one of the 16 New Banks that were organized after the ROC government's liberalization of the financial industry. Twelve years later, E.Sun Bank is the core operating entity of our company, representing approximately 84.0% of our total assets as of June 30, 2004. E.Sun Bank offers a broad range of banking services and financial products to its consumer and corporate customers. As of June 30, 2004, E.Sun Bank had a client base of approximately 3.1 million distinct customer accounts, E.Sun Bank also has an extensive distribution and customer service network, currently consisting of 99 domestic branches (including 45 branches acquired from KBB and 12 sub-branches), two overseas branches, 291 ATMs and 1,607 customer sales representatives (including 80 ATMs and 400 customer sales representatives from KBB). We expect to open up to 15 additional branches by the end of 2006 using the inactive branch licenses acquired from KBB. As of June 30, 2004, there were approximately 1.5 million active E.Sun Bank credit cards, which are credit cards that have been used for purchases or payments during the most recent six months, and approximately 2.2 million E.Sun Bank credit cards in force, which are credit cards that have been issued and not cancelled, expired or suspended. E. Sun Bank In terms of active credit cards, E.Sun Bank was the fifth largest and, in terms of credit cards in force, the sixth largest credit card issuer in Taiwan as of June 30, 2004.

E.Sun Bills Finance

E.Sun Bills Finance was established in 1995 as one of the newly established bills finance companies in Taiwan. E.Sun Bills Finance acts as a broker or dealer for fixed-income securities such as government bonds, financial debentures and short-term bills. E.Sun Bills Finance also offers underwriting services for commercial paper and other products and acts as a surety for its customers by issuing guarantees for commercial paper. As of June 30, 2004, E.Sun Bills Finance was the seventh largest bills finance company in Taiwan in terms of trading volume for bills, with a market share of approximately 4.7%, and the sixth largest bills finance company in Taiwan in terms of underwriting volume of commercial paper, with a market share of approximately 3.6%.

E.Sun Securities

E.Sun Securities provides a broad range of brokerage and securities products and services primarily to individuals as well as to corporations and institutions. E.Sun Securities' products and services include securities brokerage, margin trading, underwriting, financial advisory and financial products. In addition, E.Sun Securities engages in proprietary trading of equity and fixed-income securities. As of June 30, 2004, E.Sun Securities had 10 branches and more than 80 brokers throughout Taiwan.

Recent Developments

Reorganization of our operations

In late 2002, we completed a comprehensive review of our operations with a view to establish a customer-centric organization structure for providing tailored product lines to better meet the distinct needs of our customer groups. In 2003, we reorganized our various businesses across the corporate boundaries of our subsidiaries to create product-oriented business platforms, principally consumer banking, credit card, corporate banking, wealth management and treasury products, and established a group-wide management information system serving all business platforms. A senior executive vice president was appointed to lead the cross-subsidiary reporting chain in each business platform. In addition, we have 10 corporate banking centers, 10 consumer banking centers and 1 wealth management center. We have extracted all of the processing functions relating to our retail and corporate banking businesses from our branches and consolidated them into these newly established centers. Following such consolidation, the branches continue to serve as our venues for deposit taking and front-line centers for marketing and cross-selling of our financial products to our customers. We believe that such a realignment of our operations will enable us to provide our products and services to our customers more efficiently and to better marshal our resources and cross-sell our financial products. The table below sets forth the principal products and services offered by each principal subsidiary along each of our business platforms.

	Consumer banking	Credit cards	Corporate banking	Wealth management	Treasury
E.Sun Bank	• Mortgage loans • Secured and unsecured personal loans • Cash cards • Deposit products • Micropayment services	• Credit cards • Travel center	• Corporate loans • Deposit products • Guarantees and acceptance • Cash management	• Affluent customer products distribution • Mutual fund distribution and trust services • Insurance referrals	• Risk management unit • Planning department • Money market department • Trading department • Operation department • Marketing department
E.Sun Bills Finance			• Guarantees • Certification and underwriting	• Corporate finance consultancy services	• Fixed-income trading
E.Sun Securities			• Underwriting	• Brokerage • Margin trading • Research • Financial advisory services	• Fixed-income trading • Proprietary trading • Warrants issuance
E.Sun Venture Capital			• Venture capital investment		
E.Sun Securities Investment Trust				• Securities investment trust	
E.Sun Insurance Brokers				• Insurance products	

In addition to realigning the businesses of our principal subsidiaries, we have also established the following wholly owned subsidiaries and acquired the following businesses to expand the scope of our operations.

- In October 2002, we established E.Sun Venture Capital to engage in venture capital investments. In 2003 and for the six months ended June 30, 2004, E.Sun Venture Capital invested NT$132.9 million and NT$137.9 million, respectively, in domestic pre-IPO companies in a range of industries.

- In June 2003, E.Sun Securities acquired the brokerage business of Yung Li Securities Co., Ltd. for a total consideration of NT$355.0 million.

- On July 30, 2003, we established E.Sun Insurance Brokers to coordinate the distribution of third-party insurance products and services, including principally the insurance products of Prudential, to our consumer customers. E.Sun Insurance Brokers has taken over substantially all of the operations of E.Sun Insurance Agency since its establishment.

- On September 16, 2003, we acquired our affiliate, E.Sun Securities Investment Trust, through a share exchange. E.Sun Securities Investment Trust was established in September 2001 to invest in securities using funds raised by issuing beneficiary certificates in securities investment trusts.

Prudential bancassurance arrangements

In January 2004, we entered into an agreement with Prudential, under which E.Sun Insurance Brokers will market and promote Prudential insurance products to our customers for an initial term of 10 years. As of June 30, 2004, we had distributed exclusively 5 categories of Prudential's insurance policies to our customers including single premium life insurance policies, travel insurance policies, term life insurance policies, medical insurance policies and investment-linked insurance policies. Some of these products are tailored specifically by Prudential for the Taiwan market, such as the insurance policies linked to the performance of a portfolio of twenty NASDAQ stocks or certain Prudential investment funds. In connection with such distribution arrangements, Prudential has agreed to pay E.Sun Insurance Brokers commissions on an earned-premium basis and to provide a variety of administrative, sales, marketing, distribution and other support services, including providing training to the insurance consultants that we placed at E.Sun Bank's branches. Prudential has also agreed to certain exclusivity restrictions. Also see "Share Ownership" with respect to Prudential's ownership interest in E.Sun Financial.

Acquisition of KBB

On June 3, 2004, E.Sun Bank entered into an agreement pursuant to which E.Sun Bank agreed to assume substantially all assets and liabilities of KBB in exchange for a cash subsidy of NT$13,368.0 million from the Financial Restructuring Fund established by the ROC Executive Yuan to manage insolvent local financial institutions. E.Sun Bank assumed control of KBB on September 4, 2004 and on September 6, 2004 received 70% of the cash subsidy. We expect E.Sun Bank to receive the remaining 30% of the cash subsidy in November 2004, subject to an adjustment primarily for KBB's earnings/(losses) for the period from February 29, 2004, the reference date for the acquisition-related valuation, to September 4, 2004. The KBB earnings/(losses) arising from non-cash items for the same period, such as any provisions for loan losses made by KBB, will be excluded from the adjustment.

KBB was one of the largest banks with one of the longest operating histories in the Kaohsiung area in southern Taiwan. The CDIC, an organization jointly established by the MOF and the Central Bank to safeguard depositors' interest in financial institutions, assumed control of KBB in January 2002 and disposed a substantial majority of KBB's NPLs with a face amount of NT$32.7 billion (including NT$10.6 billion of NPLs previously written-off) in June 2003.

As of December 31, 2003, the date of KBB's latest audited financial statements provided to us, KBB had total assets of NT$42.6 billion and a negative shareholders' equity of NT$17.0 billion. The total loans (net of the loan loss reserve) and deposits of KBB were NT$20.6 billion and NT$53.3 billion, respectively, as of December 31, 2003. For the year ended December 31, 2003, KBB had a loss after tax of NT$7.8 billion, of which NT$7.6 billion was attributable to a one-time charge resulting from the sale of the NPLs in June 2003. As of December 31, 2003, the remaining broad-based NPLs of KBB amounted to NT$2.9 billion and KBB maintained a loan loss reserve in the amount of NT$713.7 million (excluding the loss reserve for accounts receivables).

KBB currently has 60 licenses for bank branches, of which 15 licenses are inactive. The acquisition of KBB immediately expanded E.Sun Bank's domestic branch network by increasing its number of domestic branches from 54 to 99. We intend to use the inactive KBB licences to open up to 15 additional domestic branches by the end of 2006 and as a result further expand E.Sun Bank's branch network to up to 114 branches. We expect that up to 67 of the 114 branches will be located in the greater Taipei area, which will include 28 existing E.Sun branches and one existing KBB branch already in the greater Taipei area, and up to 15 new branches to be opened in and up to 23 KBB branches to be relocated to the greater Taipei area.

E.Sun Bank is required to employ at least half of the 791 former KBB employees for a minimum of one year commencing September 4, 2004. In addition, we will make a payment of approximately NT$230.0 million to all KBB employees on or before October 3, 2004 pursuant to an agreement with the Financial Restructuring Fund (acting through the CDIC) and KBB. The Financial Restructuring Fund is otherwise required to fund the severance pay and pension benefits for all KBB employees under the ROC Labor Standards Law and its relevant regulations upon their termination by KBB on September 3, 2004.

We currently estimate that the negative fair value of KBB's net assets will exceed the government cash subsidy by approximately NT$6.0 billion to NT$6.5 billion. Of this excess, approximately NT$0.8 billion to NT$1.3 billion will arise from additional provisions made in respect of KBB's NPLs. We intend to make such additional provisions in line with our risk management policies to maintain E.Sun Bank's leading asset quality. We believe that the full amount of such additional provisions will be expensed as impaired goodwill in the quarter ending September 30, 2004. The remaining excess after such impairment is expected to be capitalized as goodwill. Pursuant to existing accounting rules, we expect to amortize the capitalized goodwill on a 5-year straight-line basis for the four months ending as of December 31, 2004 and thereafter, upon the implementation of new accounting rules as of January 1, 2005, subject the unamortized amount of capitalized goodwill to annual goodwill impairment tests. The foregoing are our preliminary estimates and there can be no assurance that the amount of the impaired or capitalized goodwill will fall within our estimated range or that our independent appraiser or certified public accountants will not require us to alter the amount or classification of the impaired or capitalized goodwill upon their performance of the annual goodwill impairment test or audit of our financial statements, respectively, for the year ended December 31, 2004. Under the ROC Banking Law and the Regulations Governing the Management of a Bank's Capital Adequacy, goodwill arising from the KBB acquisition will reduce E.Sun Bank's Tier I capital by the amount of the goodwill. Our net income going forward and E.Sun Bank's capital adequacy ratio may be adversely affected by the recognition, amortization and impairment of the goodwill.

Audit committee

We were the second ROC financial holding company to form an audit committee on July 27, 2004. Dr. Chen-En Ko, an accounting professor of National Taiwan University who became our independent director on June 11, 2004, heads the five-member audit committee of our board of directors.

Competitive Strengths

Our competitive strengths include the following:

Strong brand recognition

We believe that our strong brand, which is associated with professional and sound management and high-quality customer service, has contributed to our success and growth. We believe the E.Sun brand is widely recognized in Taiwan even though E.Sun Bank has a smaller asset base and a relatively shorter history compared to other leading banks in Taiwan. In 1999, E.Sun Bank received *Commonwealth Magazine*'s "#1 Corporate Image Award," a rating of all domestic banks in Taiwan. We believe that we have been successful in building a strong brand due to E.Sun Bank's focus on maintaining high standards of service quality and customer satisfaction. Moreover, we believe other members of the E.Sun Financial group, including E.Sun Bills Finance and E.Sun Securities, benefit from the strong brand recognition of E.Sun Bank. E.Sun Bank was awarded the National Quality Award presented by the Executive Yuan of ROC in 2001 and was ranked first among all Taiwan banks for service quality in the annual survey conducted by Taiwan's *Businessweekly* in 1999 and 2000.

High-quality retail banking franchise

As the flagship of E.Sun Financial group, E.Sun Bank is a leading commercial bank in Taiwan with strong retail banking franchise. E.Sun Bank had a client base of approximately 3.1 million distinct customer accounts as of June 30, 2004. We believe our successful focus on retail banking products such as mortgage loans, credit cards and wealth management products has enabled E.Sun Bank to increase its transaction volume substantially and as a result, enhanced its profitability in 2003 and the first half of 2004. As a result of E.Sun Bank's focus on expanding its mortgage business, E.Sun Bank had the highest increase in the outstanding mortgage balance among all banks in Taiwan, increasing from NT$61.0 billion as of December 31, 2002 to NT$87.4 billion as of December 31, 2003 and further to NT$110.7 billion as of June 30, 2004. E.Sun Bank is also the fifth largest credit card issuer in Taiwan in terms of active credit cards, with approximately 1.5 million active credit cards, and the sixth largest credit card issuer in Taiwan in terms of number of credit cards in force, with approximately 2.2 million credit cards in force as of June 30, 2004. E.Sun Bank has introduced a wide range of affinity card programs with approximately 112 retailers and corporations to increase brand awareness and capture new cardholders. E.Sun Bank also has been successful in increasing its credit card consumption from NT$37.4 billion in 2002 to NT$50.6 billion in 2003 and further up to NT$29.4 billion in the first half of 2004 through extensive and innovative marketing efforts by credit card specialists. In addition, we believe that our recent focus on wealth management has also successfully elevated our business volume with affluent customers. Our net fee income from distributing mutual funds and investment trusts increased to NT$238.8 million for the six months ended June 30, 2004 from NT$27.8 million for the six months ended June 30, 2003.

We believe that E.Sun Bank provides a strong foundation for our future growth, particularly as a platform for cross-selling opportunities. The distribution capability and consumer information collection capability has enabled E.Sun Bank to build a high-quality retail banking franchise.

Superior asset quality and risk management

In order to achieve and maintain strong asset quality, we have established a comprehensive risk management process and a diligent risk monitoring program at each subsidiary. In addition, we have taken a number of measures to strengthen our credit approval process, including centralization of decision making and employee training. Our asset quality is reflected by E.Sun Bank's broad-based NPL ratio, which has been the lowest among all domestic commercial banks in Taiwan since December 2002. As of June 30, 2004, with a broad-based NPL ratio of 1.28%, E.Sun Bank also had the lowest NPLs of any domestic commercial bank in Taiwan, compared to the ROC industry average broad-based NPL ratio of 4.90% as of June 30, 2004, as reported to the MOF. Broad-based NPL ratio is defined as the aggregate amount of NPLs and surveillance loans as a percentage of gross loans. Consistent with its prudent credit risk management policy, E.Sun Bank has adopted a conservative NPL write-off policy. E.Sun Bank has also been successful in diversifying its loan portfolio. As of June 30, 2004, no loan exposure to a single customer or single customer group exceeded 0.9%. E.Sun Bank has attained one of the highest credit ratings among the New Banks with a long-term bank deposit rating of "Baa2" from Moody's Investors Service, Inc. in 2003. In addition, our asset quality is also reflected in the fact that E.Sun Bills Finance had no broad-based NPLs in 2003 or for the six months ended June 30, 2004. E.Sun Bills Finance has maintained a long-term rating of "twBBB" and a short-term rating of "twA-3" from Taiwan Ratings Corporation. E.Sun Bills Finance believes that these ratings are based on its favorable asset quality compared to other local bills finance companies.

Extensive distribution network

E.Sun Bank distributes its retail banking products through an extensive distribution network of 99 domestic branches (including 45 branches recently acquired from KBB and 12 sub-branches) and two overseas branches. We intend to use the inactive KBB licences to open up to 15 additional domestic branches by the end of 2006 and as a result further expand E.Sun Bank's branch network to up to 114 branches. E.Sun Bank currently has 29 domestic branches (including one acquired from KBB) centered around the populous and affluent Taipei metropolitan area. The addition of KBB's bank branches has broadened the reach and increased the depth of E.Sun Bank's distribution network, by immediately expanding E.Sun Bank's branch network in the Kaohsiung area and permitting E.Sun Bank to further strengthen its presence in the greater Taipei area in the future. As a result, we expect to have a distribution network with up to 67 branches in the greater Taipei area, up to 20 branches in the Kaohsiung/Pindong area and up to 27 branches in other locations by the end of 2006.

Distinctive and cohesive corporate culture with experienced and professional senior management team

We believe that the unique E.Sun corporate culture distinguishes us from other financial institutions in Taiwan. Since the founding of E.Sun Bank, the cultivation of the E.Sun corporate culture has been one of our foremost priorities. We aim to cultivate a corporate culture that encourages teamwork, leadership and the hiring of talented and well-qualified people. In addition, a unique and essential element of our corporate culture is the holistic principle that personal contentment and professional achievement are interlinked. As a result, we believe we have one of the lowest attrition rates in the industry, with an approximate average annual attrition rate of 5% for the past three years. Since we believe that customer satisfaction is best promoted by satisfied employees, we believe that our corporate culture has been an important factor in our ability to maintain a high degree of customer satisfaction.

Our senior management team, led by our Chairman, Mr. Yung-Jen Huang, the founder of E.Sun Bank and a banker recognized in Taiwan for his experience and achievement, is experienced, with a proven track record of sound management in the financial services industry. In 1995, our Chairman was honored with the "Eminent Corporate Leadership Prize" for his professional management performance and contributions to society. In 2001, he was presented with the prestigious "Lee, Quo-Ding Management Prize", followed by "The National Quality Prize" in 2002. Our 20-member senior management team has on average more than 26 years of experience in the financial services industry in Taiwan, and includes experts in credit evaluation, risk management, retail banking products, information technology and marketing. Our management team is committed to maximizing shareholder value, and our performance targets seek to meet this primary objective.

A track record of innovations

We believe that our track record of product innovations has enabled us to maintain and attract new customers in Taiwan's competitive market. E.Sun Bank was the first bank in Taiwan to obtain MOF approval for micropayment services. In January 2002, E.Sun Bank successfully launched eCoin, an Internet-based deposit and payment system, which provides an online payment alternative to credit cards. Customers can make small online payments using eCoin for products, content and services through a virtual bank account opened online with E.Sun Bank. In 2004, eCoin received a silver award from the ROC Ministry of Economic Affairs during the Fourth Annual e-21 Golden Website Awards, in recognition of its innovative business model. In February 2003, E.Sun Bank was among the first banks in Taiwan to offer adjustable rate mortgage loans with an interest rate cap, which allows customers the ability to elect to pay the negotiated maximum interest rate if the adjustable rate exceeds the cap. In addition, E.Sun Bank was among the first banks in Taiwan to issue inverse floater bank debentures.

Sophisticated user of information technology

We believe that we have an efficient information technology system that provides us with significant competitive advantages. We utilize sophisticated applications and software to enable us to strengthen credit and market risk management, to better process and utilize our customer relationship management data and to monitor the performance and productivity of our distribution network more effectively. As a part of the initiative to enhance our risk management system, E.Sun Bank installed the ALM and FTP system of IPS Sendero and *Kondor Plus*, a part of the Reuters risk and trade management solutions, to support asset and liability management and to measure business performance. In addition, working with Mercer Oliver Wyman, an international consulting firm, we also implemented a customer value and risk analysis management system to further leverage our relationships with customers by utilizing statistics, econometrics, computer modeling tools and our industry expertise to develop customer profiles for sales and marketing purposes. We believe that a recent group-wide upgrade of our data backup systems from level 1 to level 5 will enable us to obtain real-time backup capacity in respect of our important commercial, financial and operational data processing information.

Strategy

Our goal is to become one of the leading financial holding companies in Taiwan. We intend to pursue this goal through the following strategies:

Continue to build brand recognition and enhance customer satisfaction

We believe that our professional expertise is an essential factor in our ability to win the satisfaction and trust of our customers. We intend to continue to build the E.Sun brand to further increase our brand recognition in Taiwan. Our goal is to have the E.Sun brand widely recognized for creditworthiness and high-quality customer service. We believe that we can most effectively build brand recognition through E.Sun Bank, the flagship of the E.Sun Financial group. We intend to further raise E.Sun brand recognition by broadening our consumer banking customer base and expanding the number of E.Sun Bank credit cards in force. We will also actively pursue co-branding or strategic alliance arrangements to further expand our brand recognition. We believe an integral part of building brand recognition is customer satisfaction. We have undertaken steps towards a customer-centric restructuring of our organization. We intend to further enhance customer satisfaction through effective customer data mining to tailor our products to the needs of our customers and the effective use of our new corporate and consumer banking centers.

Capture benefits of our product-oriented, customer-centric organization structure and develop multi-relationships with customers

We intend to capture the benefits of our product-oriented, customer-centric organization structure through the following measures:

- **Expand our revenue base.** We intend to diversify and expand our revenue base by leveraging our multi-subsidiary product-oriented business platforms. We also intend to continue the development and expansion of E.Sun Bank's strong retail banking franchise to achieve higher market shares in credit cards, mortgage loans and wealth management businesses by leveraging the strength of its customer-centric structure.

- **Improve our operating efficiency.** By consolidating similar or related business operations into business platforms and centralizing the MIS operations, we intend to maintain or further improve our operating efficiencies. We seek to maintain or further reduce the operating costs of our subsidiaries relative to their operating revenue by integrating their operations along the lines of business platforms. For example, E.Sun Bank will seek to maintain its cost to total revenue ratio below 40% after integrating all KBB branches.

- **Build multi-products relationship with customers.** We believe that the realignment of our operations along the lines of business platforms has and will enhance our ability to share resources and to sell across our product lines and across our previously separated subsidiaries. We intend to leverage the solid customer base of E.Sun Bank to expand our product and service offerings through such cross-selling. For example, we expect E.Sun Bank's wealth management business to develop into a strong platform for our credit card, brokerage, insurance and treasury products by focusing its business on cross-selling such products and services to its affluent customers.

Increase scale and shareholder return through strategic alliances

Historically, we expanded our business scope through establishing and entering into new businesses, strategic alliances and mergers and acquisitions. For example, in October 2002, we established E.Sun Venture Capital Co., Ltd. to invest in early-stage companies. In January 2004, we entered into a long-term bancassurance arrangement with Prudential to distribute exclusively Prudential's insurance products in Taiwan, with respect to which Prudential has agreed to provide us with sales and marketing support. In addition, in June 2003, E.Sun Securities acquired the brokerage business of Yung Li Securities Co., Ltd. and on September 4, 2004, E.Sun Bank assumed substantially all of the assets and liabilities of KBB, a previously distressed local bank under the management of CDIC. We expect that our major business focuses in the near term will be to integrate the businesses and operations of E.Sun Bank and KBB and strengthen our insurance business through our bancassurance partnership with Prudential to enhance return. We will also continue to seek ways of increase the scale of our business operation and improve shareholders return through fostering selective strategic alliances that are value accretive.

Maintain and improve strong risk management

We place a high priority on risk management and risk control. We believe prudent risk management control procedures and risk governance at all levels within the E.Sun Financial group are critical for long-term competitive advantages in the financial services industry. We have established at the holding company level an asset and liability management committee to establish and implement risk management policies in order to enhance asset quality. We seek to maintain the highest quality of risk management and control by applying advanced and reliable methods available to protect E.Sun Financial, its clients and shareholders. In particular, we intend to continue to enhance our credit risk management evaluation, rating methodology and credit risk pricing models. We also expect to continue the use of sophisticated information technology systems in the management of our market risks in addition to our newly installed ALM and FTP systems of IPS Sandero and *Kondor Plus*.

E.Sun Bank intends to continue maintaining a high-quality loan portfolio through careful targeting of its customer base, a comprehensive risk management process, diligent risk monitoring and remediation procedures. To further strengthen its risk management, E.Sun Bank engaged Mercer Oliver Wyman, an international consulting firm, in late 2003, to assist the bank in its efforts to improve its profitability by product line and credit scoring. E.Sun Bank believes that the engagement of Mercer Oliver Wyman will facilitate its transition to Basel II standards by 2006.

Enter the PRC financial services industry and pan-pacific areas

E.Sun Bank intends to leverage its Hong Kong branch to expand its PRC operations. In June and May 2002, the MOF granted approval to permit E.Sun Bank's Hong Kong branch and its Offshore Banking Branch to engage in financial operations with banks in the PRC. Through its Hong Kong branch, E.Sun Bank established remittance relationships with the four largest PRC banks and 30 other financial institutions in the PRC with more than 760 locations for "SWIFT" remittance links. E.Sun Bank has also established a platform for providing banking products and services to its clients in the greater China area, including Taiwanese companies with operations in the PRC. In October 2003, E.Sun Bank applied for a license to open a representative office in Dongguan, Guangdong province and is currently awaiting PRC governmental approvals. In addition to our existing Los Angeles branch, E.Sun Bank seeks other growth opportunities to better serve the banking customers on the west coast of the United States.

Asset and Liability and Risk Management of E.Sun Financial

Asset and Liability Management

We formed the Asset and Liability Management Committee of E.Sun Financial to establish centralized policies and procedures of asset and liability management for the holding company and operating subsidiaries. The duties of our Asset and Liability Management Committee include:

- analyzing domestic and overseas economic and financial markets and setting corresponding strategies;

- setting policies for the composition of assets and liabilities and the maximum range of risk at the financial holding company level and at the operating subsidiary level;

- monitoring the asset and liability management of our operating subsidiaries, principally E.Sun Bank, E.Sun Bills Finance and E.Sun Securities; and

- formulating policies for relevant significant asset and liability management issues.

The Asset and Liability Management Committee consists of the President, who acts as the chair of the committee, and members designated by our President, which typically includes our Senior Executive Vice President, our Executive Vice President and the head of each business unit of our operating subsidiaries.

The Asset and Liability Management Committee of E.Sun Financial meets with the asset and liability committees of E.Sun Bank, E.Sun Bills Finance and E.Sun Securities on a monthly basis to discuss liquidity, cost of funding, trading, results of operations, market outlook and transfer pricing. Under certain circumstances, amendments to asset and liability management policies and procedures of the operating subsidiaries may require the approval of the Asset and Liability Management Committee of E.Sun Financial.

Risk Management

Our Risk Management Committee is responsible for the formulation and oversight of risk management policies and procedures. The Risk Management Committee is comprised of our President, our Chief Risk Officer, our Chief Financial Officer and the head of each business unit of our operating subsidiaries. The Risk Management Committee is responsible for establishing risk management policies for monitoring and evaluating risk exposures, both at the financial holding company level and at the operating subsidiary level. The primary areas of risk management include market risks, credit risks and liquidity risks. The implementation of such policies is overseen by our Chief Risk Officer and conducted by the risk management department of each of the operating subsidiaries. Each of the risk management departments of our operating subsidiaries is required to provide certain information to our Chief Risk Officer on a weekly basis. The information compiled by our Chief Risk Officer enables our Risk Management Committee to review the risk exposures of our operating subsidiaries.

Credit Ratings

We have attained the following long-term credit ratings:

Company	Rating	Rating Agency
E.Sun Financial.	Baa3	Moody's Investors Service, Inc.
E.Sun Bank	Baa2	Moody's Investors Service, Inc.
	twA+	Taiwan Ratings Corporation
E.Sun Bills Finance	twBBB	Taiwan Ratings Corporation
E.Sun Securities	BBB(twn)	Fitch IBCA, Inc.

Credit ratings are not recommendations to buy, sell or hold the securities of the company. Ratings are subject to revision or withdrawal at any time by the ratings agencies.

E.Sun Bank

E.Sun Bank offers a broad range of retail banking products to its approximately 3.1 million distinct customers. Its focus on high-margin retail products such as credit card, mortgage and wealth management products, which typically carry higher interest rates than corporate loans, have contributed significantly to the growth and profitability of E.Sun Bank's retail banking operations in 2003 and for the six months ended June 30, 2004. In 2003 and for the six months ended June 30, 2004, E.Sun Bank's credit card and cash card businesses grew significantly, as compared to 2002 and 2001 and for the six months ended June 30, 2003, respectively, reflecting E.Sun Bank's focus on expanding its business in these areas. E.Sun Bank offers a wide selection of mortgage loans and continues to develop new mortgage loan products to address the particular needs of its customers. In 2003 and for the six months ended June 30, 2004, E.Sun Bank's mortgage portfolio increased significantly to capture the recovery of the real estate market in Taiwan. E.Sun Bank's consumer products and services target the different needs of different segments of customers with features tailored to each segment's financial profile and other characteristics. E.Sun Bank's distribution channels include its branch network, ATM network, direct tele-marketing, sales, direct mail and the Internet, as well as through co-branding and other strategic alliances.

As of June 30, 2004, E.Sun Bank had NT$158.3 billion in total consumer loans (including revolving credit card debt), representing approximately 60.4% of its gross loans (including revolving credit card debt). The Consumer Banking Division of E.Sun Bank has 462 employees (excluding former employees of KBB hired by E.Sun Bank), of which 266 are a dedicated sales force for consumer loan products. The Credit Card Division of E.Sun Bank has 408 employees.

Consumer Banking

Consumer Loan Products

Personal Loans. E.Sun Bank offers a range of personal loan products, including secured and unsecured loans and cash cards. As of June 30, 2004, E.Sun Bank had NT$25.4 billion of personal loans outstanding, which represented approximately 9.7% of E.Sun Bank's gross loans (including revolving credit card debt).

- *Secured Personal Loans.* E.Sun Bank provides secured personal loans to select consumer customers, typically certain employees of E.Sun Bank's corporate customers. Borrowers are required to provide security for such loans, which may include common stock of listed companies. The loan amount, which generally exceeds NT$500,000, is typically higher than other personal loan products. The interest rate charged for such loans, which was between 4.45%

and 6.00% in 2003, is typically lower than other personal loan products. As of June 30, 2004, E.Sun Bank had NT$9.6 billion of secured personal loans outstanding, which represented approximately 6.1% of E.Sun Bank's total consumer loans (including revolving credit card debt).

- *Unsecured Personal Loans.* E.Sun Bank provides unsecured personal loans to meet its customers' immediate funding needs. Borrowers may apply for loan amounts between NT$100,000 and NT$1,200,000 from E.Sun Bank without providing any security. Unsecured personal loan applications are typically processed in a week and the funds are disbursed the following day after approval has been obtained. Unsecured personal loans have maturities ranging from one to five years and are currently made at a fixed interest rate of up to 15.75% per annum. In 2003, the weighted average interest rate charged for unsecured personal loans was 9.46% per annum. As of June 30, 2004, E.Sun Bank had NT$15.8 billion of unsecured personal loans outstanding, which represented approximately 10.0% of E.Sun Bank's total consumer loans (including revolving credit card debt).

- *Cash Cards.* E.Sun Bank offers cash cards, with a focus on young customers with limited credit history. The cash cards are marketed under the name *Take It*. Unlike credit cards, cash cards cannot be used to make purchases in stores, but can only be used to withdraw cash from ATM machines. The cash cards offer up to a maximum credit limit of NT$300,000. E.Sun Bank charges a fixed fee for every withdrawal and interest starts to accrue at the time of the withdrawal. Cardholders are required to make minimum payments on a monthly basis. As of June 30, 2004, E.Sun Bank had 297,809 cash cards in force, which carried a balance of NT$5.6 billion, representing approximately 3.5% of E.Sun Bank's total consumer loans (including revolving credit card debt).

- *Home Equity Loans.* In 1994, E.Sun bank began to offer home equity loans, which were secured by a second mortgage on the borrowers' real property. This product is designed to allow home owners to access the equity in their property and use the funds for their other financing needs. Home-equity are only available for owner-occupied properties. As of June 30, 2004, E.Sun Bank had NT$228.6 million of home equity loans outstanding, which represented 0.2% E.Sun Bank's total mortgage loans.

The following table sets forth, for the periods indicated, certain data relating to E.Sun Bank's cash card operations.

	As of and for the Year Ended December 31,				As of and for the 6 months Ended June 30,		
	2001	2002	2003		2003	2004	
	(in millions, except otherwise stated)						
Cash Card Data:							
Interest income	—	—	NT$ 588.9	US$ 17.5	NT$ 230.4	NT$ 458.5	US$ 13.6
Outstanding balance	—	—	4,505.4	133.9	3,443.7	5,579.5	165.8
Interest rates on outstanding balance	—	—	18.25%		18.25%	18.25%	
90-day delinquency rate(1)	—	—	1.22%		0.96%	2.18%	
Net write-off ratio(2)	—	—	3.95%		0.72%	3.56%	
Number of cash cards in force (in Thousands)(3)	—	—	241		186	298	

(1) Calculated by dividing the balance of delinquent cash card debt over 90 days by the outstanding balance as of the end of the period.
(2) Represents net write-offs divided by the average monthly outstanding balance.
(3) Represents the number of cash cards that are valid as of the end of the period.

Mortgage Loans. E.Sun Bank offers a range of mortgage loan products to finance the purchase of residential and small commercial properties, including traditional mortgage loans, adjustable rate mortgage loans, adjustable rate mortgage loans with an interest rate cap, revolving mortgage loans, single mortgage reducing term assurance and offset mortgage loans. As of June 30, 2004, E.Sun Bank had NT$110.7 billion of mortgage loans outstanding, which represented approximately 42.2% of its gross loans (including revolving credit card debt).

- *Traditional Mortgage Loans.* Traditional mortgage loans are secured by the property being purchased, which E.Sun Bank typically requires the owner to occupy. E.Sun Bank typically lends 70% of the appraised value of the property, subject to its evaluation of a particular customer's credit and risk profile. These products carry a prime rate based on a variety of indices. Monthly payments are typically based on a 20-year amortization and maturity schedule. The weighted average interest rate charged on mortgage loans in 2003 was 3.4% per annum. Under certain circumstances, E.Sun Bank charges a pre-payment penalty for loans paid in full within two year of the initial drawdown. In addition, E.Sun Bank charges an origination fee on mortgage loans. As of June 30, 2004, E.Sun Bank had NT$3.0 billion of traditional mortgage loans outstanding, which represented approximately 2.7% of E.Sun Bank's total mortgage loans.

- *Adjustable Rate Mortgage Loans.* In September 2002, E.Sun Bank began offering adjustable rate mortgage loans. The adjustable rate is typically based on the average of time deposit rates quoted by ten major banks in Taiwan as the base index plus an interest rate spread which is determined based on the risk profile of the borrower and nature and use of the property. The base index is adjusted every three months. We believe adjustable rate mortgage loans have proven particularly attractive to our affluent customers since they are able to borrow at lower interest rates as a result of the risk-based pricing feature. As of June 30, 2004, E.Sun Bank had NT$77.3 billion of adjustable rate mortgage loans outstanding, which represented approximately 69.8% of E.Sun Bank's total mortgage loans.

- *Adjustable Rate Mortgage Loans with an Interest Rate Cap.* In June 2004, E.Sun Bank was one of the first banks in Taiwan to begin offering adjustable rate mortgage loans with an interest rate cap, which provides customers with the advantage of electing to pay the negotiated maximum interest rate if the adjustable rate exceeds the cap. We believe this product is attractive to our customers who are particularly sensitive to interest rate fluctuations, since they are able to control their maximum interest rate exposure during the life of the loan. As of June 30, 2004, E.Sun Bank had NT$37.6 million of adjustable rate mortgage loans with an interest rate cap outstanding.

- *Revolving Mortgage Loans.* E.Sun Bank also offers revolving mortgage loans to fulfill personal finance needs of its mortgage loan customers. The borrower of a revolving mortgage loan typically, in addition to the original mortgage loan, obtains a revolving personal loan, the credit line of which is equal to the amount of the repayment under the mortgage loans. As of June 30, 2004, E.Sun Bank had NT$1.5 billion of revolving mortgage loans outstanding, which represented approximately 1.4% of E.Sun Bank's total mortgage loans.

- *Single Mortgage Reducing Term Assurance Loans.* In April 2003, E.Sun Bank began to offer single mortgage reducing term assurance loans, aimed at providing life insurance on the repayment abilities of mortgage loan borrowers. The mortgage loan borrowers of E.Sun Bank may choose to purchase life insurance policies written by Prudential, under which the insurance coverage and insurance premium payable by such customers decrease as the outstanding amount of mortgage loans decreases. We also provide personal loans utilizing the credit line provided under the mortgage loans to such customers for the payment of life insurance premiums under these insurance policies. As of June 30, 2004, E.Sun Bank had NT$196.2 million of single mortgage reducing term assurance loans outstanding.

- *Offset Mortgage Loans.* In May 2003, we began to offer offset mortgage loans. Offset mortgage loans provide borrowers with the advantage of reducing the mortgage loan amount, which is subject to interest payments, by the amount deposited with E.Sun Bank. A borrower only pays interest on the net amount. This product is designed to give customers an incentive to deposit larger amounts with E.Sun Bank. As of June 30, 2004, E.Sun Bank had NT$442.7 million of offset mortgage loans outstanding, which represented approximately 0.4% of E.Sun Bank's total mortgage loans.

Deposit Products

E.Sun Bank offers five basic types of deposit products: checking, demand, savings, time and Postal savings deposits in NT dollars, U.S. dollars and other foreign currencies. E.Sun Bank offers varying interest rates on its interest-bearing deposit products depending upon market interest rates, the rate of return on its interest-earning assets and interest rates offered by other commercial banks. As of June 30, 2004, consumer banking deposits comprised approximately 56.6% of E.Sun Bank's deposits. Interest rates on corporate deposit products are typically lower than those of consumer deposits. As of June 30, 2004, demand deposits comprised approximately 36.7% of E.Sun Bank's deposits.

Checking. Checking accounts do not bear interest and account holders may deposit or withdraw funds at any time without penalty. Checking accounts appear as demanding deposits, non-interest bearing in E.Sun Bank's financial statements.

Demand Deposits. E.Sun Bank offers demand deposits that bear interest and account holders may withdraw funds at any time without penalty. Demand deposits accrue interest at a floating rate.

Savings Deposits. E.Sun Bank also offers two types of savings deposit products, "time" savings deposits and "demand" savings deposits. Time savings deposits require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed or floating rate and withdrawals are allowed prior to maturity only upon payment of a penalty. The minimum maturity for time savings deposits is one year. Demand savings deposits bear interest at a floating rate and account holders may withdraw funds at any time without a penalty.

Time Deposits. Time deposit accounts generally require that the customer maintain a deposit for a fixed term, during which interest accrues at a fixed or floating rate, and only allow withdrawals prior to maturity upon payment of a penalty. Currently, E.Sun Bank offers time deposit products with maturities of up to three years. E.Sun Bank's time deposit products include certificates of deposit in NT dollars and certain foreign currencies.

Postal Deposits. The ROC Postal Bureau places deposits with ROC banks that meet certain credit requirements. These deposits are excluded from E.Sun Bank's deposits for the purpose of meeting reserve requirements. See "Regulation of the Taiwan Financial Services Industry — Regulation of the Company — Financial Requirements." The terms and conditions of these deposits are consistent with those offered under time deposits to consumer banking customers. E.Sun Bank considers these deposits a stable source of funding.

Micropayment Services

E.Sun Bank was the first bank in Taiwan to receive approval from MOF for the provision of micropayment services. E.Sun Bank launched the micropayment "*eCoin*" services in January 2002. The *eCoin* services provide customers with the ability to make small online payments, typically between NT$1 to NT$10,000, for products, content and services through a virtual bank account opened online with E.Sun Bank. Customers can deposit or add value to their accounts using various methods, including by retail channels such as ATMs and convenient stores, by credit card payments and by using banking services through the Internet or mobile phones. E.Sun Bank charges a handling fee from online product vendors or Internet content providers. This fee is based on the payment amounts made through *eCoin* services. As of June 30, 2004, E.Sun Bank signed up 228 online product vendors and Internet content providers to allow their customers to make online payments utilizing *eCoin* services. As of June 30, 2004, E.Sun Bank had more than 150,000 *eCoin* customers.

Credit Cards

Credit card operations have contributed significantly to the growth and profitability of E.Sun Bank's retail banking business in recent years. As of June 30, 2004, E.Sun Bank was the fifth largest credit card issuer in Taiwan in terms of its 1.5 million active credit cards, and the sixth largest credit card issuer in Taiwan in terms of its 2.2 million cards in force representing a market share of approximately 5.4% as of June 30, 2004. As of June 30, 2004, E.Sun Bank had NT$22.2 billion of outstanding revolving credit card debt.

Extensive marketing and innovative product offerings have contributed to the growth of E.Sun Bank's credit card business. The number of E.Sun Bank credit cards in force increased to approximately 2.2 million as of June 30, 2004 from approximately 1.8 million as of June 30, 2003. E.Sun Bank has successfully introduced a number of high-profile credit cards.

- E.Sun Bank was one of the earliest banks to introduce credit cards targeted at specific customer profiles. E.Sun Bank has launched a number of credit cards targeted at professionals, including civil engineers, teachers, nurses and police officers. E.Sun Bank has also launched a number of affinity card programs with retailers and other organizations to increase brand recognition and to capture new cardholders.

- In June 2000, E.Sun Bank launched the *eSuncard*, a credit card targeted at customers with intensive online shopping activities by providing guarantees for transactions conducted online. In August 2000, E.Sun Bank teamed up with Gamania, a leading online game developer, to offer the Gamania co-branded credit card targeted at online game players in Taiwan.

- In October 2001, E.Sun Bank introduced the E.Sun Platinum card targeted at affluent customers.

- In September 2002, E.Sun Bank was selected by the ROC Tourism Bureau as one of the five qualified banks to issue the "National Travel Card." All ROC nationals can apply for this credit card with one of the five designated banks, including E.Sun Bank, to enjoy special discounts and other benefits relating to their travelling activities in Taiwan. E.Sun Bank has worked together with approximately 50 governmental agencies and has issued this card to nearly 120,000 governmental officials in Taiwan.

- Since March 2003, E.Sun Bank has participated in a trial government "purchase card" and "business card" program as part of the government's efforts to simplify governmental procurement procedures and lower procurement costs. Under this program, a governmental entity can better monitor its expenditures and enjoy the benefit of deferred payments offered by these credit cards.

Revenue from credit card operations consists principally of interest paid by cardholders on revolving balances outstanding, fees paid by merchants in connection with purchases and fees paid by cardholders for cash advances. The weighted average of interest rate charged on revolving balances outstanding, including cash advances, was 19.2% per annum over the three years ended December 31, 2003. Cardholders also have the option to pay a fixed minimum payment and allow the balance on their accounts to revolve. Merchant fees range from approximately 1.5% to 1.7% of each transaction amount. As of June 30, 2004, E.Sun Bank had NT$22.2 billion of revolving credit card debt, which represented approximately 8.5% of E.Sun Bank's gross loans.

E.Sun Bank monitors the delinquency of all credit card accounts by the number of days overdue and, when necessary, seeks repayment with the assistance of outside collection agencies. Receivables 30-days to 120-days overdue are collected by E.Sun Bank while receivables more than 120 days overdue are outsourced to outside agents for collection. The 90-day delinquency rate on E.Sun Bank's credit card debt was approximately 1.0% as of June 30, 2004.

The following table sets forth, for the periods indicated, certain data relating to E.Sun Bank's credit card operations.

	As of and for the Year Ended December 31,				As of and for the Six Months Ended June 30,		
	2001	2002	2003		2003	2004	
	(in millions, except otherwise stated)						
Credit Card Data:							
Interest income	NT$ 1,381	NT$ 2,189	NT$ 2,879	US$ 85.5	NT$ 1,339	NT$ 1,730	US$ 51.4
Fee income[(1)]	335	434	894	26.6	394	577	17.1
Credit card transaction volume	26,120	34,516	50,572	1,502.4	22,226	29,388	873.1
Revolving credit card debt[(2)]	7,229	13,159	18,291	543.4	15,363	22,211	659.9
Merchant receivable	2,087	3,270	4,302	127.8	3,695	4,536	134.8
Total credit card receivables	9,316	16,429	22,593	671.2	19,058	26,747	794.7
Interest rates on revolving balance	18.98%	19.71%	19.71%		19.71%	19.71%	
90-day delinquency rate[(3)]	3.22%	2.33%	0.98%		2.13%	0.99%	
Net write-off ratio[(4)]	1.80%	3.32%	6.08%		2.30%	1.58%	
Number of credit cards in force (in thousands)[(5)]	1,021	1,709	2,066		1,831	2,175	
Market share by cards in force (%)[(6)]	4.23%	5.42%	5.46%		5.29%	5.36%	

(1) Includes merchant fees, cash advance fees, annual fees, mail order fees, late charge fees and other fees.
(2) Includes revolving credit card debt, mail loan and other loan products for credit card customers. Revolving credit card debt is accounted for as an accounts receivable on E.Sun Bank's balance sheet.
(3) Calculated by dividing the balance of delinquent credit card debt over 90 days by the total credit card receivables as of the end of the period.
(4) Represents net write-offs divided by the average monthly balance of total credit card receivables.
(5) Represents the number of credit cards that are valid as of the end of the period.
(6) Represents market share based on number of credit cards in force as reported by MOF.

Corporate Banking

E.Sun Bank offers a broad range of products and services to Taiwan's corporate entities, including loans, guarantees and acceptances, factoring, deposit products, overdraft facilities, bills discounting, trade-related financing, payment remittances, foreign exchange transactions, loan syndication and letters of credit.

E.Sun Bank has a separate Corporate Banking Division that enables E.Sun Bank to focus on serving the needs of corporate customers and to develop and maintain "prime bank" relationships with customers. As of June 30, 2004, E.Sun Bank maintained ten corporate banking centers for purposes of corporate loan account management and initial credit review. As of June 30, 2004, loans to corporate customers in the northern, central and southern regions accounted for approximately 83.7%, 5.5% and 10.8%, respectively, of E.Sun Bank's total corporate loans.

As of June 30, 2004, E.Sun Bank had over 4,000 corporate customer accounts, approximately 1,000 of which, primarily SMEs, were added in the six months ended June 30, 2004.

As of June 30, 2004, the Corporate Banking Division had 241 employees, of whom 14 were involved in product development and 143 were client relations officers.

Loans

As of June 30, 2004, E.Sun Bank had NT$102.1 billion in corporate loans outstanding, representing 42.2% of E.Sun Bank's gross loans. Approximately 73.3% of these corporate loans were denominated in NT dollars, with the remainder denominated in foreign currencies, principally the U.S. dollar.

To maintain its asset quality, E.Sun Bank has pursued a policy of diversification by lending to corporate borrowers in a wide range of industry sectors across different geographic regions in Taiwan. E.Sun Bank's largest concentration of corporate loans as of June 30, 2004 was to companies in the financial industry (which includes financial institutions and investment companies), followed by the electronics and trading and retail sectors, which accounted for approximately 20.7%, 15.0% and 14.0%, respectively, of E.Sun Bank's total corporate loans. See "Description of Assets and Liabilities of E.Sun Bank — Total Credit Exposure — Corporate Loan Exposure."

E.Sun Bank's corporate loan products consist principally of floating prime rate-linked loans and short-term fixed-rate indexed loans. Floating prime rate-linked loans and short-term fixed-rate indexed loans comprised approximately 76.4% and 23.6%, respectively, of E.Sun Bank's corporate loans as of June 30, 2004.

- *Prime Rate-linked Loans.* Prime rate-linked loans bear interest at a rate based on a floating "prime rate" (fixed individually by banks in Taiwan) plus a spread and are typically offered to medium- and small-sized companies for general corporate purposes. Maturities are typically one year or less and most loans are rolled over upon maturity after a credit review. We also offer prime rate-linked loans with a higher spread for longer maturities, usually up to three years.

- *Short-term Fixed-rate Indexed Loans.* Indexed loans bear interest at a fixed-rate linked to an external index, such as the cost of funds in the interbank borrowing market and other indices plus a spread and are offered principally to E.Sun Bank's most creditworthy corporate customers. These loans are usually unsecured and are typically used by customers to fund working capital needs. Maturities are typically 180 days or less. A significant portion of these loans are rolled over upon maturity at reset interest rates.

Deposit Products

E.Sun Bank offers corporate banking customers three basic types of deposit products: checking, demand, and time deposits in NT dollars, U.S. dollars and other foreign currencies. See "—Consumer Banking — Deposit Products" for a description of the products. As of June 30, 2004, corporate banking deposits comprise approximately 43.4% of deposits.

Guarantees and Acceptances

E.Sun Bank acts as a surety for its corporate customers by issuing guarantees for commercial paper, corporate bonds, deferred payments for customs and duties on imported raw materials and machinery and repayments of loans from local and foreign banks. It also issues guarantees for bid bonds, performance bonds, down payment bonds and standby letters of credit. Fees earned on guarantees can range up to 1.0% of the guaranteed obligation per annum. Fees on acceptances are typically 1.0% of the draft amount per annum. E.Sun Bank's customers for these products are usually companies in Taiwan that have an existing lending relationship with E.Sun Bank. Guarantees are treated as off-balance sheet liabilities. As of June 30, 2004, E.Sun Bank had a total of NT$7.0 billion in guarantees and acceptances outstanding.

Cash Management

Cash management services enable customers to expedite the check collection process and make payments to suppliers more efficiently and thereby optimize liquidity and reduce operating costs. E.Sun Bank's cash management services consist of an "e-collection" system, a web-based payment solution service through which corporate banking customers can direct E.Sun Bank to collect payments on their behalf for tuitions and other fees, management fees and capital increase payments. In addition, cash management services provide accounts receivable financing services to corporate banking customers by making payments to suppliers more efficiently.

Wealth Management

E.Sun Bank's Wealth Management Division offers a variety of banking products and services to its affluent customers. Our aim in wealth management is to provide customized personal advisory services to individual clients to develop long-term beneficial relationships with our clients.

Affluent Customer Products

E.Sun Bank's affluent customers are invited to join *E.Sun Club*. To qualify as a customer for wealth management, customers must have investable assets (excluding equity securities held, for example, through brokerage accounts at E.Sun Securities) of more than NT$3.0 million. Services offered to these customers include deposit services, financial planning and customized services. Through E.Sun Securities, E.Sun Insurance Brokers Co., Ltd. and E.Sun Securities Investment Trust Co., Ltd., E.Sun Bank's affluent customers also have access to a broad range of financial products, including securities, insurance and mutual funds.

Trust

E.Sun Bank's Trust Division offers a variety of trust products and services to its customers. Trust products and services include trust services, mutual funds, fixed-income and structured investment products and custodial services. As of June 30, 2004, E.Sun Bank had NT$114.4 billion of assets under management (defined as trust funds and mutual funds managed by E.Sun Bank and securities held under custody by E.Sun Bank).

- *Trust Services.* E.Sun Bank offers its consumer and corporate customers a broad range of trust services, including the establishment of employee trust savings funds. E.Sun Bank also acts as a trustee under indentures for the issuance of corporate debt instruments. E.Sun Bank receives a fee for acting as a trustee.

- *Mutual Funds.* E.Sun Bank acts as a distributor of third-party domestic and international mutual funds to its customers through arrangements with more than 33 mutual fund companies, including Fidelity and Franklin Templeton. In addition, customers are offered an opportunity to invest in more than 480 third-party domestic and international mutual funds through our non-discretionary trust funds. E.Sun Bank earns a referral fee for acting as a distributor.

- *Fixed-income and Structured Investment Products.* E.Sun Bank makes available to its customers structured financial products such as structured notes on which it earns fees.

- *Custodian Services.* E.Sun Bank provides custodian services principally to domestic mutual funds, as well as to other financial institutions in Taiwan. These services include the safekeeping of securities and the collection of dividend and interest payments on securities. E.Sun Bank receives a fee for holding securities for the benefit of corporations and mutual funds and receives a commission for the execution of trades in respect of such securities.

Following the recent promulgation of the ROC Trust Enterprise Law, E.Sun Bank plans to provide various new trust services, including collective investment of trust funds, public interest trusts, insurance trusts, financial asset securitization and real estate asset securitization.

Insurance Products

E.Sun Insurance Brokers acts as a third-party distributor of property and casualty insurance products underwritten by a number of domestic and international insurance companies, including American International Group Inc. and CIGNA and earned a commission for distributing such products.

In January 2004, we entered into an agreement with Prudential, under which E.Sun Insurance Brokers will market and promote Prudential insurance products to our customers for an initial term of 10 years. As of June 30, 2004, we had distributed exclusively five categories of Prudential's insurance policies to our customers including single premium life insurance policies, travel insurance policies, term life insurance policies, medical insurance policies and investment-linked insurance policies. Some of these products are tailored for the Taiwan market, such as the insurance policies linked to the performance of a portfolio of twenty NASDAQ stocks or certain Prudential investment funds. In connection with such distribution arrangements, Prudential has agreed to pay E.Sun Insurance Brokers commissions on an earned-premium basis and to provide a variety of administrative, sales, marketing, distribution and other support services, including training the insurance consultants at E.Sun Bank's branches. Prudential has also agreed to certain exclusivity restrictions. Also see "Share Ownership" with respect to Prudential's ownership interest in E.Sun Financial. Other than exclusively distributing Prudential's life insurance products, we continue to distribute other insurance products provided by other insurance companies.

Treasury Division

The Treasury Division is comprised of approximately 39 professionals and is divided into six functional teams:

- *Risk Management Unit.* The risk management unit monitors E.Sun Bank's daily interbank lending, securities investments, foreign currency trades, discount paper trades with foreign banks, guarantees, acceptances, trust fund investments, unsettled positions, mid-day and overnight position limits, stop losses, funding sources for each business operation and funding shortages. The risk management unit monitors the risks following E.Sun Bank's internal "Guideline for Trading, Investment and Funding Operations," which sets forth, for example, counterparty, per trade, stop loss and total exposure limits for different risk-bearing products based on the credit rating of such products, and the delegation of trading authority within E.Sun Bank.

- *Planning Department.* The planning department is responsible for developing new financial products, establishing annual plans for the Treasury Division, updating relevant rules and procedures in connection with the operation of the Treasury Division, drafting and revising operational guidelines or manuals and planning and managing investment activities of E.Sun Bank.

- *Money Market Department.* The money market department is in charge of managing interbank lending for both local and foreign currencies, monitoring reserve positions, trading in various securities to meet funding requirements, setting interest rates for negotiable time deposit certificates and foreign currency lending and deposit and cooperating with the Central Bank of China for its open market operations.

- *Trading Department.* The trading department of the Treasury Division consists of four trading desks:

    - *Fixed-Income Trading Desk.* The fixed-income trading desk's activities principally involve trading for E.Sun Bank's own account using the portion of E.Sun Bank's liquidity reserve in excess of the minimum regulatory requirement. The purpose of such trading is to realize trading gains and to provide liquidity to E.Sun Bank's reserve position. The desk typically trades in debt securities, such as commercial paper, government bonds and bond repurchase transactions.

    - *Foreign Exchange Trading Desk.* The foreign exchange trading desk manages E.Sun Bank's foreign exchange exposure and offers foreign exchange products to E.Sun Bank's customers. The foreign exchange desk trades in currencies, primarily through spot and forward exchange contracts, as part of E.Sun Bank's management of its asset and liability positions. The principal goal of these trading activities is to minimize the impact of currency exchange fluctuations on E.Sun Bank's financial position.

- *Equity Trading Desk.* The equity trading desk operates exclusively to earn income through trading equity securities for E.Sun Bank's own account. The equity trading desk invests in both mutual funds and equity securities.

- *Derivative Trading Desk.* E.Sun Bank offers financial derivative instruments to its customers, including foreign exchange forward contracts, currency swaps, interest rate swaps, cross currency swaps, currency options and forward agreements. The derivative trading desk also engages in hedging transactions relating to E.Sun Bank's interest rate and exchange rate risks and in local and foreign currency derivative transactions. E.Sun Bank has applied to MOF for approval to offer foreign currency exchange rate options, New Taiwan dollar forward rate agreements, New Taiwan dollar asset swaps and structured deposits.

- *Operation Department.* The operation department is in charge of the confirmation, clearing and settlement matters in connection with trades in the money market, bond market, foreign exchange market, derivatives market and interbank lending market, the management of Real-Time Gross Settlement System maintained by the Central Bank of China, custody of short-term bills, other securities and local and foreign currencies, book entry of government bonds, clearing and settlement of bills and securities borrowings. The department also controls the use of trade-related signatures and corporate specimens.

- *Marketing Department.* The marketing department promotes new financial products to E.Sun Bank's corporate banking customers as well as retail banking and wealth management customers. The department focuses on assets and liabilities products to meet the investment, financing and hedging needs of E.Sun Bank's customers. The department also provides consulting services to E.Sun Bank's customers in connection with the banking services provided by E.Sun Bank.

Credit Administration and Policy

Consistent with its conservative financial management philosophy, E.Sun Bank has maintained stringent credit standards since its inception. As of the years ended December 31, 2002 and 2003, E.Sun Bank had a broad-based NPL ratio of 2.43% and 1.59%, respectively. As of June 30, 2004, E.Sun Bank had a broad-based NPL ratio of 1.28%, which was the lowest of any domestic commercial bank in Taiwan, compared to the ROC banking industry average of approximately 4.90%.

E.Sun Bank's credit risk management function is independent of its sales and marketing function. E.Sun Bank manages credit risk by lending to a diverse base of consumer and corporate customers in various industrial and geographic sectors. The credit function is organized into two distinct departments by customer type — consumer and corporate.

MOF has issued specific guidelines governing bank lending. E.Sun Bank strictly follows lending policies stipulated by MOF. The table below sets forth MOF's lending ceiling (defined as a bank's loan size divided by its net worth) and E.Sun Bank's lending ceilings calculated based on MOF guidelines.

Borrower Profile	MOF's Lending Percentage	E.Sun Bank's Lending Ceiling
		(in millions)
Single individual	3%	NT$ 570
Single legal entity	15%	2,848
Single government-owned enterprise	100%	18,989
Group of related party	40%	7,596

See "Regulation of the Taiwan Financial Services Industry — Asset Quality and Non-Performing Loans — Asset Quality — Restrictions on Credit Exposure to Non-related Parties."

Consumer Credit Administration

The consumer banking units and the Credit Card Division are responsible for the consumer loan and credit card approval process, respectively. As of June 30, 2004, the Consumer Banking Division had 61 credit approval officers and 37 acceptance officers responsible for the review and approval of all consumer loan applications. As of the same date, the Credit Card Division had 46 credit officers responsible for the review and approval of all credit card applications. In addition, the Consumer Banking Division also has a separate team of 37 qualified appraisers responsible for appraising the value of collateral. Credit approval policy is based on written guidelines, which are periodically amended by E.Sun Bank's board of directors. These guidelines require a review of a variety of factors, including customer type, customer's ability to repay, use of proceeds, collateral requirements and the length of time a borrower has been a customer of E.Sun Bank.

E.Sun Bank utilizes computerized portfolio modeling and decision support tools to forecast credit risk and make credit policy adjustments. E.Sun Bank utilizes an automated "scoring system" to help manage its credit portfolio. This application uses a data-driven decision tool to determine risk-adjusted pricing and automated loan approvals, establish credit limits and manage applications for credit cards, personal loans and automobile loans. In addition, E.Sun Bank has implemented a credit scoring system developed by a financial institutions consulting company. In addition, all consumer credits are checked with the national credit bureau, the Joint Credit Information Center of Taiwan.

Corporate Credit Administration

The Corporate Banking Division and Loan and Credit Committee are responsible for the corporate credit administration. The Corporate Banking Division reviews and investigates loan applicants and passes cases to the Loan and Credit Committee for approval. The Loan and Credit Committee, whose members consist of the President, the Executive Vice President and the manager of the Consumer Banking Division and the Corporate Banking Division, meets weekly to review and approve large credit applications and review the status of E.Sun Bank's credit exposure. From time to time, E.Sun Bank reviews credit policies to manage its exposure to different industries, groups and individual borrowers.

The application and approval procedures are generally undertaken in three stages. During the first stage, the applicant submits a standard loan application form and interviews with a loan officer. E.Sun Bank then conducts pre-screening (for new clients), credit check and credit analysis during the second stage. Pending the outcome of such check and analysis, the application is submitted to the Loan and Credit Committee for internal credit approval.

E.Sun Bank has instituted a set of lending guidelines for use in the review of corporate loan applications. These guidelines require a review of "5P" categories of information:

- *People:* the background and experience of key members of the applicant's management team;
- *Purpose:* the proposed use of proceeds;
- *Payment:* the applicant's ability to pay interest and repay principal based on an analysis of current and forecasted cash flow and other items;
- *Protection:* in the case of secured loans, the value of proposed collateral; and
- *Perspective:* the business prospects of the applicant and its industry.

E.Sun Bank also conducts on-going monitoring and quarterly formal reviews of its outstanding corporate loans and undertakes more extensive reviews for corporate loans with an inferior risk rating. Special reviews are conducted immediately for loans to borrowers whose creditworthiness has deteriorated due to changes in the market or industry conditions or whose financial status or business condition has reportedly declined. As a result of such reviews, E.Sun Bank may place certain performing loans on its watch list for monitoring purposes or other action.

Distribution

E.Sun Bank recognizes the importance of utilizing a broad network of distribution channels to increase its sources of income and enhance its reputation and brand recognition. E.Sun Bank's distribution network consists of full branches, mini-branches, automatic service machines (including ATMs and deposit machines), phone banking and Internet banking. As part of its long-term strategy for developing and integrating both its traditional and technology-based channels, E.Sun Bank aims to offer customers convenient access while enhancing its overall operating efficiency.

As of June 30, 2004, E.Sun Bank maintained 10 corporate banking centers, 10 consumer banking centers and 1 wealth management center. We have extracted and consolidated all of the processing functions relating to our retail banking and corporate banking businesses from our branches into these newly established centers. Following such consolidation, the branches continue to serve as our venues for deposit taking and front-line centers for marketing and cross-selling of our financial products to our customers. As of June 30, 2004, E.Sun Bank had 1,207 sales agents for marketing purpose. These sales agents seek out new customers as well as coordinate E.Sun Bank's cross-selling efforts to its approximately 3.1 million customers through telemarketing, direct mailings and special promotions. These sales agent also work with customer relationship managers at other subsidiaries of E.Sun Financial to identify potential customers for E.Sun Bank. E.Sun Bank's sales agents are compensated based on a salary plus a bonus if certain sales and operating objectives are achieved.

The following table sets forth the percentage of transactions conducted by E.Sun Bank for the year ended December 31, 2003, through the different types of distribution channels measured in number of transactions.

Type of Distribution Channel	E.Sun Bank Number of Transactions	E.Sun Bank % of Total Transactions
	(in thousands, except percentages)	
ATM	7,709	26.53%
Phone banking	4,457	15.34
Internet banking	3,329	11.46
Automatic bill payment	—	—
Total technology banking	15,495	53.32
Total branch walk-in	13,567	46.68
Total	29,058	100.00%

Branch Network

E.Sun Bank currently has 2 overseas branches and 99 domestic branches (including 45 branches acquired from KBB and 12 sub-branches), of which 29 are located in the greater Taipei area, 48 are located in the Kaohsiung/Pindong area and 22 are in other areas. E.Sun Bank intends to open up to 15 branches using the inactive KBB branch licenses in and relocate up to 23 KBB branches from its current locations to the greater Taipei area by the end of 2006. In addition, E.Sun Bank currently has 291 ATMs and 1,607 customer sales representatives (including 80 ATMs and 400 customer sales representatives from KBB). E.Sun Bank seeks to differentiate itself through the level of service and sales-orientation of its branches. It increasingly uses its branches to provide wealth management services to its affluent customers and to cross-sell different products.

ROC government regulations prohibit banks in Taiwan from opening more than five branches each year. In 2000, the ROC government began to allow banks to establish sub-branches, or "mini-branches," which are smaller in size and staff numbers compared to regular branches, and are only equipped to perform simple and less time-intensive transactions. Sub-branches primarily cater to consumer customers and can also be used as marketing offices and service centers.

E.Sun Bank provides its employees with training courses and seminars on sales techniques for different distribution channels and financial products. E.Sun Bank also provides incentives for sales staff who exceed sales targets. Individual product promotions are typically run on a monthly basis, rather than on an ongoing basis, to promote focused selling efforts and variety and to allow business units to monitor and evaluate a range of products.

Technology-based Channels

E.Sun Bank believes that its technology-based distribution channels are an important part of its distribution network. E.Sun Bank is developing a number of technological solutions to improve customer service and lower operating costs. These technology based channels include automated service machines, call center, Internet banking and automated telephone banking.

Call Center. E.Sun Bank operates two centralized call centers for customer service and customer relationship management for banking and credit cards customers. The call centers are staffed with approximately 112 customer service representatives which handled approximately 4.3 million calls in 2003.

E.Sun Bank's automated service system supports telephone banking. Customers are able to use the automated system to access information about all of their account activities and contact customer service representatives with different skill sets, such as the ability to speak the Taiwanese dialect. This system logs requests, complaints and service records that become part of the customers' account information. E.Sun Bank's automated telephone banking service system handled approximately 4.5 million calls in 2003.

Phone Banking. Phone banking provides customers with a convenient method of banking by allowing customers to transfer funds, make account inquiries and report missing account passbooks by telephone. Phone banking is an efficient distribution channel and reduces administrative costs. In addition, phone banking facilitates E.Sun Bank's marketing strategy of offering its various products and services over the phone. The majority of the transactions over the phone are balance inquiries and consultations with E.Sun Bank's customer representatives.

E.Sun Bank also provides mobile phone banking services through its "i-mode" offered through an alliance with NTT, a Japanese mobile phone service provider. E.Sun Bank currently offers mobile phone banking customers full account inquiry services (including balance inquiries and transaction history reports) and fund transfer services.

Internet Banking. E.Sun Bank aims to provide premium Internet-based solutions to its customers. All of E.Sun Bank's consumer operations, including consumer banking and credit card operations, have Internet platforms, allowing customers to access and change information, place requests and conduct transactions online. Internet banking not only provides convenience to customers, but also enables E.Sun Bank to provide a cost-efficient and scaleable method of processing financial services transactions.

E.Sun Bank has established a dedicated Internet banking team responsible for overseeing the development of a personal banking portal accessible through E.Sun Bank's website. In 1996, E.Sun Bank established a website to provide information to consumer clients on deposits, loans, credit cards, mutual funds and other financial matters. This website also enables customers to conduct funds transfers through the Internet. Since 1996, the number of transactions conducted through the Internet by E.Sun Bank's consumer customers has grown significantly. As of August 2000, customers could apply for credit cards through the Internet. As of June 30, 2004, E.Sun Bank had approximately 215,223 registered Internet banking customers.

Automated Service Machines. Our automated service machines include ATMs and other types of automated service machines, which include machines for making entries in savings passbooks, and kiosks, which allow customers to conduct online banking services. E.Sun Bank currently has 291 ATMs (including 80 ATMs from KBB).

As part of E.Sun Bank's distribution strategy, branches focus on cross-selling products to the most profitable customers, while less profitable customers are steered toward lower-cost channels such as automated service machines. E.Sun Bank sets up 24-hour automated service centers in its branches, which offer ATMs, machines for making entries in savings passbooks and other automated services. E.Sun Bank expects that the migration of transactions from traditional branches to automated channels such as ATMs and online channels will continue.

Industry

The Taiwan banking industry has grown rapidly over the last decade, fueled primarily by economic growth and the ongoing deregulation of the financial services industry. The total assets of financial institutions operating in Taiwan more than doubled to NT$35.0 trillion as of June 30, 2004, from NT$14.4 trillion as of December 31, 1992. Taiwan is now the third largest banking market in Asia (excluding Japan) measured by total banking assets.

The Taiwan banking industry is comprised of banking institutions of various sizes and functions, including domestic commercial banks, domestic specialized banks, domestic medium business banks, foreign banks, credit cooperatives, credit departments of farmers' and fishermen's associations and bills finance companies. As of June 30, 2004, there were 415 banking institutions in Taiwan. Despite this highly fragmented market, domestic commercial banks control approximately 70.7% of the assets of Taiwan's banking institutions. As of June 30, 2004, there were 50 domestic commercial banks in Taiwan.

The Taiwan banking industry has been gradually deregulated since the late 1980s, although many restrictions remain. First, the ROC government granted new licenses to a number of new financial institutions, allowing new domestic banks, bills finance companies and life insurance companies to be established as well as allowing foreign banks and life insurance companies full access to the financial market. The major development in the deregulation of Taiwan's banking industry was the granting of new banking licenses which resulted in the establishment of the 16 New Banks, including E.Sun Bank, in the early 1990s. The New Banks were required to have initial paid-in capital of at least NT$10.0 billion. The establishment of the New Banks resulted in an increase of the total equity base of the Taiwan banking system. In addition, the New Banks increased their loans and assets quickly in order to deploy their relatively large initial capital bases more efficiently.

Second, in August 1997, the ROC government commenced the gradual privatization of government-owned banks. Since 1997, the ROC government's ownership in all large commercial banks has steadily decreased.

Third, the ROC government has fostered the rapid growth of the short-term money market and, to a lesser extent, long-term fixed-income debt markets. This was accomplished primarily through the licensing since 1994 of 13 new bills finance companies, including E.Sun Bills Finance, which specialize in underwriting, guarantees and secondary market trading of short-term bills.

Over the past three years, MOF and other regulatory authorities have implemented, or are in the process of implementing, a series of policy changes designed to strengthen the safety and solvency of the domestic banking system. As of June 30, 2003, the Taiwan banking industry had an average capital adequacy ratio of 10.09%, in excess of the minimum 8% required by the Bureau of Monetary Affairs of MOF and recommended by the Bank of International Settlements.

Competition

E.Sun Bank faces substantial competition in each of its product and service lines. E.Sun Bank competes principally with other domestic commercial banks in Taiwan, but also faces competition from a number of other financial institutions including foreign banks, and, to a lesser extent, various other types of domestic banking institutions.

Certain factors may significantly change the competitive landscape of the Taiwan banking industry. These factors include Taiwan's entry (as the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu) into the World Trade Organization ("WTO"), existing and future strategic alliances between domestic and foreign financial institutions and the ROC government's policy of encouraging cross-border mergers and acquisitions in the Taiwan banking industry and further opening up of the market for foreign competition. The ROC government has enacted laws to permit mergers of financial institutions and the establishment of financial holding companies to broaden the business scope and strengthen the competitiveness of domestic banks.

We do not believe that Taiwan's entry into the WTO will pose an immediate threat to the domestic banking industry's competitive position. We believe that, given their limited number of branches and sales personnel, most of the foreign banks do not compete effectively with domestic banks in Taiwan and that foreign banks in Taiwan are unlikely to match domestic banks in terms of the number of branches and the size of operations for a significant period of time after Taiwan's entry into the WTO. However, the trend in cross-border strategic alliances and mergers and acquisitions and the government's policy of further deregulating the market could change the competitive landscape in the long term.

The table below sets forth, for the date indicated, a comparison of selected information for certain Taiwan banking institutions by type.

	As of June 30, 2004[(1)]							
	Assets		Deposits		Loans		Shareholders' Equity	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
	(in billions, except percentages)							
New Banks								
Taishin Bank	NT$ 677.7	2.7%	NT$ 491.0	2.6%	NT$ 445.0	3.0%	NT$ 55.5	3.7%
Bank SinoPac	475.0	1.9	338.3	1.8	247.6	1.7	26.4	1.8
E.Sun Bank	370.8	1.5	274.8	1.4	240.0	1.6	23.9	1.6
Fubon Bank	330.8	1.3	234.8	1.2	144.7	1.0	30.8	2.1
Cosmos Bank	256.0	1.0	219.4	1.1	151.8	1.0	21.2	1.4
9 other new banks	2,003.6	8.0	1,608.2	8.4	1,269.5	8.7	65.9	4.4
Subtotal of 14 new banks	NT$ 4,113.9	16.5%	NT$ 3,166.5	16.5%	NT$ 2,498.5	17.1%	NT$ 223.7	15.0%
Old Banks								
First Commercial Bank	NT$ 1,516.4	6.1%	NT$ 1,131.1	5.9%	NT$ 868.1	5.9%	NT$ 65.1	4.4%
Hua Nan Commercial Bank	1,513.8	6.1	1,145.2	6.0	848.5	5.8	59.9	4.0
Chang Hwa Commercial Bank	1,344.5	5.4	1,003.3	5.2	819.6	5.6	74.3	5.0
Chinatrust Commercial Bank	1,216.9	4.9	915.3	4.8	684.2	4.7	85.2	5.7
International Commercial Bank of China	1,043.2	4.2	720.3	3.8	567.7	3.9	67.6	4.5
Cathay United Commercial Bank	933.9	3.7	728.9	3.8	585.1	4.0	76.7	5.1
Taipei Bank	771.9	3.1	515.7	2.7	345.0	2.4	49.2	3.3
Chiao Tung Bank	645.0	2.6	304.4	1.6	421.0	2.9	57.5	3.9
The Shanghai Commercial & Saving Bank	405.3	1.6	303.2	1.6	202.8	1.4	44.7	3.0
China Development Industrial Bank	220.7	0.9	41.5	0.2	59.9	0.4	140.1	9.4
21 other old banks	4,432.2	17.8	3,657.5	19.1	2,858.0	19.5	228.3	15.3
Subtotal of 31 old banks	NT$14,043.8	56.4%	NT$10,466.5	54.6%	NT$ 8,260.0	56.5%	NT$ 948.7	63.6%
Government Banks								
Bank of Taiwan	NT$ 2,484.3	10.0%	NT$ 2,023.8	10.6%	NT$ 1,104.0	7.5%	NT$ 157.4	10.5%
Taiwan Cooperative Bank	2,017.3	8.1	1,636.6	8.5	1,194.7	8.2	60.6	4.1
Land Bank of Taiwan	1,727.9	6.9	1,516.8	7.9	1,208.3	8.3	78.6	5.3
Central Trust of China	270.0	1.1	181.4	0.9	177.6	1.2	5.7	0.4
The Export-Import Bank of the ROC	247.9	1.0	181.7	0.9	180.6	1.2	17.6	1.2
Subtotal of 5 government banks	NT$ 6,747.3	27.1%	NT$ 5,540.2	28.9%	NT$ 3,865.2	26.4%	NT$ 320.0	21.4%
Total	NT$24,905.0	100.0%	NT$19,173.3	100.0%	NT$14,623.7	100.0%	NT$1,492.3	100.0%

(1) Data are from unaudited reports to the Bureau of Monetary Affairs of MOF.

E.Sun Bills Finance

Products and Services

Fixed-Income Trading

E.Sun Bills Finance trades fixed-income securities such as government bonds, corporate bonds, convertible bonds, financial debentures and short-term bills, which include commercial paper, negotiable certificates of deposit issued by banks and treasury bills issued by the ROC government. For 2001, 2002 and 2003 and the first half of 2004, net gain on sales of securities was NT$1,002.4 million, NT$820.9 million, NT$800.4 million and NT$154.3 million, respectively, which represented approximately 78.2%, 79.8%, 78.3% and 31.5% of the operating revenue of E.Sun Bills Finance, respectively. As of June 30, 2004, E.Sun Bills Finance's trading position, net of bonds and securities purchased to be resold, was NT$55.3 billion. Approximately 38.1% and 50.1% of E.Sun Bills Finance's trading activities were conducted on bonds and securities, respectively, with financial institutions for the period ended June 30, 2004.

A portion of E.Sun Bills Finance's tradings are carried out for investment purposes and for the purpose of meeting E.Sun Bills Finance's liquidity needs. For 2001, 2002 and 2003 and the first half of 2004, interest income from investments in fixed-income securities was NT$57.2 million, NT$66.0 million, NT$92.1 million and NT$467.2 million, respectively, which represented approximately 3.9%, 5.7%, 8.0% and 58.6% of the operating revenue of E.Sun Bills Finance, respectively.

Guarantees

E.Sun Bills Finance provides guarantees for commercial paper on behalf of its corporate customers. The term of its guarantees is generally for periods less than 12 months. In Taiwan, all short-term bills issued by companies that do not have credit ratings may not be certified, underwritten, brokeraged, purchased or sold by bills finance companies unless they are guaranteed by financial institutions with credit ratings. Fees on guarantees are typically between .2% and 1.0% of the draft amount per annum, depending on the corporate customer's credit rating and financial condition. E.Sun Bills Finance's customers for these products are usually publicly traded companies in Taiwan. Guarantees are treated as off-balance sheet liabilities.

For 2001, 2002 and 2003 and the first half of 2004, fee income from guarantees was NT$70.9 million, NT$73.0 million, NT$74.4 million and NT$38.4 million, respectively, which represented approximately 44.6%, 43.7%, 45.6% and 61.5% of the total fee income of E.Sun Bills Finance, respectively. As of June 30, 2004, E.Sun Bills Finance had a total of NT$18.1 billion in guarantees outstanding.

Certification and Underwriting

E.Sun Bills Finance provides certification and underwriting services of commercial paper. E.Sun Bills Finance provides certification services by authenticating signatures on commercial paper. This service is only provided in conjunction with E.Sun Bills Finance's underwriting services.

For the years ended December 31, 2001, 2002 and 2003, fee income from underwriting was NT$78.3 million, NT$83.5 million and NT$77.0 million, respectively, representing 49.2%, 49.9% and 47.2%, respectively, of the total fee income of E.Sun Bills Finance over the same period. E.Sun Bills Finance commenced its certification services in 2002. For 2003, fee income from certification was NT$11.5 million, which represented approximately 7.1% of the total fee income of E.Sun Bills Finance.

Funding

Like most bills finance companies, E.Sun Bills Finance's major source of funding is repurchase transactions where bonds are sold to a buyer who agrees to sell back the original short-term bills or bonds at an agreed price and date. Repurchase transactions are treated as an off-balance sheet liability since a repurchase transaction position is transferred to the counterparty. However, the market risk of the securities sold in a repurchase transaction remains with E.Sun Bills Finance.

For the years ended December 31, 2001, 2002, 2003 and the six months ended June 30, 2004, repurchase transactions represented approximately 83.1%, 81.1%, 71.9% and 68.8%, respectively, of E.Sun Bills Finance's funding source. Other funding sources include short-term inter-bank borrowings, shareholders' equity, commercial paper and corporate bonds.

Risk Management

E.Sun Bills Finance faces credit risk and market risk. Credit risk represents the loss that E.Sun Bills Finance would incur if a counterparty fails to perform its contractual obligations. Market risk significant to E.Sun Bills Finance's operations is primarily interest rate risk. E.Sun Bills Finance has developed and implemented comprehensive policies and procedures to identify, monitor and manage risk. E.Sun Bills Finance has established an effective credit risk management system, benefiting from its close relationship with E.Sun Bank, through sharing management with E.Sun Bank and obtaining training for its credit officers from E.Sun Bank. The board of directors of E.Sun Bills Finance is actively involved in E.Sun Bills Finance's overall risk management profile, setting a framework for credit risk and market risk.

Credit Risk

Credit risk is the possibility of loss due to the failure of any counterparty to abide by the terms and conditions of any financial contract with E.Sun Bills Finance. E.Sun Bills Finance identifies and manages this risk by capping exposure to a specific industry sector and to a single business group, as well as having a stringent credit approval process, post-disbursement monitoring and remedial management procedures.

The credit risk of E.Sun Bills Finance is concentrated on commercial paper guarantees, which are denominated solely in NT dollars. As of June 30, 2004, E.Sun Bills Finance's guarantee to equity ratio was 3.2 times compared to the industry average of 4.5 times.

The Credit Risk Management Committee of E.Sun Bills Finance holds weekly credit risk management meetings to review its credit risk exposure. Secured transactions over NT$100 million or unsecured transactions over NT$50 million must be approved by the board of directors of E.Sun Bills Finance. E.Sun Bills Finance has a similar internal grading system for evaluation of credit risks as that of E.Sun Bank.

Market Risk

Market risk is the possibility of loss due to changes in interest rates and liquidity of securities in the market. The objective of market risk management is to avoid excessive exposure of E.Sun Bills Finance's earnings and equity to loss and to reduce its exposure to the volatility inherent in financial instruments.

Market risk policies are set by the Asset and Liability Management Committee of E.Sun Bills Finance, but are implemented by the head of trading who also monitors E.Sun Bills Finance's market risk position on a daily basis. The fixed-income trading portfolio is diversified in terms of the types of issuers, maturity and yields. Corporate bonds held for long-term investment purposes are recommended by the traders, reviewed and approved by the President of E.Sun Bills Finance. Trading limits are assigned to each dealer in accordance with experience. General and special audits are undertaken internally by the auditing department, which reports directly to the board of directors of E.Sun Bills Finance. At E.Sun Bills Finance, positions of bills and bonds of certain maturities are limited to a defined percentage of its total position to ensure the liquidity of its portfolio. Stop-loss limits are implemented to sell securities if market interest rates exceed yields by a defined number of basis points. The Asset and Liability Management Committee of E.Sun Bills Finance meets quarterly with the Asset and Liability Management Committee of E.Sun Financial to discuss market risk position of E.Sun Bills Finance.

Industry and Competition

The business environment in which E.Sun Bills Finance operates is very competitive for smaller financial institutions. In the 1970s, the ROC government created the "three old" bills finance companies in an attempt to develop the short-term money market in Taiwan. The three old bills finance companies originally formed an oligopoly that dominated the market for almost 20 years until deregulation took place in the early 1990s and the market was opened to qualified banks and new bills finance companies. Consequently, 13 new bills finance companies have been established over the past few years. As of December 31, 2003, there were 11 bills finance companies in Taiwan after Ta Chung Bills Finance merged with Ta Chung Bank in May 2001, and Cosmos Bills Finance merged with Cosmos Bank in October 2002.

In the primary market, E.Sun Bills Finance competes against the three old bills finance companies, the 10 other new bills finance companies and a number of qualified banks. In the secondary market, E.Sun Bills Finance competes with even more financial institutions, making for an intensely competitive environment. The failure of two bills finance companies in late 1998 reflected in part the intense competition in this industry.

E.Sun Securities

Founded in 2000, E.Sun Securities is a securities firm that provides a range of brokerage and securities products and services, primarily to individuals as well as to corporations and institutions. Services provided by E.Sun Securities include the following:

- *Brokerage*. Brokerage activities generate commissions and fee income from its client's trading transactions.

- *Margin Lending*. E.Sun Securities began to offer its customers margin lending in April 2003. Margin lending is the business of extending loans to customers of securities brokerage firms in connection with customers' purchases of securities. These loans are typically secured against the securities purchased with the loans. Margin lending generates interest income.

- *Proprietary Trading*. Proprietary trading activities include transactions in which E.Sun Securities maintains its own inventory of trading securities and effects transactions with counterparties as a principal. Other proprietary transactions are carried out for investment purposes and for the purposes of meeting E.Sun Securities' liquidity needs. Proprietary trading activities also include transactions in which E.Sun Securities purchases securities underwritten in initial public offerings.

- *Underwriting*. In 2002, E.Sun Securities commenced its underwriting business. E.Sun Securities acts as an underwriter for domestic initial public offerings, follow-on offerings and convertible bond offerings. For the year ended December 31, 2003, E.Sun Securities underwrote seven initial public offerings in Taiwan.

- *Research*. E.Sun Securities' brokerage, proprietary trading and underwriting businesses are complemented by a dedicated research team comprised of eleven research analysts.

Distribution

As of June 30, 2004, E.Sun Securities had 10 branches and 80 brokers. In June 2003, E.Sun Securities acquired the brokerage business of Yung Li Securities Co., Ltd. Upon completion of the transaction, E.Sun Securities expanded its distribution network to ten branches. E.Sun Securities believes that it will be able to leverage the financial holding company structure to cross-sell its existing products to the customers of E.Sun Bank and to cross-sell some of E.Sun Bank's products to E.Sun Securities' customers. In particular, E.Sun Securities views E.Sun Bank's wealth management customers as important to its retail brokerage business.

Risk Management

The Asset and Liability Management Committee of E.Sun Financial oversees the overall risk exposure. Risk at E.Sun Securities is evaluated based on various factors, including E.Sun Securities' shareholders' equity, existing value-at-risk and capital adequacy status. These factors are reviewed regularly by the Investment Committee of E.Sun Securities. E.Sun Securities holds monthly meetings with E.Sun Financial and other subsidiaries of E.Sun Financial to discuss issues relating to asset and liability management and market risk. E.Sun Securities has adopted prudent internal control and procedures for risk management for margin lending, proprietary trading and underwriting.

Industry and Competition

The equity market of Taiwan has grown to become the third largest in Asia after Japan and China in terms of trading volume, and the fourth largest in Asia after Japan, China and Hong Kong by market capitalization. Taiwan's stock market is unique in its high proportion of retail participation. Retail investors account for more than 75% of total trading volume, a substantially higher proportion than in other major

Asian markets. Active retail participation in the equity market has made equity investment and trading an integral part of providing personal financial services in Taiwan. The securities market in Taiwan is highly fragmented with 51 full service securities firms and 59 stand-alone brokerage houses as of December 31, 2003. The market share of the top ten firms rose from 41% to 49% from 1999 to 2003. Given the advantages of scale and scope in the securities industry, consolidation is expected to continue.

E.Sun Venture Capital

Founded in October 2002, E.Sun Venture Capital made venture capital investments that amounted to approximately NT$132.9 million and NT$137.9 million, respectively, in 2003 and for the six months ended June 30, 2004 in domestic pre-IPO companies that operated in a range of industries.

E.Sun Insurance Brokers

Founded in July 2003, E.Sun Insurance Brokers primarily coordinates the distribution of third-party insurance products and services, including principally the insurance products of Prudential, to our consumer customers. E.Sun Insurance Brokers has taken over substantially all of the operations of E.Sun Insurance Agency since its establishment.

E.Sun Securities Investment Trust

E.Sun Securities Investment Trust was established as an affiliate of E.Sun Financial in September 2001. On September 16, 2003, E.Sun Securities Investment Trust became a wholly owned subsidiary of E.Sun Financial through a share exchange. It primarily engages in securities investments, using funds raised by issuing beneficiary certificates in securities investment trusts.

Information Technology

We use IBM MVS as operating system, IMS as database/data communication system, and Netview/VATM as network management system to conduct our core business operations. This core system platform operates as a hub to host and serve many application systems throughout E.Sun Financial group of companies.

On December 6, 2003, we upgraded our IT disaster recovery plan from level 1 to level 5, which we believe has enabled us to maintain a real-time synchronization of our local disk and remote backup disk.

We are also in the process of developing applications relating to asset and liability management, customer value and risk analysis management and risk management.

Asset and Liability Management

We have implemented a system designed to analyze and evaluate the liquidity and interest rate risk exposure of E.Sun Bank on a real-time basis. This system assists E.Sun Bank in monitoring and managing its funding position and liquidity status, pricing its interest rates for deposits and lending products, analyzing the combination of its asset and liability and planning its capital allocation.

E.Sun Bank relies heavily on its management information systems to process and analyze data relating to its asset and liability management. The data processed by its management information system are crucial in managing E.Sun Bank's deposit, lending, foreign currency remittance and trust businesses. We expect our asset and liability management system will assist us in achieving the following goals:

- to closely monitor the funding sources and cash outflow of money market transactions by using the "maturity analysis" method, and to evaluate the cost and benefit ratios for increasing profits from such transactions;
- to obtain a quick evaluation on the potential effects on profits and losses upon fluctuations of interest rates by trial pricing calculations to enhance the accuracy of pricing adjustments;
- to avoid losses incurred by undue interest rate sensitivity gaps through the management of interest rate risk; and
- to monitor the costs and benefits of various funding sources to enhance the profitability of the banking business.

Customer Value and Risk Analysis Management

We have implemented a customer value and risk analysis management system to further leverage our relationships with our customers by utilizing statistics, econometrics, computer modeling and industry expertise. The goal of customer mining is to identify customer values by analyzing transactional, operational, customer and market data collected from all operating entities of E.Sun Financial. We believe that the ability to analyze customer data through this project will enable us to:

- leverage new relationships with customers;
- adjust price with risk;
- speed up time-to-market;
- increase promotion efficiency;
- reduce marketing costs; and
- better integrate with retailer incentive programs.

Risk Management System

Reuters Risk and Trade Management Solutions. As a part of the initiative to enhance the risk management systems at E.Sun Bank, E.Sun Bank entered into an agreement with Reuters in November 2002 in connection with its risk and trade management solutions. We have installed *Kondor Plus*, a part of the Reuters risk and trade management solutions, at E.Sun Bank and later at the holding company. We have installed the following Reuters risk and trade management solutions:

- *Kondor Trade Processing,* a flexible and automated system designed to provide such functions as accounting entry generation, cash management and transaction settlement.
- *Kondor Value at Risk,* which integrates trading and risk information across systems and delivers comprehensive analysis on market and credit risks.
- *Kondor Global Limits,* which consolidates credit limit information through calculation, reporting and revaluation and enables the efficient limit monitoring and utilization across the enterprise.

Employees

We believe our employees are the most important element of our company and professional training is one of our key responsibilities. We have devoted significant attention and resources to recruit and train our employees in order to enhance their professional capabilities and to instill the qualities that are essential to enable us to realize our long-term goals. We provide on the job training as well as training in classrooms. In 2003, E.Sun Bank conducted 93 in-house training sessions and 170 outside training programs. We recruit from the top universities in Taiwan as well as from other financial institutions. We believe that a high degree of customer satisfaction can only be achieved by satisfied employees. We provide benefits that include staff loans and medical, educational and other allowances.

The following table sets forth, for the periods indicated, a breakdown of our employees by our principal subsidiaries.

	As of December 31,		As of June 30,
Principal Subsidiary	2002	2003	2004
E.Sun Financial[1]	38	68	65
E.Sun Bank	1,631	1,816	1,972
E.Sun Bills Finance	93	92	86
E.Sun Securities	102	215	243
Other subsidiaries	—	9	39
Total	1,864	2,200	2,405

(1) The Employees of E.Sun Financial that also served in the subsidiaries.

Subsidiaries

We conduct substantially all of our operations through subsidiaries and associated companies. The following table sets forth information as of December 31, 2003 (except as otherwise indicated) regarding certain of our subsidiaries and associated companies. All amounts due from us for ownership of the capital stock held by us in all of these subsidiaries have been paid in full.

Subsidiary and Address	Total Paid-in Capital	Issued Shares	Percentage Interest Held by E.Sun Financial	Principal Business	Net Income of for the six months ended June 30, 2004
					(NT$ millions)
E.Sun Commercial Bank, Ltd. [(1)] No. 77, Wuchang Street, Section 1, Taipei, Taiwan	NT$18.2 billion	1.8 billion shares	100.0%	Commercial banking and financing business and fixed-income securities	4,067.6
E.Sun Securities Co., Ltd. 4th & 5th Floor No. 77 Wuchang Street Section 1, Taipei, Taiwan	NT$3.1 billion	306.0 million shares	100.0%	Securities brokerage, margin lending, underwriting and proprietary trading of equity	98.2
E.Sun Bills Finance Corporation [(2)] 5th Floor, No. 115 & 3rd Floor, No. 117 Ming Shen East Road Section 3, Taipei, Taiwan	NT$4.3 billion	426.5 million shares	100.0%	Propriety trading of short-term bills and the underwriting and guarantee of commercial paper	312.8
E.Sun Venture Capital Co., Ltd. No. 77 Wuchang Street Section 1, Taipei, Taiwan	NT$1.0 billion	100.0 million shares	100.0%	Venture capital investments	2.6
E.Sun Finance and Leasing Co., Ltd. No. 115 Ming Shen East Road, Section 3, Taipei, Taiwan	NT$198.0 million	19.8 million shares	99.0%	Lease of machinery equipment as well as lease and sale of tools and molds	16.5
E.Sun Insurance Agency Co., Ltd. 9th Floor, No. 64 Wuchang Street Section 1, Taipei, Taiwan	NT$16.2 million	1.6 million shares	99.0%	Insurance agency	22.6
E.Sun Securities Investment Trust Co., Ltd. 8th Floor, No. 85 Yien-Ping South Road Taipei, Taiwan	NT$300.0 million	30.0 million shares	100.0%	Offering securities investment trust	91.5
E.Sun Insurance Brokers Co., Ltd. 13th Floor, No. 5 Yung-Sui Street, Taipei, Taiwan	NT$10.0 million	1.0 million shares	100.0%	Insurance brokers	30.5

(1) As of June 30, 2004, E.Sun Bank had legal reserves in the amount of NT$1,019 million. As of the same date, the value of the shares of E.Sun Bank as recorded in E.Sun Financial's account was in the amount of NT$20,695 million. As of June 30, 2004, all of the shares of E.Sun Bank held by E.Sun Financial have been paid for. E.Sun Financial has no debt outstanding to or from E.Sun Bank as of June 30, 2004.

(2) As of June 30, 2004, E.Sun Bills Finance had legal reserves in the amount of NT$814 million. As of the same date, the value of the shares of E.Sun Bills Finance as recorded in E.Sun Financial's account was in the amount of NT$5,673 million. As of June 30, 2004, all of the shares of E.Sun Bills Finance held by E.Sun Financial have been paid for. E.Sun Financial has no debt outstanding to or from E.Sun Bills Finance as of June 30, 2004

We received cash dividends from each of E.Sun Bank, E.Sun Bills Finance, E.Sun Securities and E.Sun Securities Investment Trust in the amount of NT$2,181.0 million, NT$618.4 million, NT$61.2 million and NT$81.6 million, respectively, with respect 2003 earnings. We received a cash dividend in the amount of NT$383.9 million from E.Sun Bills Finance and no dividend from E.Sun Bank and E.Sun Securities, with respect to 2002 earnings.

Properties

Our headquarters are located in the E.Sun Bank building in Taipei, Taiwan. We and our subsidiaries have our registered offices at the following addresses:

E.Sun Financial Holding Company, Ltd.
No. 77, Wuchang Street, Section 1
Taipei, Taiwan

E.Sun Commercial Bank, Ltd.
No. 77, Wuchang Street, Section 1
Taipei, Taiwan

E.Sun Bills Finance Corporation
5th Floor, No. 115 & 3rd Floor, No. 117
Ming Shen East Road, Section 3
Taipei, Taiwan

E.Sun Securities Co., Ltd.
4th & 5th Floor, No. 77 Wuchang Street, Section 1
Taipei, Taiwan

In addition, our subsidiaries own or lease various pieces of land and buildings for their branches. The floor area of the leased and owned properties of our principal subsidiaries as of December 31, 2003 are set forth below.

Principal Subsidiary	Leased Gross Floor Area	Owned Gross Floor Area	Total Gross Floor Area
		(square meters)	
E.Sun Bank	34,911.93	26,787.07	61,699.00
E.Sun Bills Finance	2,747.11	782.02	3,529.13
E.Sun Securities	5,018.57	739.87	5,758.44
Total	42,677.61	28,308.96	70,986.57

All of our and our subsidiaries' owned and leased properties are covered by insurance covering risks, including fire, typhoon, earthquake and floods, up to their respective replacement values. We, E.Sun Bank, E.Sun Bills Finance and E.Sun Securities also maintain occupier's liability insurance in relation to the respective properties. We believe that our leased and owned properties are adequate for conducting our businesses for the foreseeable future.

Legal Proceedings

We and our subsidiaries are involved in certain routine legal actions incidental to our businesses. Neither we, nor our subsidiaries, taken as a whole, are or have been involved in any litigation, arbitration or administrative proceedings, whether pending or threatened, which may have or have had during the previous 12 months a significant effect on our financial position or the financial position of our subsidiaries and us, taken as a whole.

REGULATION OF THE TAIWAN FINANCIAL SERVICES INDUSTRY

Regulation of the Company

Regulatory Authority

We are regulated as a financial holding company under the ROC Financial Holding Company Act effective since November 1, 2001. Before July 1, 2004, the MOF was responsible for supervising and regulating Taiwan's banking, securities, bills finance and insurance industries, including financial holding companies such as our company. Different subordinated agencies under the MOF (the Bureau of Monetary Affairs, the Securities and Futures Commission and the Department of Insurance) undertake the responsibility of regulating the banking, securities, bills finance and insurance industries separately.

We began reporting on February 18, 2002 to the Bureau of Monetary Affairs of the MOF. The MOF has the right to inspect our financial statements, records and transactions as well as all our business matters at any time it deems appropriate. The MOF may impose sanctions, fines or suspend our business license for any violation of the ROC Financial Holding Company Act.

On July 1, 2004, the FSC was established as the new consolidated financial regulatory agency that integrated three previously existing supervisory bodies of the MOF (the Bureau of Monetary Affairs ("BOMA"), Securities and Futures Bureau (formerly the Securities and Futures Commission before the integration), and the Department of Insurance) based on the Act Governing the Establishment and Organization of the Financial Supervisory Commission of the Executive Yuan passed by the Legislative Yuan on July 10, 2003 and effected on July 1, 2004. Therefore, our company is now under the supervision of the BOMA of the FSC.

Financial Requirements

The ROC Financial Holding Company Act requires that a financial holding company have a paid-in capital of at least NT$20 billion or more and that the group capital adequacy ratio of each financial holding company be not less than 100%. The group capital adequacy ratio is determined by dividing the group net qualified capital by the group required capital. The definitions of group net qualified capital and group required capital are complex, but in principle represent the sum of the qualified capital at the holding company and its subsidiaries divided by the sum of the required capital of the holding company and its subsidiaries. The required capital is calculated separately for each of the subsidiaries, depending on whether they operate as insurance, brokerage and securities, banking, bills finance companies or investment trust companies.

A diagram of the calculation of group capital adequacy appears below.

Financial Holding Company ("FHC") Group Capital Adequacy

Ratio=100%

=

FHC Net Qualified Capital / FHC Required Capital

=

FHC Gross Qualified Capital

– FHC qualified capital comprised of common stocks, preferred stocks, subordinated debentures, pre-paid capital, reserves, accumulated earnings or losses and adjustment equities

Minus

– goodwill, deferred assets and treasury stocks

plus

– FHC proportional interest in subsidiary-held qualified capital (as determined in accordance with relevant industry regulations applicable to such subsidiary)

Note: the above-mentioned preferred stocks and subordinated debentures must meet the following criteria:

1. fully paid when issued, provided that such preferred stocks and subordinated debentures are not guaranteed or credit enhanced by the FHC, subsidiaries and other entities which are prohibited from holding the FHC's shares pursuant to Article 38 of the Financial Holding Company Act;
2. having a term of 7 years or above, with amortization of at least 20% for each of the last 5 years;
3. if holders may redeem before the maturity of the security, the term shall be deemed as matured on the redemption date;
4. the aggregate amount of qualified preferred shares and subordinated debentures may not exceed one-third of the FHC's total qualified capital; and
5. the payment of dividend or interest or repayment of principal would be ceased if such payment causes the group capital adequacy ratio below the minimum group capital adequacy ratio.

In addition, the amount of FHC's preferred shares or subordinated debentures, which (i) were approved by the regulatory authorities. (ii) were issued before July 1, 2003 and (iii) meet the criteria of bank's qualified capital, with amortization of at least 20% for each of the last 5 years, may be included in the FHC's qualified capital.

–

FHC Deductions

– FHC's investments in stock and other qualified capital of subsidiaries at book value *minus* amortized amount

– Qualified capital and required capital of subsidiaries, if the subsidiaries are trust, futures and venture capital businesses, the excess of qualified capital over required capital

– Subsidiaries whose qualified capital is calculated as banks or bills finance companies, the remaining amount of the excess of qualified capital over required capital from subordinated debentures after making up any insufficiency of qualified capital below required capital of such subsidiaries

divided by

FHC Required Capital

FHC required capital = total assets

Minus

– cash (including cash-equivalents), book value of short-term investments, goodwill and deferred assets)

+

Subsidiary Companies Required Capital

FHC proportional interest in subsidiary-held qualified capital as determined in accordance with relevant industry regulations applicable to such subsidiary

–

– FHC's investment in stock and other qualified capital of subsidiaries at bock value *minus* amortized amount

Each subsidiary of a financial holding company has to fulfill the capital adequacy ratio required by the specific law and regulation applicable to its industry.

If a financial holding company does not meet the minimum group capital adequacy ratio of 100%, the FSC may fine the financial holding company an amount ranging from NT$2 million to NT$10 million and may prohibit the distribution of dividends. In addition, the FSC may impose any of the following sanctions on the financial holding company depending on the seriousness of the violation:

- request the financial holding company to increase its capital or decrease its total amount of risk-based assets;
- restrict the payment of directors' and supervisors' remunerations and other compensation;
- restrict any further investments by the financial holding company;
- restrict the financial holding company's ability to submit applications to open new branches;
- request the financial holding company to dispose of shares in invested companies within a certain period;
- discharge the directors and supervisors of their duties and request that new directors and supervisors be elected within a certain period; or
- replace the managers.

Business Scope and Investment Limitation

The business of a financial holding company is limited to investment in, and management of, its subsidiaries. A financial holding company may only invest in companies operating in the financial industry, including banking, bills finance, insurance, credit card, trust, securities, futures, venture capital, foreign financial institution and other financial industry-related enterprises recognized by the FSC. In addition, a financial holding company may apply to invest in non-financial industry-related companies but may not participate in the management of such companies.

Regulations Relating to Merger and Acquisition Activity of Financial Holding Companies and Their Financial Institution Subsidiaries

The ROC government has recently enacted a number of laws relating to mergers and acquisitions to encourage such activities in Taiwan. The main changes applicable to us are set forth below and are derived from the ROC Financial Institutions Merger Law, the ROC Corporate Merger and Acquisition Law and the amended ROC Securities and Exchange Law.

The ROC Financial Institutions Merger Law, effective since December 13, 2000, and the ROC Corporate Merger and Acquisition Law, effective since February 2002, are both applicable to financial holding companies engaged in merger and acquisition activities.

The ROC Corporate Merger and Acquisition Law has recently been enacted and certain provisions of the ROC Corporate Merger and Acquisition Law will therefore require further rulings and explanations by the FSC or the ROC Ministry of Economic Affairs. We do not know how these rulings will affect the interpretation of the laws governing merger and acquisition activities or the impact they will have on merger and acquisition activity in Taiwan.

The ROC Financial Institutions Merger Law applies to "financial institutions," which include institutions engaged in banking (including bills finance), securities, futures, insurance and other industries as designated by the FSC. Pursuant to the ROC Financial Holding Company Act, certain provisions of the ROC Financial Institutions Merger Law are applicable to us and our subsidiaries. In addition, it also applies to us in the event that we engage in merger and acquisition activity. The ROC Financial Institutions Merger Law provides that once two financial institutions have obtained shareholders' approval (or board of directors' approval if shareholders' approval is not required), 30 days' notice must be provided to creditors and regulatory approval is to be sought from the FSC for the proposed merger. The ROC Financial Institutions Merger Law has the following provisions, some of which are different from those applicable to non-financial institution mergers:

- goodwill arising from the merger may be amortized over five years;
- merger expenses may be amortized over ten years;
- losses on the sale of NPLs may be amortized over fifteen years;
- five-year tax loss carry forwards of the merged entity can be used by the surviving entity or the newly-created entity following the merger;
- stamp and deed taxes are not payable;
- land value incremental tax is deferred until the land subject to the tax is transferred after the merger; and
- no duty is owed by the surviving entity or the newly-created entity with respect to the registration of title transfers for properties, liens or collateral.

Lastly, financial institutions in Taiwan may merge with financial institutions outside of Taiwan in a transaction in which either party may survive, provided that the tax loss carry forwards of the non-Taiwan financial institution may not be used by the surviving Taiwan entity or the newly-created Taiwan entity.

The ROC Corporate Merger and Acquisition Law has only been in effect since February 6, 2002 and is applicable to all corporations in Taiwan. However, mergers between financial institutions should first apply the ROC Financial Institutions Merger Law and the ROC Financial Holding Company Act and then apply the ROC Corporate Merger and Acquisition Law in case the ROC Financial Institutions Merger Law and the ROC Financial Holding Company Act do not provide otherwise. Prior to February 2002, mergers and acquisitions were governed by the ROC Company Law. The provisions of the ROC Company Law are now supplemental to those of the ROC Corporate Merger and Acquisition Law with respect to mergers and acquisitions. The ROC Corporate Merger and Acquisition Law provides, among other things, various types of new merger and acquisition mechanisms, which were previously not available in Taiwan. These include:

- the use of share capital, cash or other assets as consideration in connection with the purchase of some or all of the shares of another company or the purchase of business or assets;

- the provision of a share exchange mechanism in the event the shareholders of a target company approve a transaction in which their company becomes a wholly owned subsidiary of an existing company or a newly-created company. This provision may be applicable to financial holding companies, including us, when the share exchange mechanism of the ROC Financial Holding Company Act is not available. The ROC Financial Holding Company Act provides that share exchanges with financial holding companies are limited to share exchanges with banks, bills finance companies, insurance companies, integrated securities firms, securities finance companies and other entities designated by the FSC. This provision of the ROC Corporate Merger and Acquisition Law may be used without such restriction by other corporations' spin-off mechanisms, which allow a company to realign its business;

- a spin-off mechanism, which allows a company to realign its business. This provision is applicable to financial holding companies, including us and our subsidiaries to the extent not provided in the ROC Financial Holding Company Act;

- the elimination of the shareholder approval requirement for all participants in a merger in the event that the merger involves (1) a parent company with its 90%-held subsidiary and (2) a corporation when the newly-issued shares are less than 20% of the outstanding share capital of the surviving entity and the cash or other properties to be delivered to the shareholders of the extinguished entity is less than 2% of the net worth of the surviving entity; and

- recognition that in the context of mergers and acquisitions, a company and its shareholders and the shareholders among each other, may enter into shareholder agreements including agreements which provide for transfer restrictions, tag-along rights, drag-along rights, rights of first refusal, rights of first offer and voting arrangements.

Lastly, the ROC Corporate Merger and Acquisition Law provides for cross-border mergers and acquisitions. The ROC Ministry of Economic Affairs proposed to amend relevant laws and regulations in order to accommodate cross-border mergers and acquisitions with the mechanisms described above.

The ROC Corporate Merger and Acquisition Law contains the following major tax incentives, which are available for all mergers, acquisitions and spin-offs:

- goodwill arising from the transaction may be amortized over fifteen years;

- transaction expenses may be amortized over ten years;

- a consolidated tax return may be filed (if the subsidiaries are 90%-owned for more than one year) and retained earnings of one subsidiary can be offset against losses of another for purposes of the undistributed retained earnings tax; and

- five-year tax loss carry forwards of the merged entity can be used by the surviving entity or the newly-created entity following the merger in proportion to the percentage of shares in the surviving company or the newly-created entity held by the shareholders of the merged entity.

The ROC Corporate Merger and Acquisition Law contains the following tax incentives, which are available only for mergers, spin-offs and acquisitions in which more than 65% of the consideration is paid for in share capital with voting rights:

- securities transfer tax arising from the transaction is not payable;

- stamp and deed taxes are not payable;

- land value incremental tax is deferred until the land subject to the tax is transferred after the merger; and

- business tax on transfer of goods or services is not payable.

The ROC Securities and Exchange Law provides for tender offer procedures and private placement exemptions. A person or a group of persons acquiring more than 20% of shares of a public company in Taiwan in 50 consecutive days is required to tender for the shares of that public company. The ROC Securities and Exchange Law further provides that the offeror is free to set the terms within the scope of the tender offer set by the Securities and Futures Bureau, but in the event the tender offer fails or the offeror is ordered to cease by the Securities and Futures Bureau, the offeror is prohibited from engaging in a tender offer for the same target within one year of the failed or ceased tender offer unless with due cause and approval from the Securities and Futures Bureau.

Merger and acquisition activity in Taiwan is also expected to be stimulated by allowing public companies to privately place their securities with investors. Prior to the recent changes in the ROC Securities and Exchange Law which allow for such placements, public companies wishing to issue new shares had to reserve at least 10% of the amount of shares to be offered to the public and between 10% and 15% of such amount to their employees. In addition, the non-public portion of a new issuance was required to be first offered to existing shareholders. Under the new provisions of the ROC Securities and Exchange Law, a company, after obtaining shareholders' approval, may privately place new shares to investors in the following categories, provided that the aggregate number of the investors in categories (2) and (3) does not exceed 35:

(1) companies engaged in banking, bills finance, trust, insurance, securities or other institutions designated by the FSC;

(2) individuals, legal persons or funds which meet the criteria set by the FSC; and

(3) directors, supervisors and managers of the company or its affiliates.

Shares issued in a private placement are restricted shares and may only be transferred as follows:

- if the owner is a company as described in (1) above, it may transfer the restricted shares to a company engaged in these activities provided that the same class of securities is not also traded on the Taiwan Stock Exchange or the GreTai Securities Market;

- after a one-year holding period and prior to the end of the third year, any holder may transfer the restricted shares subject to volume limitations with respect to transfers of shares to the persons or entities described in (1) and (2) above;

- after a three-year holding period, any holder may transfer the restricted shares freely;

- in a direct private transfer between the parties where the amount is less than 1,000 shares and three months has passed since the last such transfer;

- in transfers by operation of law; and

- in other transfers approved by the Securities and Futures Bureau.

Taxation of Financial Holding Companies

Generally, ROC corporations do not file consolidated income tax returns. However, financial holding companies may file consolidated income tax returns once they hold more than 90% of the share capital of their subsidiaries for more than one tax year. We will not be eligible to file a consolidated income tax return with our subsidiaries in tax year 2002. However, we have filed a consolidated income tax return with our subsidiaries in tax year 2003. Filing of a consolidated income tax return allows us and our subsidiaries to reduce our overall tax burden by:

- offsetting our net operating loss against current gain of our subsidiaries; and

- offsetting retained earnings of one subsidiary against potential losses of other subsidiaries for purposes of the undistributed retained earnings tax.

Financial Holding Company Share Purchase Restrictions

Financial holding company shares may not be purchased by:

- any of the subsidiaries of the financial holding company; or

- companies in which its subsidiaries either own more than 20% of the capital or have the right to directly or indirectly elect or appoint more than half of the directors.

Companies violating these purchase prohibitions may be fined in an amount ranging from NT$2 million to NT$10 million.

Shareholding Restriction

Any person or group of related persons (as defined in the ROC Financial Holding Company Act) proposing to hold more than 10%, 25%, 50% or 75% of the shares of a financial holding company must apply to the FSC for approval. The FSC will review whether the applicant is "fit and proper" to hold a certain amount of shares of a financial holding company. To fulfill the fit and proper requirement, the applicant must not have violated or committed any criminal acts that relate to the credit of the person or have other offenses which, in the view of the FSC, will not meet the fit and proper requirement. In addition, the applicant must disclose the source of funds to be used to purchase the shares of the financial holding company. Any person who purchases shares of a financial holding company exceeding the thresholds without obtaining the prior approval from the FSC may be subject to restrictions on its voting rights with respect to the shares in excess of such thresholds and may be fined an amount between NT$2 million to NT$10 million.

Regulation of Cross-Selling

Cross-selling and sharing of customer information within a financial holding company is subject to the ROC Financial Holding Company Act and the regulations promulgated by the applicable self-regulatory organization on cross-selling and disclosure of the customer's information. These regulations require that a financial holding company and its subsidiaries follow the laws and regulations on confidentiality of information or enter into agreements with customers in this regard. In addition, a financial holding company and its subsidiaries have to disclose to their customers the methods by which they will protect the confidentiality of customer information.

A financial holding company is authorized to create and maintain a central data collection and management system. This system may contain the names, dates of birth, telephone numbers, addresses, identification numbers and other basic information of all the customers of the financial holding company's subsidiaries. In addition, once customers have provided consent, information relating to account activity, credit history, investment activity and insurance records may also be contained in this system. The exact use of this information is not provided for in the regulations and there is uncertainty as to the limitations financial holding companies face in using this data in cross-selling activities.

Cross-selling may also take place in branches of the subsidiaries of financial holding companies. Regulations stipulate that a branch may have counters selling insurance, banking and securities products of each of the subsidiaries provided that they are staffed by employees holding the required licenses or having the necessary expertise.

Regulation of E.Sun Bank

Regulatory Authorities

The banking industry in Taiwan is primarily subject to the legal framework under the ROC Banking Law. The ROC Banking Law sets forth the general regulations that govern the banking business, provides protection to depositors, facilitates the development of productive enterprises and coordinates the operation of bank credit with the national financial policy of Taiwan.

The Bureau of Monetary Affairs of the FSC and the Central Bank of China supervise the banking industry under the ROC Banking Law as follows:

The Bureau of Monetary Affairs

The Bureau of Monetary Affairs is the primary regulatory authority regulating banks and is responsible for the development, regulation and supervision of the banks in Taiwan. It is also responsible for bank licensing and establishing and enforcing rules on lending, investment and other banking practices.

The Central Bank of China

The Central Bank of China regulates monetary and credit policy via open market operations, reserve ratios, and certain credit controls that are used to channel funds to particular economic sectors. The Central Bank of China also manages official foreign exchange reserves, issues currency, and acts as the fiscal agent of the government. Support can be extended to banks through a lender-of-last-resort facility provided by the Central Bank of China. The Governor of the Central Bank of China is appointed for a term of five years.

Licensing of Taiwan's Commercial Banks

Under the ROC Banking Law, in order to commence a commercial banking business, an applicant must first obtain a special permit from the FSC. After obtaining a special permit, an applicant must then incorporate as a company limited by shares and register with the ROC Ministry of Economic Affairs. Subsequently, the applicant must apply to the FSC for a commercial banking license, and finally the applicant must apply to the local government for a Certificate of Registration as a Profit-Seeking Enterprise. The Standards for the Establishment of Commercial Banks issued by the FSC provide that commercial banks must have a minimum paid-in capital of NT$10 billion.

Restrictions on Scope of Business

Under the ROC Banking Law, a bank may only engage in banking activities specifically permitted within its approved scope of business. In order to engage in other activities, such as foreign exchange business, offshore banking, trust business and securities business (as described below), the bank must obtain separate licenses or approval from the FSC or the Central Bank of China, as the case may be. Pursuant to the ROC Banking Law, the businesses and accounts of a bank's trust department and securities department must be segregated from those of its commercial banking business.

A commercial bank is authorized to invest in non-financial related businesses but may not engage in the operations of non-financial related businesses in which it invests. The aggregate amount of a commercial bank's investment in financial related and non-financial related businesses is restricted to a maximum of 40% of its paid-in capital less cumulative losses, of which, the investment amount in non-financial related businesses is restricted to a maximum of 10% of the commercial bank's paid-in capital, less cumulative losses.

However, if a financial holding company is converted from a bank, the ROC Financial Holding Company Act provides that the investment to be made by the bank shall therefore be made by the financial holding company. The bank may still hold the investment portfolios made before the establishment of the financial holding company but may not increase the investment portfolios.

Financial Requirements

Minimum Capital Requirement

The minimum capital requirement for commercial banks is NT$10 billion.

Capital Adequacy

Under the ROC Banking Law and the Regulations Governing the Management of a Bank's Capital Adequacy, all banks in Taiwan are required to maintain a capital adequacy ratio of at least 8.0%. When a bank's capital adequacy ratio is above 6.0% but below 8.0%, distributions of cash dividends or other properties may not exceed 20% of the net income after covering losses of prior years. When a bank's capital adequacy ratio is under 6.0%, a bank's distribution of cash dividends or other properties is prohibited. A fine of between NT$2 million and NT$10 million will be levied on banks with a capital adequacy ratio of below 8.0%. When a bank fails to correct its violations within the period specified by the FSC, the FSC may impose additional fines on a daily basis, remove the responsible person of the bank, or revoke its banking license, depending on the seriousness of the violation. In addition, the FSC may impose any of the following sanctions on a bank depending on the seriousness of the violation:

- restrict the payment of directors' and supervisors' remuneration and other compensation;
- restrict any further investments by the bank;
- restrict the bank's ability to submit applications to open new branches;
- restrict the bank to apply or require the bank to cease operating any business likely to increase its risk-based assets;
- require the bank to dispose of shares in invested companies within a certain period; and

- require the bank to close certain of its branches within a certain period.

Deposit Reserve

E.Sun Bank's reserves against deposits must be in accordance with the ratios prescribed by the Central Bank. The current reserve ratios of deposits, other debts and trust funds as adjusted by the Central Bank on June 28, 2002 are as follows:

- Checking deposits: 10.75%
- Demand deposits: 9.775%
- Demand savings deposits: 5.50%
- Time savings deposits: 4.00%
- Time deposits: 5.00%
- Foreign currency deposits: 0.125%

Legal Reserve

Under ROC Banking Law, a bank must set aside at 30% of its earnings (less losses of the previous years and taxes) to a legal reserve, and may not distribute cash dividends in excess of 15% of its paid-in capital until such time as the legal reserve equals or exceeds its paid-in capital. As of June 30, 2004, E.Sun Bank's legal reserve represented approximately 5.6% of its paid-in capital. Where a bank has a trust department, the bank must set aside separate legal reserves for each of its banking and trust departments.

Liquidity Reserve

Under the ROC Banking Law, the Central Bank of China is empowered, after consultation with the FSC, to fix a minimum ratio of a bank's current assets to total liabilities. The current minimum liquidity reserve ratio set by the Central Bank of China is 7%. As of June 30, 2004, E.Sun Bank's liquidity reserve ratio was 9.8%.

Solvency Ratio

Under the ROC Banking Law, the FSC may, when it deems necessary, consult with the Central Bank of China to prescribe a minimum ratio of a bank's major assets to major liabilities as well as a minimum ratio of a bank's major liabilities to net worth. To date, the FSC has not prescribed such ratios for commercial banks.

Interest Rates

Under the ROC legal framework, commercial banks are free to set and adjust their own prime interest rates. However, pursuant to the ROC Civil Code, a creditor may not enforce payment of interest in excess of 20% and the creditor may also be subject to criminal liability under the ROC Criminal Code for charging excessive interest.

Asset Quality and Non-Performing Loans

Asset Quality

The asset quality of financial institutions is of great concern to the supervisory authorities. Generally, the evaluation process involves identifying and classifying problem assets and then assessing possible losses. Banks are required to set aside a minimum specific allowance of 50% against "Doubtful" loans and 100% against "Unrecoverable" loans. No specific allowance is required for "Substandard" loans. Banks failing to do so are subject to regulatory disciplinary actions. Currently, banks must classify their credit assets into the following four categories based upon the FSC definitions:

Classification	Category	Applicable Conditions
Class I. . . .	(Normal)	Normal loans with no payment difficulties.
Class II . . .	(Substandard)	Loans experiencing payment difficulties but can be recovered in full.
Class III. . .	(Doubtful)	Loans experiencing payment difficulties and the recovery of the total amount due is doubtful.
Class IV. . .	(Unrecoverable)	Loans experiencing payment difficulties and the recovery of the total amount due is extremely unlikely.

Source: Bureau of Monetary Affairs of the FSC.

In January 2004, MOF issued new guidelines regarding loan classification and provision. Under the new guidelines, after July 1, 2005, banks will be required to reclassify their loans into five categories (from the current four categories) based on asset quality. Banks will also be required to set aside a minimum specific allowance of 2% of "Special Mention" loans, 10% of "Substandard" loans, 50% of "Doubtful" loans and 100% of "Unrecoverable" loans.

The new categories of loans and the criteria for each category are as follows:

Classification	Category	Applicable Conditions
Class I. . . .	Normal	Normal loans with no payment difficulties.
Class II . . .	Special Mention	Fully-secured loans with respect to which principal or interest payments are overdue for more than one month but less than 12 months; unsecured loans with respect to which principal or interest payments are overdue for more than one month but less than three months; or loans not yet matured with the counterparty defaulting in other credits.
Class III. . .	Substandard	Fully-secured loans with respect to which principal or interest payments are overdue for 12 months or more; or unsecured loans with respect to which principal or interest payments are overdue for more than three months but less than six months.
Class IV. . .	Doubtful	Unsecured loans with respect to which principal or interest payments are overdue for more than six months but less than 12 months.
Class V . . .	Unrecoverable	Unsecured loans with respect to which principal or interest payments are overdue for 12 months or more, or the recovery of which is extremely unlikely.

Source: Bureau of Monetary Affairs of the FSC.

Definition of NPLs (Non-Performing Loans)

Overdue loans as defined by, and which must be reported to, the FSC are loans with respect to which:

- in the case of short-term loans with bullet payments, loans with respect to which principal is three months or more overdue or interest is six months or more overdue;
- in the case of medium- and long-term installment loans with respect to which interim payments of principal or interest are six months or more overdue or the final payment is three months or more overdue; or
- loans with respect to which E.Sun Bank has taken legal action for repayment or liquidation of collateral prior to the maturity of such loans.

E.Sun Bank defines NPLs as the overdue loans required to be reported to the FSC.

Under the MOF's guidelines of January 2004, starting from July 1, 2005, NPLs will include (i) loans for which the most recent payment of principal or interest is overdue for three months and (ii) loans with respect to which a bank has initiated legal proceedings to recover payment or liquidate collaterals.

The NPL ratio is defined as the value of a banking institution's NPLs divided by gross loans:

$$\text{NPL ratio} = \frac{\text{NPLs}}{\text{Gross loans outstanding}}$$

Under the MOF guidelines, starting from June 10, 2003, banks whose NPL ratios of 5% or below will be entitled to more favorable treatment when making applications to the MOF (now, the "FSC") to move domestic branches, for the approval of new business lines or setting up new ATMs or back offices, for approval to move or remove existing ATMs and back offices or to conduct business activities in the PRC. In addition to the foregoing, a bank with NPL ratio of 2.5% or below will be entitled to more favorable treatment when applying to the FSC to set up new overseas and PRC branches, to switch existing branches to sub-branches, to invest in financial institution related business and to conduct restricted mutual funds business.

Starting from year-end 2003, banks with NPL ratios above 5% will be subject to certain requirements and disciplinary actions, including orders by the MOF (now the "FSC") to improve their NPL ratios within a certain period, prohibitions from establishing new domestic or overseas branches and restrictions from paying remuneration to directors and supervisors. In addition to the foregoing, banks with NPL ratios of or above 15% will be subject to further requirements and disciplinary actions, including restrictions from engaging in high-risk businesses or taking deposits and borrowing money with high interest rates and being ordered to dissolve one or more branches.

Restrictions on Credit Exposure

Under the ROC Banking Law, the "credit" extended by a bank includes loans, overdrafts, discounts, guarantees, bank acceptances and other business activities specified by the FSC.

Restrictions on Credit Exposure to Related Parties

In order to ensure the transparency of lending practices of Taiwan banks, the ROC Banking Law regulates the extension of credit by banks to their related parties. Subject to the exceptions described below, a bank may not extend unsecured credit to a company in which the bank holds 3% or more of such company's paid-in capital, its responsible person, staff members, major shareholders, or any person who is an interested party of the responsible person or a credit officer of the bank.

Under the ROC Banking Law, the term "major shareholders" means any shareholder holding 1% or more of a bank's outstanding shares. When such shareholder is an individual, then any shares held by his or her spouse and minor children are considered as shares held by that shareholder. In addition, the "responsible person" means the responsible person as defined under the ROC Company Law, including but not limited to, the directors, supervisors and managerial staff members. Finally, under the ROC Banking Law, the term "interested party" denotes one of the following categories of persons:

(1) a spouse, a relative by blood within the third degree or a relative by marriage within the second degree of the responsible person or a credit officer of the bank;

(2) a sole proprietorship or partnership which is managed by the responsible person or by a credit officer of the bank or by an interested party referred to in (1) above;

(3) an enterprise of which the responsible person or a credit officer of the bank or an interested party referred to in (1) above, individually or in aggregate, holds or owns 10% or more of its outstanding shares or its capital;

(4) an enterprise of which the responsible person or a credit officer of the bank or an interested party referred to in (1) above is a director, supervisor or manager, unless such office was acquired by virtue of an investment by the bank with the approval of the FSC; or

(5) a corporate entity or other form of organization of which the responsible person or a credit officer of the bank or an interested party referred to in (1) above serves as a legal representative or administrator.

Consumer loans and loans to government enterprises are exempt from this rule. The MOF prescribes a maximum amount under which a consumer loan or revolving credit card debt will be exempted. Currently, the maximum amount for such consumer loan, including the credit card revolving debt, is NT$1,000,000. Under the ROC Banking Law, when applying the 3% rule described above, the shares owned by our affiliated companies, which include companies with mutual investment with E.Sun Bank, companies under the control of E.Sun Bank and companies controlling E.Sun Bank, as defined under the ROC Company Law, will be taken into consideration.

Where a bank extends secured credit to its responsible person, staff members, major shareholders, any person considered to be an interested party in relation to its responsible person or credit officer or a company in which the bank holds 5% or more of the paid-in capital, the credit must be secured in full and in a total outstanding amount of not more than 150% of its net worth, and the terms and conditions of the credit may not be more favorable to the borrower than those extended to other customers under similar conditions. In addition, with respect to secured credits to related parties, the secured credits to each legal entity may not exceed 10% of its net worth and to each individual may not exceed 2% of its net worth. Where the bank plans to extend credit to any of the above-mentioned related parties, a secured credit which would cause the aggregate credits to such person to equal or exceed the lower of NT$100 million or 1% of its net worth, then the bank must first obtain super-majority approval at a meeting of its board of directors attended by more than two-thirds of all directors and at which at least three-fourths of the votes held by the directors present are cast in favor of such proposed loan. Under the ROC Banking Law, when applying this 5% rule, the shares owned by our affiliated companies, which include companies with mutual investment with E.Sun, companies under the control of E.Sun Bank and companies in control of E.Sun Bank, as defined under the ROC Company Law, will be included in the calculation.

Where a bank breaches the above restrictions on the extension of credit to related persons, the person responsible for the breaching act shall be subject to imprisonment of up to three years and/or a fine between NT$5 million and NT$25 million.

Restrictions on Credit Exposure to Non-related Parties

In addition to provisions restricting bank loans to related parties, the ROC Banking Law, also provides restrictions on credits to non-related parties.

The aggregate outstanding balance of credit extended by a bank to any single individual may not exceed 3% of its net worth, of which unsecured credit may not exceed 1% of its net worth. The aggregate outstanding balance of credit extended by a bank to any single legal entity may not exceed 15% of its net worth, of which unsecured credit may not exceed 5% of its net worth. Credit extended by a bank to a government-owned enterprise is exempt from the above restriction, provided that such credit does not exceed the bank's net worth. The aggregate outstanding balance of total credit extended by a bank to a single individual, together with that extended to the borrower's spouse, relative by blood within the second degree, or a company in which the borrower or the borrower's spouse is the responsible person, may not exceed 40% of the bank's net worth, of which the aggregate credits extended to such individual, its spouse and relative by blood within the second degree may not exceed 6% of its net worth. Credit extended to government-owned enterprises is exempt from this restriction.

The aggregate outstanding balance of total unsecured credit extended by a bank to a single individual, together with that extended to the individual's spouse, relative within the second degree, or a company in which the borrower or the borrower's spouse is the responsible person, may not exceed 10% of its net worth, of which the aggregate credits extended to such individual, its spouse and relative by blood within second degree may not exceed 2% of its net worth. The aggregate outstanding balance of the total credits extended by a bank to a group of affiliated companies as defined under the ROC Company Law may not exceed 40% of its net worth, of which the unsecured credit may not exceed 15% of its net worth. Credit extended to government-owned enterprises is exempt from this restriction.

A bank that violates the rules described above will be subject to a fine between NT$2 million and NT$10 million. When a bank fails to comply within a period specified by the FSC, the FSC may impose an additional daily fine, remove the responsible person of the bank, or revoke its banking license, depending on the seriousness of the violation.

The above rule does not apply to credit extended to government agencies, government-owned enterprises, special loan projects of the government and loans specifically approved by the FSC.

The above ceilings for credit to non-related parties are outlined as follows:

Borrower profile	Ceiling on Total Secured and Unsecured Credits to Net Worth of a Bank	Ceiling on Unsecured Credits to Net Worth of a Bank
Each individual	3%	1%
Each legal entity	15%	5%
Each government-owned enterprise	100%	—
Each individual, together with those credits extended to his/her spouse, relatives by blood within second degree, or a company in which such individual or his/her spouse is the responsible person (excluding government-owned enterprise)	40% (provided that the aggregate credits extended to such individual, his/her spouse and relatives by blood within second degree shall be no more than 6%)	10% (provided that the aggregate unsecured credits extended to such individual, his/her spouse and relatives by blood within second degree shall be no more than 2%)
Each legal entity, together with its affiliates defined under ROC Company Law (excluding government-owned enterprise)	40%	15%

Restrictions on Investments in Property

Under the ROC Banking Law, a bank may not invest in real property, except where the real property is to be used for its own business (with certain limited exceptions) and where the value of real properties (other than warehouses) does not exceed its net worth (its total assets less total liabilities) at the time of the investment. In addition, due to the wide use of warehouses by Taiwan banks for storage purposes, the ROC Banking Law specifically stipulates that a bank may invest in warehouses, provided that the total investment value does not exceed 5% of the total deposits of such bank at the time of the investment.

Under the ROC Banking Law, any real property acquired by a bank through foreclosures pursuant to mortgages must be disposed of within four years from the date of such acquisition except in certain limited circumstances.

Issuance of Preferred Shares and Debentures

Issuance of preferred stock by a bank must be approved by its shareholders at a shareholders' meeting and be permitted under its articles of incorporation. Issuance of debentures by a bank must be approved by its board of directors. The period of the debenture shall be not less than two years and not more than twenty years. Subordinated debentures are allowed. The proposed issuance must then be approved by the FSC.

Disclosure of Management Performance and Inspections

The ROC bank disclosure regime consists mainly of compulsory periodic reporting requirements. These requirements are mandated by various rules issued by the MOF and the Central Bank of China pursuant to the ROC Banking Law. Under these rules, a bank must issue reports relating to various aspects of its operation at daily, weekly, monthly, quarterly and annual intervals to allow the FSC and the Central Bank of China to monitor the operation and financial soundness of the bank.

The ROC Banking Law authorizes the FSC, or its designate, to inspect a bank from time to time to examine the business operations and financial conditions of the bank or its related parties, and to require the bank or its related parties to disclose financial statements and other information requested by the FSC. The MOF had previously designated the Central Bank of China and the Central Deposit Insurance Company ("CDIC") to undertake such inspections. The Central Bank of China inspected the head office of a bank at least once every two years, and conducted sampling inspections of its branch offices in accordance with its findings at the head office. However, after the establishment of the Examination Bureau of the FSC on July 1, 2004, the FSC is now undertaking the above-mentioned inspections that were previously executed by the Central Bank of China and the CDIC.

In addition, a bank is required to disclose material information to the Securities and Futures Bureau.

Deposit Insurance Requirement

The ROC Deposit Insurance Act stipulates that banks must obtain insurance for all deposits through a deposit insurance system. Under this system, banks are required to pay an insurance premium to the CDIC every six months at a rate determined by the CDIC in accordance with certain criteria. Currently, the annual rates range from 0.05% to 0.06% of a bank's insurable deposits. The maximum insurance coverage for each depositor is NT$1 million.

Laws and Regulations Governing Other Business Activities

Foreign Exchange Activities

Under the Guidelines Governing the Handling of Foreign Exchange Business by Designated Foreign Exchange Banks issued by the Central Bank of China for conducting foreign exchange businesses, a bank must obtain a foreign exchange license from the Central Bank of China in addition to its banking license.

Upon obtaining the foreign exchange license, the bank may, subject to other Central Bank of China regulations, conduct businesses involving the outward and inward remittance of foreign exchange, foreign deposits and foreign lending.

Banking Branches

Under rules issued by MOF, a commercial bank may establish up to five branches per year (including sub-branches, as mentioned below) within Taiwan. For each branch, a bank must obtain a special permit from the FSC, a branch license from the ROC Ministry of Economic Affairs, a banking license from the FSC and a Registration Certificate as a Profit-Seeking Enterprise from the local government of the region in which the branch is located. In addition, a bank may apply to establish only one new banking branch in each of Taipei City, Kaoshiung City and Taipei County per year. A sixth branch may be established subject to special approval from the FSC.

In order to relocate any of its branches, a commercial bank must submit an application to, and obtain approval from, the FSC. In the application, the bank must specify the purpose for its proposed relocation, the business plan of the branch and financial statements of the branch. Under the rule issued by the MOF on May 19, 2000, a bank may apply to establish sub-branches which have no more than eight persons on their business staff. Under this new rule, the quota of new branches to be established by a bank in each year outlined above applies to both new branches and sub-branches. However, a bank may apply to the FSC to convert each of its current domestic branches into two sub-branches; provided that: (1) the new branches (including sub-branches) to be established by a bank together with those sub-branches converted from current branches in each year may not exceed eight branches; and (2) where no new branches are established and all new sub-branches established are converted from current branches, not more than ten sub-branches may be converted from current branches in each year. The application for the establishment and relocation of sub-branches will be the same as those provided for branches.

In order to establish overseas banking branches, a bank must first establish a foreign department by obtaining a special permit from the FSC. Two years after the establishment of the foreign department, the bank may then apply to the FSC, which will consult with the Central Bank of China, for the establishment of an overseas banking branch. An approval from the FSC is required for each overseas banking branch.

Derivatives Transactions

Under the ROC Banking Law and the Guidelines Governing Derivatives Transactions by Financial Institutions issued by MOF, a bank may conduct derivatives transactions to the extent that such activities are within the business scope of that bank's banking license, provided that the bank also obtains separate approval from the FSC for each derivatives product. The bank must also obtain approval from the Central Bank of China for each type of foreign currency-related derivatives product.

Electronic Banking

Currently, the only rule regarding Internet banking is the Safe Administration of Electronic Banking Business by Financial Institutions issued by MOF, which provides for the monitoring of Internet banking operations. An approval from the FSC is required for any proposed banking services offered over the Internet.

ATM

Under rules issued by MOF, a bank must apply to the FSC to install new ATMs for any given year. The application must state the number of ATMs the bank plans to set up within that year and must be submitted to the FSC by the end of November of the previous year. There is no quota on the number of ATMs which a bank may apply to set up.

In the event that the bank seeks to set up ATMs in excess of the number approved in its application of the previous November, the bank may apply to the FSC for an approval for such additional ATMs. However, such application for additional ATMs may be made only once a year. There is no quota on the number of additional ATMs.

Prevention of Money Laundering

Banks are required to adopt anti-money laundering measures and keep records of transactions that the bank suspects may be money laundering transactions. In addition, the bank must have proof of identification of any customer that enters into a cash transaction of more than NT$1 million in any one business day, and make a record of such transaction.

Foreign Investor Participation

Except for the general regulations on Foreign Investment Approval, Qualified Foreign Institutional Investors and General Foreign Investors, there are no restrictions on foreign shareholdings of Taiwan banks.

Significant Deregulation Programs

In the past decade the government has adopted several measures to deregulate the banking sector. The most relevant measures, other than the ROC Financial Holding Company Act (which is discussed above), are outlined below.

Latest Major Amendments to the ROC Banking Law

The latest major amendments to the existing ROC Banking Law came into effect on November 1, 2000. In general, the new revisions institute prompt corrective actions, ease restrictions on banks' investment and business activities, and require banks to enhance internal controls. These amendments are expected to bring Taiwan's banking practice in line with international standards, and improve the asset quality of banks. Key provisions include:

- granting of additional administrative powers to the MOF (currently the "FSC") for dealing with financial institutions encountering difficulties;

- easing bank ownership restrictions (Article 25 of the amended ROC Banking Law eases the ceiling on direct ownership of a single individual or a single individual, together with his/her spouse, relative within the second degree, or a company in which the single individual or his/her spouse is the responsible person, in a bank from 15% to 25%; prior approval is required for ownership of between 15% to 25%; and 100% ownership will be allowed in the cases of shareholdings by financial holding companies, the government or for the purpose of dealing with insolvent banks); and

- allowing banks increased flexibility to invest in financial related and non-financial related businesses.

Regulation of E.Sun Bills Finance

Regulatory Authorities

The bills finance industry in Taiwan is primarily subject to the legal framework under the ROC Bills Finance Management Law and the ROC Banking Law. The ROC Bills Finance Management Law sets forth the general regulations that govern the bills finance business, coordinate the operation of bills finance industry with the national financial policy of the ROC, promote the development of money market, and protect the trader's right over the bills finance market.

The Bureau of Monetary Affairs of the FSC and the Central Bank of China supervise the bills finance industry under the ROC Bills Finance Management Law, as follows:

The Bureau of Monetary Affairs

The Bureau of Monetary Affairs is the primary regulatory authority regulating bills finance companies and is responsible for the development, regulation and supervision of the bills finance companies in Taiwan. It is also responsible for licensing and establishing and enforcing rules on the bills finance companies' practices.

The Central Bank of China

The Central Bank of China regulates monetary and credit policy via open market operations, reserve ratios, and certain credit controls that are used to channel funds to particular economic sectors. The Central Bank of China also manages official foreign exchange reserves, issues currency, and acts as the fiscal agent of the government.

When promulgating administrative rules in relation to the business operation of the bills finance companies, the FSC generally is required to consult with the Central Bank of China for such promulgation of the rules.

Licensing of Taiwan's Bills Finance Companies

Under the ROC Bills Finance Management Law, in order to commence a bills finance business, an applicant must first obtain a special permit from the FSC. After obtaining a special permit, an applicant then must incorporate as a company limited by shares and register with the ROC Ministry of Economic Affairs. Subsequently, the applicant must apply to the FSC for a bills finance company license, and finally the applicant must apply to the local government for a Certificate of Registration as a Profit-Seeking Enterprise.

Restrictions on Scope of Business

Under the ROC Bills Finance Management Law, a bills finance company may only engage in bills finance activities specifically permitted within its approved business scope.

A bills finance company is not allowed to invest in other businesses unless the invested business is a financial-related business or a business having close connection with the bills finance business with the prior approval of the FSC. The aggregate amount of a bills finance company's investment in financial related businesses and businesses having close connection with the bills finance business is restricted to a maximum of 40% of its paid-in capital less cumulative losses. Within such aggregate investment amount limit, unless otherwise required by other applicable laws or the FSC, the bills finance companies may decide themselves the investment amount for each individual financial related company. However, for investments in businesses having close connection with the bills finance business, the investment amount is restricted to a maximum of 5% of the invested company's paid-in capital.

Financial Requirements

Minimum Capital Requirement

The minimum capital requirement for bills finance companies is NT$2 billion.

Capital Adequacy

Under the ROC Bills Finance Management Law and the Regulations Governing the Management of Bills Finance Companies' Capital Adequacy, the bills finance companies are required to maintain a capital adequacy ratio of at least 8.0%. When a bills finance company's capital adequacy ratio is above 6.0% but below 8.0%, distributions of dividends by such bills finance company may be required by the FSC not to exceed 20% of net income after covering losses of prior years, and the application for establishment of new branches may be limited by the FSC. In addition, the FSC may request such bills finance company to increase capital within a certain period or decrease the aggregate amount of its risk assets.

When a bills finance company's capital adequacy ratio is under 6.0%, a bills finance company, in addition to subject to the limitation mentioned in the preceding paragraph, may be subject to the following sanctions imposed by the FSC:

- restrict the payment of directors' and supervisors' remuneration and other compensation;
- restrict the distribution of the profit either in cash or otherwise;
- restrict any further investments by the bills finance company pursuant to the ROC Bills Finance Management Law;
- require the bills finance company to dispose of shares in invested companies within a certain period;
- require the bills finance company to close certain of its branches within a certain period; and
- require the bills finance company to cease operating any business likely to increase its risk-based assets.

A fine of between NT$2 million and NT$10 million will be imposed on bills finance companies violating the above capital adequacy ratio requirement. When a bills finance company fails to correct its violations within the period specified by the FSC, the FSC may impose additional fines on a daily basis, remove the responsible person of the bills finance company, or revoke its bills finance company license, depending on the gravity of the violation.

Legal Reserve

Under the ROC Bills Finance Management Law, a bills finance company must set aside at least 30% of its earnings (less losses of the previous years and taxes) to a legal reserve, and may not distribute cash dividends in excess of 15% of its paid-in capital until such time as the legal reserve equals or exceeds its paid-in capital. As of June 30, 2004, E.Sun Bills Finance's legal reserve represented approximately 19.1% of its paid-in capital.

Business or Financial Ratio

Under the ROC Bills Finance Management Law, the FSC may, when it deems necessary, consult with the Central Bank of China to prescribe minimum or maximum operating or finance ratios for a bills finance company. To date, the FSC has not prescribed such ratios for bills finance companies.

Restrictions on Credit Exposure

Restrictions on Credit Exposure to Related Parties

In order to ensure the credit exposure of guarantee and endorsement practices of the bills finance companies is reasonably controlled, the ROC Bills Finance Management Law regulates the guarantee and endorsement practices by bills finance companies to their related parties.

Subject to the exceptions described below, a bills finance company may not extend unsecured credit to a company in which the bills finance company holds 3% or more of such company's paid-in capital, its responsible person, staff members, major shareholders, or any person who is an interested party of the responsible person or a credit officer of the bills finance company.

Where a bills finance company extends secured credit to its responsible person, staff members, major shareholders, any person considered to be an interested party in relation to its responsible person or credit officer or a company in which the bills finance company holds 5% or more of the paid-in capital, the credit must be secured in full and in a total outstanding amount of not more than 150% of its net worth, and the terms and conditions of the credit may not be more favorable to the borrower than those extended to other customers under similar conditions. In addition, with respect to secured credit to related parties, the secured credit to each person may not exceed 10% of its net worth. Where the bills finance company plans to extend credit to any of the above-mentioned related parties, a secured credit which would cause the aggregate credit to such person to equal or exceed the lower of NT$100 million or 1% of its net worth, then the bills finance company must first obtain super-majority approval at a meeting of its board of directors attended by more than two-thirds of all directors and at which at least three-fourths of the votes held by the directors present are cast in favor of such proposed loan.

Where a bills finance company breaches the above restrictions on the extension of credit to related persons, the person responsible for the breach shall be subject to imprisonment of up to three years and/or a fine ranging between NT$5 million and NT$25 million; provided, however, that where a bills finance company's credit extension is not approved by a resolution adopted by the supermajority of the board of directors or exceeds the limit of outstanding credit amount, the foregoing penalties are not applicable but the persons to whom such breaches are attributable would be subject to a fine ranging between NT$2 million and NT$10 million.

Restrictions on Credit Exposure to Non-related Parties

In addition to provisions restricting credit extended to related parties, the ROC Bills Finance Management Law also provides restrictions on credits to non-related parties.

The aggregate outstanding balance of credit extended by a bills finance company to any single legal entity may not exceed 12% of the net worth of the company guaranteed or endorsed, of which unsecured credit may not exceed 5% of the net worth of the company guaranteed or endorsed. The aggregate outstanding balance of total credit extended by a bills finance company to a single legal entity, together with that extended to the following persons, may not exceed 35% of the bills finance company's net worth, of which the unsecured credit extended may not exceed 20% of its net worth:

- a company in which the borrower's chairman or president or such chairman's or president's spouse, parents, grandparents, children or grandchildren is the chairman or president;

- the other legal entity, of which one or two of the guarantors or the collateral providers are identical to those of the borrower;

- the other legal entity which is the guarantor or the collateral providers of the borrower; and

- the affiliated companies as defined under the ROC Company Law.

Credit extended to the special guarantee projects approved by the FSC is exempted from the above restriction.

A bills finance company that violates the rules described above will be subject to a fine ranging between NT$2 million and NT$10 million. When the bills finance company fails to comply within a period specified by the FSC, the FSC may impose an additional daily fine, remove the responsible person of the bills finance company, or revoke its bills finance business license, depending on the seriousness of the violation.

Restrictions on Credit Exposure

The aggregate outstanding amount of the short-term bills guaranteed or endorsed by the bills finance company shall not exceed eight times of its net worth.

Restrictions on Investments in Property

Under the ROC Bills Finance Management Law, with certain limited exceptions, a bills finance company may not invest in real property, except where the real property is to be used for its own business. The value of real properties invested by the bills finance company pursuant to the exception may not exceed 10% of its net worth and the aggregate investment amount in real properties (for or not for its own use) shall not exceed 30% its net worth at the time of the investment.

Where the bills finance company enters into real property transactions with its responsible person, staff, major shareholders or interested party of its responsible person or its more than 3% owned enterprise, such transaction shall be in line with business practice and the bills finance company must first obtain super-majority approval at a meeting of its board of directors attended by more than two-thirds of all directors and at which at least three-fourths of the votes held by the directors present are cast in favor of such proposed real properties transaction.

Disclosure of Management Performance and Inspections

The ROC bills finance company disclosure regime consists mainly of compulsory periodic reporting requirements. These requirements are mandated by various rules issued by the FSC and the Central Bank of China. Under these rules, a bills finance company must issue reports relating to various aspects of its operation at daily, weekly, monthly, quarterly and annual intervals to allow the FSC and the Central Bank of China to monitor the operation and financial soundness of the bills finance company.

The ROC Bills Finance Management Law authorizes the FSC, or its designee, to inspect a bills finance company from time to time to examine the business operations and financial condition of the bills finance company or its related parties, and to require the bills finance company or its related parties to disclose financial statements and other information requested by the FSC.

In addition, a public bills finance company is required to disclose material information to the Securities and Futures Bureau.

Regulation of E.Sun Securities

Regulatory Authorities

The Taiwan securities market is primarily subject to the legal framework under the ROC Securities and Exchange Law. The ROC Securities and Exchange Law sets forth the general regulations that govern the offering, issuance and sale of securities, the securities firms (including securities underwriters, proprietary traders and brokers), the securities associations and the stock exchanges. There are four regulatory authorities for the securities industry, three statutory and one self-regulatory, as described below:

Securities and Futures Bureau

The primary regulatory authority of the Taiwan securities market is the Securities and Futures Bureau (formerly, the Securities and Futures Commission). The Securities and Futures Bureau is responsible for the development, regulation and supervision of the capital markets and the futures industries. The Securities and Futures Bureau is also responsible for licensing and inspection of securities firms, and may suspend the licenses of securities firms in breach of ROC laws.

Taiwan Stock Exchange Corporation

The Taiwan Stock Exchange Corporation is the primary regulatory authority of the Taiwan Stock Exchange. It reviews companies applying for Taiwan Stock Exchange listing, oversees trading activities and regulates listed companies and securities firms. To maintain an orderly market, the Taiwan Stock Exchange Corporation regularly dispatches inspectors to examine whether securities firms and the Taiwan Stock Exchange listed companies' operations and financial status are in compliance with all applicable regulations.

ROC GreTai Securities Market

The GreTai Securities Market is the primary authority that reviews applications for companies seeking to trade their shares on the GreTai Securities Market and oversees the trading activities and regulates GreTai Securities Market traded companies and securities firms. To maintain an orderly market, the GreTai Securities Market regularly dispatches inspectors to examine whether securities firms and the GreTai Securities Market traded companies' operations and financial status are in compliance with all applicable regulations.

Chinese Securities Association

All securities firms are required to be members of the Chinese Securities Association. The Chinese Securities Association is not a statutory body. The Chinese Securities Association establishes and enforces the self-regulatory rules applicable to proprietary trading, underwriting and brokerage activities.

Capital Adequacy Ratio Requirement

Unless concurrently operated by a financial institution and subject to the ROC Banking Law and unless the Securities and Futures Bureau otherwise permits, all securities firms in Taiwan are required to maintain an appropriate capital adequacy ratio which is the ratio of the qualified net amount of self-owned capital to estimated operation risk amount. If the qualified net amount of self-owned capital maintained by a securities firm is less than 150%, 120% or 100% of the estimated operation risk amount, the Securities and Futures Bureau may impose varying degrees of restrictions on the firm's business.

Business Scope and Commission

Under the ROC Securities and Exchange Law, securities businesses can be categorized into underwriting, proprietary trading, and brokerage, each of which requires a separate license.

Underwriting

Underwriting can be conducted either on a firm commitment basis or on a best efforts basis. In the case of firm commitment underwriting, the total underwriting amount shall not exceed 15 times the balance of a securities firm's current assets less current liabilities. If the capital adequacy ratio of a securities firm is less than 120% or 100%, the multiple shall be adjusted to 10 times or 5 times, respectively.

The maximum compensation for firm commitment underwriting and the maximum commission for best efforts underwriting shall not exceed 5% and 2%, respectively, of the total underwriting amount.

Proprietary Trading

A securities firm may buy and sell securities for the firm's own account in the market. Unless concurrently operated by a financial institution and subject to the ROC Banking Law, a securities firm shall not hold more than 10% of the total issued and outstanding shares of any company for its own account. The Securities and Futures Bureau has the authority to grant waivers to this provision on a case-by-case basis. If the aggregate of the securities acquired by a securities firm through underwriting and those traded for its own account exceeds the limit, the portion in excess shall be sold within one year of its acquisition.

A securities firm is not permitted to conduct short selling for proprietary trading purpose.

Brokerage

A securities firm may place a customer's buy or sell orders, and, it may not engage in discretionary securities trading on its customer's account. The only financial companies that can engage in discretionary trading are securities investment consulting enterprises and securities investment trust enterprises with licenses from the Securities and Futures Bureau.

A securities firm may charge up to 0.1425% of the transaction value as commission, subject to certain reporting requirements of the Taiwan Stock Exchange.

Warrants Issuance

After obtaining an adequate credit rating from a credit rating agency as specified by the Securities and Futures Bureau and a qualification certificate from the Securities and Futures Bureau, an integrated securities firm (i.e., a securities firm conducting brokerage, underwriting and proprietary trading businesses), may issue warrants on the underlying securities of listed companies other than that securities firm's own shares.

Margin Trading

The two types of margin trading include margin lending and short selling. A securities firm conducting margin trading must be approved by the Securities and Futures Bureau and is required to state such approval in the firm's license. For margin trading, a NT$50 million deposit is required. A securities firm is required to sign a margin trading agreement with the client, open a credit account for the client, and collect the margin based on the rate prescribed by the Securities and Futures Bureau. Securities purchased with a margin loan must be retained as collateral. Proceeds from short sales must also be retained as collateral, in addition to a margin to be paid by the customer for the short sale.

DIRECTORS, MANAGEMENT AND ORGANIZATION

General

The ROC Company Law and our Articles of Incorporation provide that our board of directors is to be elected by our shareholders in a shareholders' meeting at which a quorum, consisting of a majority of all the issued shares having voting rights, is present. Our directors and supervisors are elected at the same time for a three-year term unless one-third or more of the directorships are vacant at which time a shareholders' meeting is convened to elect directors to fill the vacancies. The current term of our directors and supervisors expires on January 27, 2005. Directors may serve any number of consecutive terms and may be removed from office at any time by a resolution adopted at a shareholders' meeting. The Chairman is a director elected by the directors. The Chairman of our board of directors presides at meetings of our shareholders, meetings of our board of directors and also represents us in connection with external matters. The board of directors is responsible for the management of our business and the members of the board of directors have fiduciary duties to our company and our shareholders. The board of directors meets on average once per quarter.

Our Articles of Incorporation provide for three supervisors. In accordance with the ROC Company Law, our supervisors are elected by our shareholders and cannot concurrently serve as our directors or officers or have any staff position with us. Their duty is to oversee our activities and the activities of the board of directors and they have the power to, among other things, investigate our business and financial condition, inspect corporate records, verify statements prepared by the board of directors prior to the annual general shareholders' meeting, call shareholders' meetings if they deem necessary, and represent us in negotiations with directors. In addition, supervisors have the power to request the board of directors to cease acting in contravention of applicable laws or regulations or in contravention of the Articles of Incorporation or any resolution adopted by our shareholders. When conducting investigations, supervisors may engage independent experts at our cost.

Eleven out of thirteen directors and supervisors serve in their capacity as representatives of the corporate entities who hold the board or supervisor seats and do not serve in their individual capacity. Consequently, if any of the individuals who serve in their capacity as representatives of the corporate entities who hold the board or supervisor seat withdraws, dies or otherwise becomes unable to serve, the corporate entity he or she represents has the ability to replace that person with a different representative of its choice.

Our board of directors is currently comprised of thirteen directors, including one independent director. We also have three supervisors. The independent director was elected by the shareholders' meeting dated June 11, 2004. Directors and supervisors are deemed "independent" if they have five years of experience in business, legal or financial matters or in the company's business, with one of the independent directors being an accounting or financial professional, and attend three hours of legal, financial or accounting training per year. In addition, directors and supervisors will be deemed "independent" only if, for at least one year prior to their election, they:

- do not serve as independent directors or supervisors on the boards of directors of five or more other companies;
- are not employed by the company or its affiliates and are not directors or supervisors of the company and the affiliates;
- do not directly or indirectly hold over 1% of the shares of the company and are not ranked among the top ten individual shareholders of the company;

- are not married or related within the second degree of employees of the company or its affiliates, directors and supervisors of company affiliates, holders (directly or indirectly) of over 1% of the outstanding shares of the company or shareholders who are ranked among the top ten individual shareholders of the company;

- are not directors, supervisors or employees of corporate shareholders which directly or indirectly hold more than 5% of the shares of the company or ranked among the top five corporate shareholders of the company;

- are not directors, supervisors, managers or holders of more than 5% of the shares of a company or institution with which the company has a financial or business relationship; and

- are not a spouse of, partner, director, supervisor or manager of providers of financial, commercial or legal services to the company or its affiliates.

In addition, to be deemed as "independent," directors and supervisors must be elected in their individual capacities.

The meeting of the board dated July 27, 2004, also resolved to set up an audit committee to establish the functional administrative system. And the above-mentioned independent director was appointed as the chairman of the committee.

Directors and Supervisors

The following table sets forth the name of each director and supervisor, and position held.

Name	Position
Yung-Jen Huang	Chairman
Yung-Hsiung Hou[(1)]	Director
Ron-Chu Chen[(2)]	Director
Tai-Chi Lee[(3)]	Director
Jackson Mai[(4)]	Director
Chiu-Hsiung Huang[(5)]	Director
Fei-Long Tsai[(6)]	Director
Cheng-Pin Lee	Director
S.C. Shue[(7)]	Director
Bor-I Huang[(8)]	Director
Yuh-Ming Ho[(9)]	Director
Chou-Tsai Lin	Director
Chen-En Ko[(10)]	Director
Chuan-Hsing Huang[(11)]	Supervisor
Charles C. Yuan[(12)]	Supervisor
Yu-Chen Yang[(13)]	Supervisor

(1) Representative of E.Sun Foundation.

(2) Representative of Ron Yuan Investment Co., Ltd.

(3) Representative of Fullead Investment Co., Ltd.

(4) Representative of Hsin Tung Yang Co., Ltd.

(5) Representative of Allcan Investment Co., Ltd.

(6) Representative of Shang Chun Investment Co., Ltd.

(7) Representative of Hsing Ta Cement Co., Ltd.

(8) Representative of Shan Meng Investment Co., Ltd.

(9) Representative of Bowlead Investment Co., Ltd.

(10) Independent Director

(11) Representative of Hsin Kao Shan Investment Co., Ltd.
(12) Representative of Shi Yang Construction Co., Ltd.
(13) Representative of Ming Chuan Co., Ltd.

The business address of each director and supervisor is our registered office.

Set forth below is a short biography of each director and supervisor of E.Sun Financial.

Yung-Jen Huang is our Chairman of the board of directors. He is also the Chairman of E.Sun Bank. He was previously the Senior Vice President of Hua Nan Commercial Bank. Mr. Huang has a Bachelor's degree from National Chung Hsing University.

Yung-Hsiung Hou is one of our directors and our President. He is also the President of E.Sun Bank. He has been working in the financial services industry for 39 years. He was previously the Vice President of Hua Nan Commercial Bank. Mr. Hou has a Bachelor's degree in commerce from National Taiwan University.

Ron Chu Chen is one of our directors. He is also the Chairman of Nien Hsing Textile Co., Ltd.

Tai-Chi Lee is one of our directors. He is also the Chairman of the board of directors of Tidehold Development Co., Ltd. He was previously the Chairman of Yung Li Securities Co., Ltd. Mr. Lee has a Bachelor's degree in business administration from Fu Jen Catholic University.

Jackson Mai is one of our directors. He is also the Chairman of the board of directors of Hsin Tung Yang Co., Ltd. and Rui Yang Co., Ltd. Mr. Mai graduated from National Taiwan Commercial Vocational Senior High School.

Chiu-Hsiung Huang is one of our directors. He is also an accountant. Mr. Huang has a Bachelor's degree in accounting from Feng Chia University.

Fei-Long Tsai is one of our directors. He is also the Chairman of the board of directors of E.Sun Securities. He was previously the Vice President of E.Sun Bank. Mr. Tsai has a Bachelor's degree in political science from Soochow University.

Cheng-Ping Lee is one of our directors. He is also the supervisor of Taiwan Tanabe Seiyaku Co., Ltd. and Chairman of TDW Pharmaceutic Corp. Mr. Lee has a Master degree from University of San Francisco.

S.C. Shue is one of our directors. He was also the former Chairman of the board of directors of E.Sun Bills Finance. He was previously the president of E.Sun Bills Finance. Mr. Shue has a Bachelor's degree in accounting and statistics from National Chung Hsing University.

Bor-I Huang is one of our directors. He is also the Dean of Student Affairs of Shih Chien University. He was previously the President of E.Sun Securities. Mr. Huang has a Bachelor's degree in economics from National Chung Hsing University.

Yuh-Ming Ho is one of our directors. He is also a Chief Doctor of Chiayi Christian Hospital. Mr. Ho has a Bachelor's degree in medicine from National Taiwan University.

Chou-Tsai Lin is one of our directors. He is also the Chairman of Fu Yu Co., Ltd. He was previously a director of ROC Swimming Association. Mr. Lin graduated from Tamkang Junior College of English.

Chen-En Ko is one of our directors. He is also our independent director. Mr. Ko was the former Dean of College of Management and a professor of the Accounting Department of National Taiwan University.

Chuan-Hsing Huang is one of our supervisors. He is also an Associate Professor in the Department of Finance and Banking of Aletheia University. He was previously an assistant researcher and secretary of the Financial Training Institute. Mr. Huang has a Doctorate degree in economics from National Chung Hsing University.

Charles C. Yuan is one of our supervisors. He is also a director of Chin-Ou Vocational School. He was previously the Chairman of the board of directors of E.Sun Bills Finance. Mr. Yuan has a Bachelor's degree in economics from National Taiwan University.

Yu-Chen Yang is one of our supervisors. She is also an accountant. Ms. Yang has a Bachelor's degree in accounting from National Cheng Kung University.

Executive Officers

The following table sets forth certain information relating to the executive officers of E.Sun Financial.

Name	Position
Yung-Hsiung Hou	President
Jiaw-Hwang Shy	Deputy President
Wu-Lin Duh	Deputy President
Cheng-Hsiung Chen	Chief Auditor
Tung-Long Kuo	Senior Executive Vice President, Corporate Banking Division
Yvonne H. Yang	Chief Risk Officer of Risk Management Division and Chief Information Officer of Information System Division
Magi Chen	Chief Financial Officer, Head of International & Treasury Division
Joseph N.C. Huang	Executive Vice President of Headquarter Division
C.S. Huang	Head of Asset Management Business Division
Yung-Ho Huang	Head of Consumer Banking Business Division

The business address of each executive officer is our registered office.

Set forth below is a short biography of each executive officer of E.Sun Financial.

Yung-Hsiung Hou. See "— Directors and Supervisors."

Jiaw-Hwang Shy is our Deputy President. Mr. Shy joined us in 2002. He is also a Senior Executive Vice President of E.Sun Bank. He has been working in the financial services industry for 30 years. Mr. Shy has a Bachelor's degree in business administration from National Chung Hsing University.

Wu-Lin Duh is our Deputy President. Mr. Duh joined us in 2002. He is also a Senior Executive Vice President of E.Sun Bank. He has been working in the financial services industry for 31 years. Mr. Duh graduated from Open Junior College of Commerce of National Cheng Kung University.

Cheng-Hsiung Chen is our Chief Auditor. Mr. Chen joined us in 2002. He is also the Chief Auditor of E.Sun Bills Finance. He has been working in the financial services industry for 42 years. Mr. Chen graduated from National Taiwan Academy of Arts.

Tung-Long Kuo is our Senior Executive Vice President of Corporate Banking Division. Mr. Kuo joined us in 2002. He is also the Senior Executive Vice President of Corporate Finance Division of E.Sun Bank. He has been working in the financial services industry for 32 years. Mr. Kuo has a Bachelor's degree in public administration from National Chung Hsing University.

Yvonne H. Yang is our Chief Risk Officer of Risk Management Division and Chief Information Officer of Information System Division. Ms. Yang joined us in 2002. She is also a Senior Executive Vice President of E.Sun Bank. She has been working in the financial services industry for 27 years. Ms. Yang has a Bachelor's degree in economics from Fu Jen Catholic University and an executive MBA degree in information management from the National Taiwan University. In recognition of her information technology capabilities, Ms. Yang was awarded the "Outstanding IT Person Award" by the President's Office of the ROC in 1993.

Magi Chen is our Chief Financial Officer and Head of International and Treasury Division. Ms. Chen joined us in 2002. She is also a Senior Executive Vice President of E.Sun Bank. Ms. Chen holds an MBA degree from University of Tennessee.

Joseph N.C. Huang is our Executive Vice President of Headquarter Division. Mr. Huang joined us in 2002. He holds an MBA degree from the City University of New York.

C.S. Huang is the Head of Asset Management Business Division. Mr. Huang joined us in 2002. He is also a Senior Executive Vice President of E.Sun Bank. He has an MBA degree from Cheng-Chi University.

Yung-Ho Huang is the Head of Consumer Banking Business Division. Mr. Huang joined us in 2002. He is also a Senior Executive Vice President of E.Sun Bank. He has a Bachelor's degree in English from Tamkang University.

Compensation and Interests of Directors, Supervisors and Executive Officers

For the year ended December 31, 2003, the aggregate remuneration and benefits in kind granted by us to our directors and supervisors was approximately NT$455,000, of which approximately NT$385,000 was granted to our directors and approximately NT$70,000 was granted to out supervisors. No remuneration and benefits in kind were paid by E.Sun Financial to our executive officers in 2003. We have not granted any stock options to our directors, supervisors and executive officers.

Certain of our directors, supervisors and executive officers also serve as directors, supervisors or executive officers of companies with which we do business. These companies include our affiliates. See "Share Ownership," "Transactions with Related Parties" and Note 27 of Notes to Consolidated Financial Statements of E.Sun Financial and Note 29 of Notes to Audited Consolidated Interim Financial Statements of E.Sun Financial. We conduct these transactions on an arm's-length commercial basis.

In addition, E.Sun Bank provides loans to certain directors, supervisors and executive officers of E.Sun Financial. In accordance with the ROC Banking Law, E.Sun Bank provided loans to our directors, supervisors and executive officers on terms that were similar to those for third parties. As of June 30, 2004, there were approximately NT$92.2 million outstanding amount of loans provided by E.Sun Bank to all of the directors, supervisors and executive officers of E.Sun Financial. We have not otherwise provided any guarantees for any other liabilities of our directors, supervisors and executive officers.

SHARE OWNERSHIP

The following table sets forth, to the best of our knowledge, certain share ownership information as of September 3, 2004 with respect to the ten largest holders of record of our Common Shares and our board of directors, supervisors and executive officers as a group. As a result, the information below may not reflect the exact share ownership as of September 3, 2004.

Name	Number of Shares	Percentage of Total Issued Common Shares
E.Sun Bank	188,379,181	7.26%
Cathay Life Insurance Co., Ltd.[(1)]	218,815,028	8.43
Hsin Kon Investment Co., Ltd.	64,164,171	2.47
Prudential Corporation Holdings, Ltd.[(2)]	62,697,675	2.41
HSBC Securities Asia Nominee.	61,000,560	2.35
Prudential Assurance Company, Ltd.[(2)]	53,117,276	2.05
Konware Investment (BVI)	36,931,287	1.42
China Point Hong Kong Ltd.	36,931,287	1.23
Rong Yun Investment Co., Ltd.	32,000,000	1.21
Cathay Construction Co., Ltd.[(1)]	31,532,698	1.21
Total top 10 shareholders	802,568,876	30.9%
Directors, supervisors and executive officers as a group	199,689,876	7.69%

(1) An affiliate of the Cathay Financial Group.
(2) An affiliate of Prudential (U.K.).

Prior to the business combinations, E.Sun Bank held its own shares in the form of treasury shares and shares of E.Sun Bills Finance and E.Sun Securities as long-term equity investments. Upon the consummation of the business combinations through the share exchange, such treasury shares and E.Sun Bills Finance's and E.Sun Securities' shares (which are accounted for under the treasury stock method) were exchanged into our Common Shares in an amount that totaled approximately 1.62% and 11.39% of our Common Shares, respectively. The Common Shares (approximately 1.62% of our Common Shares) that were exchanged for such treasury shares are considered to be treasury shares of record held by our subsidiaries pursuant to the regulations of the Securities and Futures Bureau and as a result are not entitled to vote or receive dividends. The Common Shares (approximately 12.54% of our Common Shares) that were exchanged for shares of E.Sun Bills Finance and E.Sun Securities currently held by E.Sun Bank are entitled to receive dividends. There are no laws or regulations prohibiting our subsidiaries from exercising votes on such Common Shares exchanged for such cross-held shares. Nevertheless, the MOF recently advised subsidiaries of financial holding companies not to exercise votes on such shares and it is considering amending the Financial Holding Company Act to include this prohibition. We are required by MOF to either cancel or sell all Common Shares held by E.Sun Bank within three years of the effective date of the business combination.

In the first quarter of 2004, Prudential and its affiliates in the aggregate acquired approximately 5% of the outstanding Common Shares, from E.Sun Bank for an aggregate purchase price of approximately NT$2.7 billion (US$80.2 million).

Pursuant to the ROC laws, we may purchase outstanding Common Shares from the market and resell the resulting treasury shares to our employees. The resale of such resulting treasury shares shall be made pursuant to the guidelines originally approved by our board of directors on November 15, 2001 and subsequently amended by our board of directors on August 19, 2004. Pursuant to the existing guidelines, our treasury shares can only be sold to our employees at the arithmetic average of the actual price paid by us for each round of purchase. However, in no event may the sale prices (i) for those treasury shares acquired prior to August 19, 2004 be lower than the closing price of our shares on November 15, 2001, and (ii) for those treasury shares acquired after August 19, 2004, be lower than the closing price of our shares on August 19, 2004. In addition, pursuant to our Articles of Incorporation, 3% of our remaining net income after paying income taxes, making up previous years' losses and setting aside any legal and special reserve (together with the retained earnings of the previous year) shall be distributed to our employees as their annual bonuses, which can be distributed in the form of either stock or cash. Immediately prior to the Offering, we had no more treasury shares reserved for our employees.

Immediately prior to this Offering, the Selling Shareholder owned approximately 7.26% of our outstanding capital stock. Immediately after this Offering, the Selling Shareholder will own approximately 0.71% of our outstanding capital stock.

None of the major holders of our Common Shares has different voting rights from those of the other holders of our Common Shares.

CHANGES IN ISSUED SHARE CAPITAL

Changes in our issued share capital since January 28, 2002 are set forth below.

Record Date	Type of Issue	Number of Common Shares Issued	Cummulative Number of Common Shares Issued After Issuance
		(thousand shares)	(thousand shares)
January 2002	Initial issuance of Common Shares through share exchange[(1)]	2,290,000	2,290,000
September 2002 . .	Issuance of stock dividends from capital surplus	180,000	2,470,000
September 2003 . .	Issuance of shares for a share swap[(2)]	35,400	2,505,400
March 2004	Conversion of Euro convertible bonds to capital stock	967	2,506,367
May 2004.	Conversion of Euro convertible bonds to capital stock	77,792	2,584,159
August 2004	Conversion of Euro convertible bonds to capital stock	12,218	2,596,377
September 2004 . .	Issuance of stock dividends from capital surplus	84,560	2,680,937
September 2004 . .	Issuance of employee bonus shares	8,773	2,689,710

(1) E.Sun Financial was established through a share swap on January 28, 2002 by E.Sun Bank, E.Sun Bills Finance and E.Sun Securities pursuant to the ROC Financial Holding Company Act and related regulations in the ROC. The swap ratio was 1.0 Common Share for 1.0 share of E.Sun Bank, 1.10 shares of E.Sun Bills Finance and 1.25 shares of E.Sun Securities.

(2) On September 16, 2003, E.Sun Securities Investment Trust became a wholly owned subsidiary of E.Sun Financial through a share swap. The swap ratio was 1.18 Common Shares for 1.0 shares of E.Sun Securities Investment Trust.

TRANSACTIONS WITH RELATED PARTIES

General

We have from time to time engaged in a variety of transactions with our related parties (as defined under ROC GAAP). Under ROC GAAP, if one party, whether an organization or individual, can exercise control or significant influence over the operations or financing policies of another party, then these two parties are considered related parties. Entities under common ownership or control of the same organization or individual are also deemed to be related parties. In addition, any entity or person will be deemed to be a related party of a company (except where there is a showing that there is no control or significant influence) if:

- that entity is an investee of the company, accounted for by the equity method;
- that entity or person is an investor in the company, using the equity method to account for the investment in the company;
- the chairman of the board of directors or the president of that entity is also the chairman of the board of directors or the president of the company, or is the spouse or a member of the immediate or second immediate family of the chairman of the board of directors or the president of the company;
- that entity is a non-profit organization of which the funds donated from the company exceeds one third of the entity's total funds;
- that person is the director, supervisor, president, vice-president, assistant vice-president or departmental head reporting to the president of the company;
- that person is the spouse of a director, a supervisor or the president of the company; or
- that person is a member of the immediate or second immediate family of the company's chairman or president.

According to the ROC Financial Holding Company Act, the terms and conditions of the non-credit-extension transactions entered into by a financial holding company (and/or its subsidiary) with the following persons shall not be more favorable than the transactions entered into with other customers of the same kind and such transactions shall be approved by our board of directors which at least two-thirds of the directors should be present and more than three-fourth of the directors present should vote in favor of:

- the responsible persons and major shareholders of the financial holding company;
- an enterprise in which the responsible person or the major shareholders of the financial holding company is the sole investor, a partner, or responsible person, or a group that the responsible person or the major shareholders of the financial holding company is the representative of such group;
- affiliates of the financial holding company and the responsible persons and major shareholders of such affiliates; or
- the banking (including bills finance), insurance, and securities subsidiaries of the financial holding company, and the responsible persons of such subsidiaries.

Non-credit-extension transactions, according to the definition under the ROC Financial Holding Company Act, include:

- investing in or purchasing the securities issued by the persons described above;
- purchasing real properties from the persons described above;
- selling securities, real properties or other assets to the persons described above;
- signing agreement of paying money or providing labor service with the persons described above;
- engaging the persons described above to be the agent or broker of the financial holding company or its subsidiaries, or to provide any services to the financial holding company or its subsidiaries on a commission or fee basis; or
- entering into the above-mentioned transactions with any third party who is an interested party to the person described above, or entering into the above-mentioned transactions to which the person described above is a party.

We believe that the transactions entered into with our related parties have benefited our subsidiaries as well as our company and reduced our respective operating costs and improved our financial performance. We may enter into additional transactions with our related parties in the future. No assurance can be given as to the terms of such transactions or that all of such transactions with our related parties will be benefit to us.

Transactions with Related Parties

Our related parties include (1) E.Sun Foundation and E.Sun Volunteer & Social Welfare Foundation, each a non-profit organization to which E.Sun Bank and E.Sun Bills Finance in the aggregate have donated more than one-third of its funds, (2) E.Sun Venture Capital, E.Sun Finance and Leasing Co., Ltd., E.Sun Insurance Agency Co., Ltd., E.Sun Securities Investment Trust, E.Sun Securities Investment Consulting Co., Ltd., E.Sun Technologies Co. and E.Sun Capital Co., Ltd., each an investee of the Company or an investee of a subsidiary of the Company, in each case accounted for using the equity method, (3) Fu Bon Securities Finance Co., Ltd. and Bank-Pro E-Service Technology Co., Ltd., each an investee of E.Sun Bank and the director(s) of which is appointed by E.Sun Bank, and (4) the Company's and its subsidiaries' chairman, president, directors, supervisors and managers, and their relatives.

We provided loans to certain related parties. The total outstanding amount of such loans was NT$792.5 million, NT$514.2 million and NT$501.2 million as of December 31, 2002, December 31, 2003 and June 30, 2004, respectively. Interest derived from such loans amounted to NT$22.0 million, NT$10.3 million and NT$4.9 million for the period from January 28, 2002 to December 31, 2002, the year ended December 31, 2003 and the six months ended June 30, 2004, respectively.

We accepted deposits from certain related parties. The balance of deposits accepted from such related parties amounted to NT$1,005.6 million, NT$989.5 million and NT$515.2 billion as of December 31, 2002, December 31, 2003 and June 30, 2004, respectively. Interest payments to such related parties for such deposits amounted to NT$1.3 million, NT$0.1 million and NT$3.7 million for the period from January 28, 2002 to December 31, 2002, the year ended December 31, 2003 and the six months ended June 30, 2004, respectively.

We sold bank debenture to certain related parties in the aggregate amount of NT$200.0 million, NT$100.0 million and NT$100.0 million as of December 31, 2002, December 31, 2003 and June 30, 2004, respectively. We entered into transactions to sell bonds and negotiable instruments under agreements to repurchase with E.Sun Securities Investment Trust and the mutual funds under its management in the aggregate amount of NT$458.0 million, NT$602.1 million and NT$1,085.9 million as of December 31, 2002, December 31, 2003 and June 30, 2004, respectively. We also entered into transactions with E.Sun Securities Investment Trust, the mutual funds under its management and E.Sun Financing and Leasing Co., Ltd. relating to (i) the purchase of negotiable instruments and bonds in the aggregate amount of NT$1,072.6 million, NT$1,388.6 million and nil, and (ii) the sale of negotiable instruments and bonds in the aggregate amount of NT$1,964.7 million, NT$49.9 million, nil for the period from January 28, 2002 to December 31, 2002, the year ended December 31, 2003 and the six months ended June 30, 2004, respectively.

For more information on the transactions with related parties, see Notes 23, 27 and 29 of the audited consolidated financial statements for E.Sun Financial for the period from January 28, 2002 to December 31, 2002, the year ended December 31, 2003 and the six months ended June 30, 2004, respectively.

DESCRIPTION OF THE GLOBAL DEPOSITARY SHARES

Citibank, N.A. has agreed to act as the depositary for the Global Depositary Shares, or "GDS." Citibank's depositary offices are located at 388 Greenwich Street, 14th Floor, New York, New York 10013. Rule 144A and Regulation S Global Depositary Shares are referred to as "Rule 144A GDSs" and "International GDSs," respectively. In this summary we intend to use the term "GDSs" to refer to the Rule 144A GDSs and to the International GDSs. Unless we otherwise state, you should assume that the term "GDSs" encompasses both Rule 144A GDSs and International GDSs. GDSs are represented by certificates that are commonly known as "Global Depositary Receipts" or "GDRs." The GDSs we are selling in the United States are referred to and will be issued as Rule 144A GDS and the GDSs we are selling outside the United States are referred to and will be issued as the International GDSs. GDSs represent ownership interests in securities that are on deposit with the depositary.

The depositary has appointed a custodian to safekeep the securities on deposit. In this case, the custodian is Citibank, N.A., Taipei Branch, having its principal office at B1, No. 16, Nanking East Road, Section 4, Taipei, Taiwan, the Republic of China.

We have appointed Citibank as depositary pursuant to two separate deposit agreements, one for the Rule 144A GDSs, the "Rule 144A deposit agreement," and one for the International GDSs, the "Regulation S deposit agreement". A copy of each of the deposit agreements may be obtained from the depositary. This is a summary description of the material terms of the GDSs and of your material rights as an owner of GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable deposit agreement and not by this summary. We urge you to review the deposit agreements in their entirety. *Statements printed in italics in this description are provided for your information but are not contained in the deposit agreements.*

Each GDS represents the right to receive 25 Common Shares, on deposit with the custodian. A GDS will also represent the right to receive any other property received by the depositary or the custodian on behalf of the owner of the GDS but that has not been distributed to the owners of GDSs because of legal restrictions or practical considerations.

If you become an owner of GDSs, you will become a party to the applicable deposit agreement and therefore will be bound to its terms and to the terms of the GDR that represents your GDSs. The deposit agreement and the GDR specify our rights and obligations as well as your rights and obligations as owner of GDSs and those of the depositary. As a GDS owner you appoint the depositary to act on your behalf for the Common Shares represented by your GDSs, either upon (1) your specific instructions when we call a meeting of shareholders, distribute an elective dividend or make a rights offering, or (2) the specific terms of the deposit agreement to receive any dividends we distribute in New Taiwan Dollars or Common Shares and to convert the New Taiwan Dollars received. The deposit agreements are both governed by New York law. However, our obligations to the holders of Common Shares will continue to be governed by ROC laws, which may be different from the laws in the United States. In addition, we note that the laws and regulations of the ROC may restrict the deposit and withdrawal of the Common Shares into or from the depositary receipts facility.

Presently, you may hold your GDSs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as GDS owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you," we assume the reader owns GDSs and will own GDSs at the relevant time. When we refer to a "holder," we assume the person owns GDSs and such person's agent (i.e., broker, custodian, bank, trust company) is the holder of the applicable GDR.

Distinctions between "Rule 144A GDSs" and "International GDSs"

The Rule 144A GDSs and the International GDSs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDSs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The International GDSs are not per se "restricted securities" under the U.S. securities laws, but we have imposed certain contractual restrictions on the International GDSs in an effort to prevent the transfer of International GDSs in violation of the U.S. securities laws. These restrictions we impose on the International GDSs will be in place for a period of 40 days after we close the offering of the International GDSs described in this offering memorandum. We will refer to this 40-day period as the "restricted period."

The differences between the International GDSs and the Rule 144A GDSs and the restrictions imposed on the Rule 144A GDSs and the Regulations S GDSs cover primarily the following:

- The venue for trading the GDSs:
  - the International GDSs may be traded only outside the United States, and
  - the Rule 144A GDSs may only be traded in PORTAL among "Qualified Institutional Buyers" (as defined in Rule 144A).
- The persons who may own and trade the GDSs:
  - only "Qualified Institutional Buyers" (as defined in Rule 144A) and persons other than "U.S. persons" (as defined in Regulation S) may own and trade Rule 144A GDSs, and
  - upon the expiration of the "restricted period," any person may own and trade International GDSs, and
  - during the "restricted period," only persons other than U.S. persons (as defined in Regulation S) may own and trade the International GDSs and only outside the United States.
- The persons who may create additional GDSs:
  - only persons other than "U.S. persons" (as defined in Regulation S) may deposit Common Shares to receive International GDSs, and
  - only "Qualified Institutional Buyers" (as defined in Rule 144A) and persons other than "U.S. persons" may deposit Common Shares to receive Rule 144A GDSs.
- The persons to whom you may transfer the GDSs, upon sale or otherwise:
  - you may transfer Rule 144A GDSs only to "Qualified Institutional Buyers" (as defined in Rule 144A) or to persons other than "U.S. persons" (as defined in Regulation S), and
  - during the "restricted period," you may transfer the International GDSs only in transactions off-shore the United States (in compliance with Regulation S) and to persons other than "U.S. persons" (as defined in Regulation S) or to "Qualified Institutional Buyers" (as defined in Rule 144A) but in this latter case only after "converting" the International GDSs into Rule 144A GDSs.

- The restrictions on the transfers and withdrawal of the Common Shares represented by the GDSs.
  - Please refer to "Legends" below.
- The eligibility to book-entry transfer.
  - Please refer to "Settlement and Safekeeping" below.

These distinctions and the requirements of the U.S. securities laws may require us and the depositary to treat the International GDSs and the Rule 144A GDSs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDSs will receive the same entitlements as holders of International GDSs and vice versa.

Settlement and Safekeeping

Rule 144A GDSs

The depositary has made arrangements with The Depository Trust Company ("DTC") to act as securities depository for the Rule 144A GDSs. All Rule 144A GDSs issued in this offering will be registered in the name of Cede & Co. (DTC's nominee). One Master Rule 144A GDR will represent all Rule 144A GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDSs are to be accomplished by entries made on the books of DTC and of the participants in DTC acting on behalf of Rule 144A GDS owners. Owners of Rule 144A GDSs will not receive certificates representing their ownership interests in the Rule 144A GDSs, except in the event that a successor securities depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDSs at any time by giving reasonable notice to depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed, Rule 144A GDRs will be printed and delivered to the applicable Rule 144A GDS owners.

International GDSs

We and the depositary have made arrangements with DTC, Euroclear ("Euroclear") and Clearstream, Luxembourg ("Clearstream") to act as securities depositories for the International GDSs. All International GDSs issued in this offering will be registered in the name of Cede & Co. (DTC's nominee). One Master International GDR will represent all International GDS issued to and registered in the name of Cede & Co. Euroclear and Clearstream will hold the International GDSs on behalf of their participants through their respective depositories, which are participants in DTC (any such participant of Euroclear, Clearstream or DTC, a "Participant"), and, during the restricted period, transfers will be permitted only within Euroclear and Clearstream in accordance with usual rules and operating procedures of the relevant system. Transfers of ownership interests in International GDSs are to be accomplished by entries made on the books of Euroclear and Clearstream and participants in Euroclear and Clearstream, and after the restricted period on the books of DTC and of the participants in DTC, acting on behalf of International GDS owners. Owners of International GDSs will not receive certificates representing their ownership interests in the International GDSs, except in the event that use of the DTC book-entry system for the International GDSs is discontinued.

DTC may discontinue providing its services as securities depository with respect to the International GDSs at any time by giving reasonable notice to the depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed, International GDRs will be printed and delivered to the applicable International GDS owners.

If at any time Euroclear, Clearstream or DTC, as the case may be, cease to make its respective book-entry settlement systems available for the International GDSs, the Company and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available International GDSs in physical certificated form.

Transfer Restrictions

The GDSs may be resold, pledged or otherwise transferred only in compliance with the U.S. securities laws and are subject to the following restrictions:

Restrictions upon the transfer

Rule 144A GDSs	International GDSs
The Rule 144A GDSs may be resold, pledged or otherwise transferred only:	During the "restricted period", Regulations S GDSs may be resold, pledged or otherwise transferred only:
(i) outside the U.S. to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S;	(i) outside the U.S. to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S;
or	or
(ii) to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;	(ii) to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;
or	or
(iii) pursuant to Rule 144 under the U.S. Securities Act of 1933, if available;	(iii) pursuant to Rule 144 under the U.S. Securities Act of 1933, if available;
or	or
(iv) pursuant to an effective registration statement under the U.S. Securities Act of 1933.	(iv) pursuant to an effective registration statement under the U.S. Securities Act of 1933.
	If the International GDSs are transferred to a "Qualified Institutional Buyer" in a transaction meeting the requirements of Rule 144A, the transferor is required to convert the International GDSs into Rule 144A GDSs and make delivery of the Rule 144A GDSs to the transferee.
	After the "restricted period," the International GDSs shall be freely transferable.

Restrictions upon deposit of Common Shares

Rule 144A GDSs	International GDSs
Common Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:	Common Shares will be accepted for deposit under the Regulation S deposit agreement only if delivered by, or on behalf of, a person that is:
(a) not the Company or an affiliate of the Company or a person acting on behalf of the Company or an affiliate of the Company,	(a) not the Company or an affiliate of the Company or a person acting on behalf of the Company or an affiliate of the Company,
and	and
(b) is (i) a "Qualified Institutional Buyer" (as defined in Rule 144A), or (ii) a person other than a "U.S. Person" (as defined in Regulation S).	(b) is a person other than a "U.S. Person" (as defined in Regulation S).

Restrictions upon the withdrawal of Common Shares

Rule 144A GDSs	International GDSs
Common Shares may be withdrawn from the Rule 144A deposit agreement only by:	During the "restricted period" Common Shares may be withdrawn under the Regulation S deposit agreement only by:
(i) a person other than a "U.S. Person" (as defined in Regulation S) who will be the beneficial owner of the Common Shares upon withdrawal;	(i) a person other than a "U.S. Person" (as defined in Regulation S) who will be the beneficial owner of the Common Shares upon withdrawal or who has sold the Common Shares to a person other than a U.S. Person or to a "Qualified Institutional Buyer" (as defined in Rule 144A) in which case delivery will be made in the form of Rule 144A GDSs,
or	or
(ii) a "Qualified Institutional Buyer" (as defined in Rule 144A) who	(ii) a "Qualified Institutional Buyer" (as defined in Rule 144A) who will cause the International GDSs to be exchanged for Rule 144A GDSs:
(x) has sold the Rule 144A GDSs to another "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S,	After the "restricted period" Common Shares may be withdrawn, by any person and are freely transferable.
or	
(y) will be the beneficial owner of the Common Shares and agrees to observe the transfer restrictions applicable to Rule 144A GDSs in respect of the Common Shares so withdrawn.	

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the custodian bank. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the deposit agreements in proportion to the number of GDSs held as of a specified record date.

Distributions of Cash

Whenever we make a cash distribution for the securities on deposit with the custodian, we will notify the depositary and deposit the funds with the custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to ROC laws and regulations.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreements. The depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the custodian in respect of securities on deposit.

Distributions of Common Shares

Whenever we make a free distribution of Common Shares for the securities on deposit with the custodian, we will notify the depositary and deposit the applicable number of Common Shares with the custodian. Upon receipt of notice of such deposit, the depositary will either distribute to holders new GDSs representing the Common Shares deposited or, to the extent permitted by law, modify the GDS-to-Common Shares ratio, in which case each GDS you hold will represent rights and interests in the additional Common Shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or the modification of the GDS-to-Common Shares ratio upon a distribution of Common Shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreements. In order to pay such taxes or governmental charges, the depositary may sell all or a portion of the new Common Shares so distributed.

No such distribution of new GDSs will be made if it would violate U.S. law (i.e., the U.S. securities laws) or if it is not operationally practicable. If the depositary does not distribute new GDSs as described above, it will use its best efforts to sell the Common Shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Whenever we intend to distribute rights to purchase additional Common Shares, we will give prior notice to the depositary and we will assist the depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The depositary will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of GDSs, and if we provide all of the documentation contemplated in the applicable deposit agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new GDSs upon the exercise of your rights. The depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new Common Shares other than in the form of GDSs.

The depositary will *not* distribute the rights to you if:

- We do not timely request that the rights be distributed to you; or
- We fail to deliver satisfactory documents to the depositary; or
- It is not reasonably practicable to distribute the rights.

The depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the depositary is unable to sell the rights, it will allow the rights to lapse.

Elective Distributions

Whenever we intend to distribute a dividend payable at the election of shareholders either in cash or in additional Common Shares, we will give prior notice thereof to the depositary and will indicate whether we wish the elective distribution to be made available to you. In such case, we will assist the depositary in determining whether such distribution is lawful and reasonably practicable.

The depositary will make the election available to you only if it is lawful and reasonably practicable and if we have provided all of the documentation contemplated in the deposit agreements. In such case, the depositary will establish procedures to enable you to elect to receive either cash or additional GDSs, in each case as described in the deposit agreements.

If the election is not made available to you, you will receive either cash or additional GDSs, depending on what a shareholder in the ROC would receive upon failing to make an election, as more fully described in the corresponding deposit agreement.

Other Distributions

Whenever we intend to distribute property other than cash, Common Shares or rights to purchase additional Common Shares, we will notify the depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is lawful and reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the deposit agreements, the depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the deposit agreement. In order to pay such taxes and governmental charges, the depositary may sell all or a portion of the property received.

The depositary will not distribute the property to you, and will sell the property if such sale is lawful and reasonably practicable, if:

- We do not request that the property be distributed to you or if we ask that the property not be distributed to you; or
- We do not deliver satisfactory documents to the depositary; or
- The depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution.

Changes Affecting Common Shares

The Common Shares held on deposit for your GDSs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Common Shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your GDSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the Common Shares held on deposit. The depositary may in such circumstances deliver new GDSs to you or call for the exchange of your existing GDSs for new GDSs. If the depositary may not lawfully distribute such property to you, the depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of GDSs upon Deposit of Common Shares

Subject to limitations set forth in the deposit agreements and the GDRs, the depositary may create GDSs on your behalf if you or your broker deposit Common Shares with the custodian. The depositary will deliver these GDSs to the person you indicate only after you pay any applicable issuance fees and any charges and taxes payable for the transfer of the Common Shares to the custodian and you provide the applicable deposit certification. Your ability to deposit Common Shares and receive GDSs may be limited by U.S. and ROC legal considerations applicable at the time of deposit.

Under the laws and regulations of the ROC, as currently in effect, and the Deposit Agreements, after the Initial Deposit, without obtaining regulatory approval from the ROC SFB, no Common Shares may be accepted for deposit and no GDSs may be issued under the terms of the Deposit Agreement except in the following circumstances:

(1) upon dividend on or a free distribution of Common Shares to existing shareholders;

(2) upon the exercise by existing shareholders of their preemptive rights in connection with capital increases for cash; and

(3) the purchase directly by a person or through the Depositary of Common Shares on the Taiwan Stock Exchange or the delivery to the Custodian by any person of Common Shares held by such person for the deposit in the depositary receipt facility.

provided that (a) the total number of GDSs outstanding after an issuance described in clause (3) does not exceed the number of GDSs issued and previously approved by the ROC SFB in connection with this Offering plus any GDSs created under clauses (1) and (2) described above and (b) the deposit described in clause (3) may only be made to the extent previously issued GDSs have been canceled; and provided, further, that the Depositary will refuse to accept Common Shares for deposit under clause (3) if such deposit is not permitted under any legal, regulatory or other restriction notified by the Company to the Depositary from time to time, which restriction may specify blackout periods during which deposits may not be made, minimum and maximum amounts and frequencies of deposit.

The Depositary will refuse to accept Common Shares for deposit whenever it is notified in writing that such deposit would result in any violation of applicable laws, including but not limited to ownership restrictions under ROC laws. The Depositary will also refuse to accept certain Common Shares for deposit under the Rule 144A Deposit Agreement if notified in writing that the Common Shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any Common Shares presented for deposit are eligible for resale pursuant to Rule 144A.

The issuance of GDSs may be delayed until the depositary or the custodian receives confirmation that all required approvals and applicable deposit certificate have been completed and/or given and that the Common Shares have been duly transferred to the custodian. The depositary will only issue GDSs in whole numbers.

When you make a deposit of Common Shares, you will be responsible for transferring good and valid title to the depositary. As such, you will be deemed to represent and warrant that:

- The Common Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.

- All preemptive (and similar) rights, if any, with respect to such Common Shares have been validly waived or exercised.

- You are duly authorized to deposit the Common Shares.

- The Common Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim and, in the case of a deposit of Common Shares under the International Deposit Agreement, are not, and the International GDSs issuable upon such deposit will not be, "restricted securities" (as defined in the corresponding deposit agreement).

- The Common Shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties are incorrect in any way, we and the depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit Common Shares to receive Rule 144A GDSs, you will be required to provide the depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the Common Shares and the Rule 144A GDSs have not been and will not be registered under the U.S. Securities Act of 1933 or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you are not an "affiliate" of the Company and you are not acting on behalf of the Company or one of its "affiliates;" and

- you certify that you are, or are acting on behalf of, (i) a "Qualified Institutional Buyer" (as defined in Rule 144A), or (ii) a person other than a U.S. Person (as defined in Regulation S); and

- you agree, as the owner of the Rule 144A GDSs, to offer, sell, pledge and otherwise transfer the Rule 144A GDSs or the Common Shares represented by the Rule 144A GDSs in accordance with the applicable U.S. state securities laws and only:

  (a) to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

  (b) outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

  (c) in accordance with Rule 144 under the U.S. Securities Act of 1933, if available, or

  (d) pursuant to an effective registration statement under the U.S. Securities Act of 1933.

A copy of the form of deposit certification for Rule 144A GDSs is attached to the Rule 144A deposit agreement and may be obtained from the depositary upon request.

When you deposit Common Shares to receive International GDSs, you will be required to provide the depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the Common Shares and the International GDSs have not been and will not be registered under the U.S. Securities Act of 1933 or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you are not an "affiliate" of the Company and you are not acting on behalf of the Company or one of its "affiliates;" and

- you certify that you are, or are acting on behalf of, a person other than a U.S. Person (as defined in Regulation S); and

- you agree, as the owner of the International GDSs, to offer, sell, pledge and otherwise transfer the International GDSs or the Common Shares represented by the International GDSs in accordance with the applicable U.S. state securities laws and during the "restricted period" only:

  (a) to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, in which case you are required to "convert" the International GDSs into Rule 144A GDSs prior to making delivery to the transferee, or

  (b) outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

  (c) in accordance with Rule 144 under the U.S. Securities Act of 1933, if available, or

  (d) pursuant to an effective registration statement under the U.S. Securities Act of 1933.

A copy of the form of deposit certification for International GDSs is attached to the Regulation S deposit agreement and may be obtained from the depositary bank upon request.

Withdrawal of Common Shares Upon Cancellation of GDSs

Subject always to the withdrawal of deposited property being permitted under ROC laws and regulations and provided that the number of Common Shares requested for withdrawal are listed for trading on the Taiwan Stock Exchange, as a holder, you will be entitled to present your GDSs to the depositary for cancellation and then receive the corresponding number of underlying Common Shares at the custodian's offices. Your ability to withdraw the Common Shares may be limited by U.S. and ROC legal considerations applicable at the time of withdrawal.

Under current ROC law, if you are a non-ROC person and wish to withdraw and hold the underlying Common Shares from either of the depositary receipt facilities, you will be required to register with the Taiwan Stock Exchange. You will also be required to appoint an eligible agent in the ROC to open a securities trading account and a TSCD book-entry account and a bank account, to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without meeting these requirements, the non-ROC withdrawing holder would be unable to hold or subsequently sell the underlying Common Shares withdrawn from the applicable depositary receipt facility on the TSE or otherwise. There can be no assurance that such withdrawing holder will be able to register with the Taiwan Stock Exchange and open such accounts in a timely manner.

Non-ROC holders of GDSs withdrawing the Common Shares represented by GDSs are also required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent must meet certain qualifications set by the Ministry of Finance and, upon appointment, becomes a guarantor of such withdrawing holder's ROC tax obligations. Generally, evidence of the appointment of such agent and the approval of such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the proceeds from the sale of the withdrawn Common Shares. There can be no assurance that such withdrawing holder will be able to appoint and obtain approval for such agent in a timely manner.

Under current ROC laws, regulations and policies, PRC persons are not permitted to hold or withdraw the Common Shares from the depositary facility or to register as our shareholders. Under current ROC laws, "PRC person" means an individual holding a passport issued by the PRC, a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong and Macau), any agency or instrumentality of the PRC and any corporation, partnership or other entity organized under the laws of any such area or controlled or beneficially owned, or 20% owned, by any such person, resident, agency or instrumentality.

Subject always to the withdrawal of deposited property being permitted under ROC laws and regulations and provided that the number of Common Shares requested for withdrawal are listed for trading on the Taiwan Stock Exchange, you may also request that the Common Shares represented by your GDSs be sold on your behalf. The depositary may require that you deliver your request for sale in writing. Any sale of our Common Shares will be conducted according to applicable ROC law through a securities company in the ROC on the Taiwan Stock Exchange or in other manner as is permitted under applicable ROC law. Any sale will be at your risk and expense. You may also be required to enter into a separate agreement to cover the terms of the sale of our Common Shares.

Upon receipt of any proceeds from any sale, subject to any restrictions imposed by ROC laws and regulations, the depositary shall convert the proceeds into U.S. dollars and distribute the proceeds to you, net of any fees, expenses, taxes or governmental charges (including, without limitation, any ROC and U.S. taxes) incurred in connection with the sale. Sales of our Common Shares may be subject to ROC taxation on capital gains and will be subject to a securities transaction tax in the ROC. *The capital gains realized from sale of securities is currently exempted from ROC income tax, but we cannot assure you that an income tax will not be imposed in the future or the manner in which any ROC income tax would be imposed or calculated.*

In order to withdraw or instruct the sale of the Common Shares represented by your GDSs, you will be required to pay to the depositary the fees for cancellation of GDSs and any charges and taxes payable upon the transfer of the Common Shares being withdrawn and you will be required to provide to the depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDSs will not have any rights under the corresponding deposit agreement.

If you hold a GDR registered in your name, the depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the depositary may deem appropriate before it will cancel your GDSs. The withdrawal of the Common Shares represented by your GDSs may be delayed until the depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the depositary will only accept GDSs for cancellation that represent a whole number of securities on deposit.

We have reporting obligations under ROC law in respect of the GDS facilities. In order to enable us to gather the information necessary to satisfy these reporting obligations, you will be asked to complete and sign a certification upon withdrawal of Shares from the applicable GDSs facility. In this certification you will be asked to disclose, among other information, the name, nationality and address of the beneficial owner of the GDSs presented for cancellation, the number of Shares being withdrawn or withdrawn in the past by the beneficial owner and whether certain affiliations exist between you or the beneficial owner and us. The Depositary will refuse to release Common Shares to you until you deliver a completed and signed certification to it. *In addition, the Custodian shall not deliver Common Shares to a holder of GDSs unless (x) such holder presents evidence of payment of any securities transaction tax which may be imposed under ROC law or (y) we have advised the Custodian that no such tax is assessable in connection with the withdrawal of underlying Shares.*

When you request the withdrawal of the Common Shares represented by your Rule 144A GDSs, you will be required to provide the depositary with a withdrawal certification stating, *inter alia*, that:

- you acknowledge that the Common Shares represented by your Rule 144A GDSs have not been and will not be registered under the U.S. Securities Act of 1933 or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you certify that:

  (X) you are, or are acting on behalf of, a "Qualified Institutional Buyer" (as defined in Rule 144A) who is the beneficial owner of the Rule 144A GDSs presented for cancellation, and

    (A) either

      (i) you have sold or agreed to sell the Common Shares to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

      (ii) you have sold or agreed to sell the Common Shares to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

      (iii) you (or the person on whose behalf you are acting) will be the beneficial owner of the Common Shares upon withdrawal and you (or the person on whose behalf you are acting) will sell the Common Shares only

        (a) to another Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

        (b) to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

        (c) in accordance with Rule 144 (if available), or

        (d) pursuant to an effective registration statement under the U.S. Securities Act of 1933; and

    (B) you (or the person on whose behalf you are acting) will not deposit the Common Shares in any depositary receipts facility that is not a "restricted" depositary receipts facility;

OR

  (Y) you are a person other than a "U.S. Person" (as defined in Regulation S) and you acquired or agreed to acquire the Common Shares outside the United States and will be the beneficial owner of the Common Shares upon withdrawal.

When you request the withdrawal of the Common Shares represented by your International GDSs at any time during the "restricted period", you will be required to provide the depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the Common Shares represented by your International GDSs have not been and will not be registered under the U.S. Securities Act of 1933 or with any securities regulatory authority in any state or other jurisdiction in the United States; and

- you certify that

  (X) you are, or are acting on behalf of, a person other than a "U.S. Person" (as defined in Regulation S) who is the beneficial owner of the International GDSs presented for cancellation, and

  (A) either

  (i) you have sold or agreed to sell the Common Shares to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

  (ii) you have sold or agreed to sell the Common Shares to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, and will make delivery thereof in the form of Rule 144A GDSs, or

  (iii) you (or the person on whose behalf you are acting) will be the beneficial owner of the Common Shares upon withdrawal and you (or the person on whose behalf you are acting) will at any time during the "restricted period" sell the Common Shares only

  (a) to a Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

  (b) to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S,

OR

  (Y) you are a "Qualified Institutional Buyer" (as defined in Rule 144A, you have agreed to acquire the International GDSs in a transaction made in reliance on Rule 144A and you will take all action necessary to cause the Common Shares to be withdrawn and deposited under the Rule 144A Deposit Agreement for the purpose of receiving Rule 144A GDSs.

Voting Rights

As a holder, you generally have the right to exercise the voting rights for the Common Shares represented by your GDSs pursuant to provisions of the Deposit Agreements. The voting rights of holders of Common Shares are described in "Description of the Common Shares — Voting Rights."

At our request, the Depositary will mail to you any notice of shareholders meeting received from us together with information explaining how to instruct the Depositary or its nominee to exercise the voting rights of the securities represented by GDSs.

If the Depositary timely receives voting instructions from holders of at least 51.0% of the outstanding GDSs to vote in the same direction regarding one or more resolutions to be considered at the meeting, excluding election of Directors and Supervisors, the Depositary will notify the instructions to our Chairman or his designee of the instruction and appoint our Chairman or his designee as the voting representative of the Depositary, its nominee and holders and beneficiary owners of the GDSs ("Voting Representative") to attend the meeting and vote all the securities represented by the holders' GDSs in accordance with the direction received from holders of at least 51.0% of the outstanding GDSs.

If we have timely provided the Depositary with the materials described in the applicable Deposit Agreement and the Depositary has not timely received instructions from holders of at least 51.0% of the outstanding GDSs to vote in the same direction regarding any resolution to be considered at the meeting, excluding election of Directors and Supervisors, then you will be deemed to have authorized and directed the Depositary or its nominee to appoint the Voting Representative to attend and vote at the meeting the Common Shares represented by your GDSs in any manner the Voting Representative may wish, which may not be in the interests of holders; *provided* that no authorization will be given with respect to any matter (other than the election of directors or supervisors) as to which the Voting Representative informs the Depositary that he does not wish to be so authorized, in which event the Depositary or its nominee shall not vote at the relevant meeting; *provided further* that the Depositary shall take all necessary actions to cause all Common Shares evidenced by the GDSs to be counted for the purpose of satisfying quorum requirements.

The Depositary will notify the Voting Representative of the instructions for the election of directors and supervisors received from holders and the Depositary or its nominee will appoint the Voting Representative as the representative of the Depositary or its nominee and holders and beneficial owners of the GDSs to attend the meeting, and vote the Common Shares represented by the GDSs as to which the Depositary has received instructions from holders for the election of Directors and Supervisors in the manner so instructed, subject to any restrictions imposed by ROC laws and our articles of incorporation. Holders who by the date specified by the Depositary have not delivered instructions to the Depositary will be deemed to have instructed the Depositary or its nominee to authorize the Voting Representative as the representative of the Depositary or its nominee and holders and beneficial owners of the GDSs to attend such meeting and vote all Common Shares represented by the GDSs as the which the Depositary has not received instructions from holders for the election of Directors and Supervisors as the Voting Representative deems appropriate, which may not be in the interest of any or all of the holders; provided, however, that no such authorization shall be given with respect to any election of Directors and Supervisors as to which the Voting Representative informs the Depositary that he does not wish to be so authorized, in which event the Depositary or its nominee shall not vote at the relevant meeting any Common Shares represented by GDSs as to which the Depositary has not received instructions from holders for the election of Directors and Supervisors; provided further, however, that the Depositary shall take such action as is necessary for the Common Shares represented by the GDSs to, and such Common Shares shall in such event, be counted for the purpose of satisfying applicable quorum requirements.

To the extent practicable, candidates standing for election as representatives of a shareholder may be replaced by the shareholder before the meeting of shareholders, and the votes cast by the holders for these candidates will be counted as votes for their replacements.

By accepting and continuing to hold GDSs or any interest therein, a holder will be deemed to have agreed to the voting provisions set forth in the applicable Deposit Agreement as such provisions may be amended from time to time to comply with applicable ROC law.

Please note that the ability of the Depositary or its nominee to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received will be voted in accordance with the applicable Deposit Agreement. Please note that your ability to exercise your voting rights as provided under the applicable Deposit Agreement may be limited by the practices and procedures of your broker or bank and their respective agents.

Fees and Charges

As a GDS holder, you will be required to pay the following service fees to the depositary:

Service	Fees
Issuance of GDSs	Up to 5¢ per GDS issued
Cancellation of GDSs	Up to 5¢ per GDS canceled
Distribution of cash dividends or other cash distributions	Up to 2¢ per GDS held
Distribution of GDSs pursuant to stock dividends, free stock distributions or exercise of rights.	Up to 5¢ per GDS issued
Distribution of securities other than GDSs or rights to purchase additional GDSs.	Up to 5¢ per Common Share (or Common Share equivalent) distributed
Annual Depositary Services Fee	Annually up to 2¢ per GDS held at the end of each calendar year except to the extent of any cash dividend fee charged during such calendar year
Transfer of GDRs	$1.50 per certificate presented for transfer

As a GDS holder you will also be responsible to pay certain fees and expenses incurred by the depositary and certain taxes and governmental charges such as:

- Fees for the transfer and registration of Common Shares charged by the registrar and transfer agent for the Common Shares in the ROC (i.e., upon deposit and withdrawal of Common Shares).

- Expenses incurred for converting foreign currency into U.S. dollars.

- Expenses for cable, telex and fax transmissions and for delivery of securities.

- Taxes and duties upon the transfer of securities (i.e., when Common Shares are deposited or withdrawn from deposit).

- Fees and expenses incurred in connection with the delivery or servicing of Common Shares on deposit.

We have agreed to pay certain other charges and expenses of the depositary. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

Amendments and Termination

We may agree with the depositary to modify the deposit agreements at any time without your consent. We undertake to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the deposit agreements. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the GDSs to be registered under the Securities Act, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the deposit agreements if you continue to hold your GDSs after the modifications to the applicable deposit agreements become effective. The deposit agreements cannot be amended to prevent you from withdrawing the Common Shares represented by your GDSs (except as permitted by law).

We have the right to direct the depositary to terminate the deposit agreements. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreements. In either case, the depositary must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the deposit agreements:

- ***for a period of six months after termination***, you will be able to request the cancellation of your GDSs and the withdrawal of the Common Shares represented by your GDSs and the delivery of all other property held by the depositary in respect of those Common Shares on the same terms as prior to the termination. During such six months' period the depositary will continue to collect all distributions received on the Common Shares on deposit (i.e., dividends) but will not distribute any such property to you until you request the cancellation of your GDSs.

- ***After the expiration of such six months' period***, the depositary may sell the securities held on deposit. The depositary will hold the proceeds from such sale and any other funds then held for the holders of GDSs in a non-interest bearing account. At that point, the depositary will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding.

Books of Depositary

The depositary will maintain GDS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the deposit agreements.

The depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The deposit agreements limit our obligations and the depositary's obligations to you. Please note the following:

- We and the depositary are obligated only to take the actions specifically stated in the deposit agreements without negligence or bad faith.

- The depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the deposit agreements.

- The depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in Common Shares, for the validity or worth of the Common Shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the deposit agreements, for the timeliness of any of our notices or for our failure to give notice.

- We and the depositary will not be obligated to perform any act that is inconsistent with the terms of the deposit agreements.

- We and the depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our Articles of Incorporation, any provision of any securities on deposit or by reason of any act of God or war or other circumstances beyond our control.

- We and the depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for the deposit agreements or in our Articles of Incorporation or in any provisions of securities on deposit.

- We and the depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Common Shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.

- We and the depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of Common Shares but is not, under the terms of the deposit agreements, made available to you.

- We and the depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.

- We and the depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable deposit agreements.

Pre-Release Transactions

To the extent permitted by applicable laws and regulations, the depositary may, in certain circumstances, issue GDSs before receiving a deposit of Common Shares or release Common Shares before receiving GDSs for cancellation. These transactions are commonly referred to as "pre-release transactions." The deposit agreements limit the aggregate size of pre-release transactions and impose a number of conditions on such transactions (*i.e.*, the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The depositary may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs. We, the depositary and the custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The depositary and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary and to the custodian proof of taxpayer status and residence and such other information as the depositary and the custodian may require to fulfill legal obligations. You are required to indemnify us, the depositary and the custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

The depositary will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the deposit agreements. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable.

- Distribute the foreign currency to holders for whom the distribution is lawful and practicable.

- Hold the foreign currency (without liability for interest) for the applicable holders.

Legends

The Rule 144A GDR(s) issued to represent the Rule 144A GDSs offered for sale herein shall contain, and all owners of Rule 144A GDSs shall be bound by the terms of, the following legend:

NEITHER THIS RULE 144A GDR, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE BENEFICIAL OWNER OF RULE 144A DEPOSITED SECURITIES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SECURITIES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SECURITIES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE RULE 144A DEPOSITED SECURITIES OR THE RULE 144A GDSs.

The International GDR(s) issued to represent the International GDSs offered for sale herein shall contain, and all owners of International GDSs shall be bound by the terms of, the following legend:

NEITHER THIS INTERNATIONAL GDR, NOR THE INTERNATIONAL GDSs EVIDENCED HEREBY, NOR THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS INTERNATIONAL GDR, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS INTERNATIONAL GDR AND THE INTERNATIONAL GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH INTERNATIONAL GDR, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS INTERNATIONAL GDR, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF (A) INTERNATIONAL GDSs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND (B) RULE 144A GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS AND (II) THE LATEST CLOSING DATE WITH RESPECT TO THE INTERNATIONAL GDSs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO

THE SETTLEMENT OF SUCH SALE, WITHDRAW THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED BY SUCH INTERNATIONAL DEPOSITED SECURITIES IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE REGULATION S DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH INTERNATIONAL DEPOSITED SECURITIES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GDSs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS INTERNATIONAL GDR OR A BENEFICIAL INTEREST IN THE INTERNATIONAL GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS INTERNATIONAL GDR, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

INFORMATION RELATING TO THE DEPOSITARY

Citibank, N.A. ("Citibank") has been appointed as Depositary pursuant to the Deposit Agreements. Citibank is a wholly owned subsidiary of Citicorp, a Delaware corporation whose principal office is located in New York, New York, which in turn is a wholly owned subsidiary of Citigroup Inc. Citibank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world.

Citibank was originally organized on June 16, 1812, and is now a national banking association organized under the National Bank Act of 1864 of the United States of America. Citibank is primarily regulated by the United States Office of the Comptroller of the Currency. Its principal office is at 399 Park Avenue, New York, NY 10043.

The Consolidated Balance Sheets of Citibank as of December 31, 2003, and December 31, 2002, are set forth in the 2003 Citicorp Annual Report on Form 10-K and as of June 30, 2004 are set forth in the June 2004 Quarterly Report on Form 10-Q. Citicorp's 2003 Annual Report on Form 10-K and June 30, 2004 Quarterly Report on Form 10-Q are on file with the United States Securities and Exchange Commission.

Citibank's Articles of Association and By-laws, each as currently in effect, together with Citicorp's 2003 Annual Report on Form 10-K and June 2004 Quarterly Report on Form 10-Q will be available for inspection at the Depositary Receipt office of Citibank, 388 Greenwich Street, New York, New York 10013 and at the offices of the Luxembourg Intermediary in Luxembourg.

DESCRIPTION OF THE COMMON SHARES

Set forth below is a summary of information relating to our share capital including brief summaries of the relevant provisions of our Articles of Incorporation, the ROC Securities and Exchange Law and the ROC Company Law.

General

As of September 3, 2004, our authorized share capital was NT$50 billion and our paid-in share capital was approximately NT$26.9 billion, divided into approximately 2,689 million Common Shares. The paid-in share capital is issued and outstanding and is held by the public shareholders and other investors in Taiwan and elsewhere in the world. Any change in the authorized share capital of a public company limited by shares, such as us, requires an amendment to our Articles of Incorporation (which requires approval at a shareholders' meeting) and the approval of the Securities and Futures Bureau, Bureau of Monetary Affairs and the Ministry of Economic Affairs.

Authorized but unissued shares may also be issued at such times and, subject to the provisions of the applicable laws and the approval of, or registration with, the Ministry of Economic Affairs, the Securities and Futures Bureau and the Bureau of Monetary Affairs.

Dividends and Distributions

Dividend payments and distributions are generally governed by the ROC Company Law as well as our Articles of Incorporation.

Except in limited circumstances, we are not permitted to distribute dividends or make other distributions to shareholders for any year in which we do not have current or retained earnings (excluding reserves). The ROC Company Law requires that 10% of our net income, less prior year's losses and outstanding taxes, if any, be set aside as legal reserve until the accumulated legal reserve equals our paid-in capital. In addition, we may set aside a special reserve in accordance with applicable laws and regulations.

In addition to permitting dividends to be paid out of net income if we do not have losses, the ROC Company Law permits us to make distributions of additional Common Shares to our shareholders by capitalizing reserves, including the legal reserve and capital surplus of premium from issuing shares and earnings from gifts received. However, the capitalized portion payable out of our legal reserve is limited to 50% of the total accumulated legal reserve, and only if and to the extent the accumulated legal reserve exceeds 50% of our paid-in capital.

Our Articles of Incorporation further provide that after we pay our income taxes, deduct our prior year's losses, set aside any legal and when necessary, any special reserve, the remaining portion of our net income, together with the retained earnings of the previous years, shall be distributed as follows:

(i) 96% shall be distributed to the shareholders as dividends;

(ii) 1% shall be distributed to the directors and supervisors as remuneration; and

(iii) 3% shall be distributed to the employees (including employees of our affiliated companies) as bonuses.

However, our shareholders, at our shareholders' meeting, may depending on our actual needs, determine to retain a part or the whole of such remaining portion from distribution. Dividends to holders of Common Shares will primarily be distributed in the form of stock. However, if our capital adequacy ratio is higher than the standard set by the competent authority, part of the distribution may be made in the form of cash; *provided* that cash dividends must not be less than 10% of the dividends distributed in the respective year. Nevertheless, if the cash dividends to be distributed are less than NT$0.1 per share, such dividends should be made in the form of stock.

Preemptive Rights

According to the ROC Company Law, when a company issues new common shares for cash, 10% to 15% of the issue must be offered to its employees. In addition, the ROC Securities and Exchange Law and the relevant securities regulations require that, if a public company listed on the Taiwan Stock Exchange or whose shares are traded on the GreTai Securities Market intends to offer new shares for cash, at least 10% of the issue must be offered to the public, except under certain circumstances or when exempted by the Securities and Futures Bureau. This percentage can be increased by a resolution passed at a shareholders' meeting, thereby reducing the number of new shares subject to the preemptive rights of existing shareholders. Unless the percentage of shares to be offered to the public is increased by the shareholders, existing shareholders who are listed on the shareholders' register as of the record date have a preemptive right to acquire the remaining 75% to 80% of the issue. The shares not subscribed for by the employees and shareholders at the expiration of the period for the exercise of their rights may be sold to the public or specified persons at the direction of our board of directors. The preemptive rights provisions will not apply to offering of new shares through a private placement approved at a shareholders' meeting. These preemptive rights do not apply to this Offering.

Meetings of Shareholders

Meetings of our shareholders may be ordinary or extraordinary. Ordinary meetings of our shareholders will generally be held in Taipei, Taiwan, within six months following the end of each fiscal year.

In contrast, extraordinary shareholders' meetings may be convened by resolution of the board of directors or, under certain circumstances, by the shareholders or supervisors.

Notice in writing of meetings of shareholders of a public company, such as us, stating the place, time, date and agenda must be dispatched to each shareholder at least 30 days, in the case of ordinary meetings, and 15 days, in the case of extraordinary meetings, before the date set for each meeting.

Voting Rights

Our Articles of Incorporation provide that holders of Common Shares have one vote for each share. Except as otherwise provided by applicable laws, a resolution can be adopted by holders of a majority of the Common Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding Common Shares are present. The election of directors and supervisors is by means of cumulative voting. Ballots for the election of directors are cast separately from those for the election of supervisors.

In order for us to approve certain major corporate actions, including any amendment to our Articles of Incorporation, entering into, modification or termination of any contracts regarding leasing of all business, outsourcing of operations or joint operations, the dissolution or amalgamation or spin-off of our company, the transfer of the whole or an important part of our business or our property, the taking over of a whole of the business or property of any other entity which would have a significant impact on our operations, or the distribution of any stock dividend, a meeting of the shareholders must be convened with a quorum of holders of at least two-thirds of all issued and outstanding Common Shares at which the holders of at least a majority of the shares represented at the meeting vote in favor of the resolution.

Alternatively, in the case of a public company, such as us, such a resolution may be adopted by the shareholders' meeting convened with a quorum of holders of at least a majority of all issued and outstanding Common Shares at which the holder of at least two-thirds of the shares represented at the meeting vote in favor of the resolution.

A shareholder may be represented at an ordinary or extraordinary meeting by proxy if a valid proxy form is delivered to us five days before such meeting.

Register of Shareholders Record Dates and Publication of Information

Our share registrar, the Administration Department of E.Sun Financial, maintains the register of our shareholders at its offices located at 9F No. 64, Sec 1, Wu Chang Street, Taipei, Taiwan, and enters transfers of shares in such register upon presentation of, among other documents, certificates representing the shares transferred.

We shall, by giving advance public notice, set a record date and close the register of shareholders for a specified period (60 days, 30 days and 5 days immediately before each ordinary meeting of the shareholders, extraordinary meeting of shareholders and relevant record date, respectively) in order for us to determine the shareholders and pledgees that are entitled to rights pertaining to the shares.

Annual Financial Statements

At least ten days before an annual shareholders' meeting, our annual financial statements will be made available at our principal office in Taipei, Taiwan and at our share registrar for inspection by the shareholders.

Transfer of Common Shares

The transfer of shares in registered form is effected by endorsement and delivery of the related share certificates; however, in order to assert shareholder's rights against us, the transferees must have their name and address registered on our register of shareholders. Shareholders are required to file their respective specimen seals, also known as chops, with us.

Repurchase of Common Shares by Us

With minor exceptions, we cannot acquire our own shares under the ROC Company Law, and any shares purchased by us must be sold at market price within six months from the purchase, otherwise they will be cancelled.

Under the ROC Securities and Exchange Law, we may, by resolution adopted by a majority of our board of directors at a meeting where more than two-thirds of the directors are present, repurchase our shares on the Taiwan Stock Exchange or by a tender offer in accordance with the Securities and Futures Bureau procedures for the following purposes:

- for delivery upon conversion of bonds with warrants, preferred shares with warrants, convertible bonds and convertible preferred shares or certificates of warrants issued by us into capital stock;
- to transfer to our employees; or
- if necessary, to maintain our credit and our shareholders' equity, *provided* that the shares so repurchased shall be cancelled thereafter.

The total shares repurchased by us may not exceed 10% of our total issued and outstanding shares. In addition, the total cost of the purchased shares may not exceed the aggregate amount of our retained earnings, any premium from share issuance and the realized portion of its capital reserve. Common Shares repurchased in the first two instances mentioned above are to be transferred to the intended transferees within three years from the repurchase, failing which they will be cancelled and we are required to complete an amended registration for the cancellation. In the third instance mentioned above, the shares repurchased by us must be cancelled within six months after the repurchase. The shares repurchased by us may not be pledged or hypothecated. In addition, we may not exercise any of the shareholder's rights attached to these shares. Our affiliates, as defined in Article 369-1 of the ROC Company Law, directors, supervisors, managers and their respective spouses and minor children and nominees, are prohibited from selling our shares until our repurchase period has lapsed.

Liquidation Rights

In the event of our liquidation, our remaining assets after payment of all debts, liquidation expenses and taxes will be distributed pro rata to the holders of Common Shares in accordance with the relevant provisions of applicable laws and our Articles of Incorporation.

Notices

All notices to our shareholders are delivered by post or published in newspapers with general circulation in the ROC or through a website designated by the Securities and Futures Bureau as relevant ROC regulations may require.

Substantial Shareholders and Transfer Restrictions

Our directors, supervisors, managers and shareholders holding more than 10% of our shares are required to report to us, on a monthly basis, any changes in their shareholding in us. The number of shares that they may sell or transfer on the Taiwan Stock Exchange on any given day is limited by ROC laws. In addition, they may only sell or transfer such shares on the Taiwan Stock Exchange at least three days after they have filed a notification with the Securities and Futures Bureau in connection with such sale or transfer, provided that such notification is not required if the number of shares to be sold or transferred does not exceed 10,000.

Shareholding Restrictions

Any person or related persons proposing to hold more than 10%, 25%, 50% or 75% of a financial holding company must apply to the FSC for approval. The FSC may restrict the voting rights of the portions exceeding the above percentages if such approval is not obtained. A shareholder holding more than 10% of a financial holding company must meet the fit and proper requirements promulgated by the FSC. A shareholder holding more than 10% of our shares may not increase his or her holdings unless he or she has been determined to be fit and proper by the competent authority. In addition, such shareholder has to disclose the sources of funds to be used to purchase the shares of the financial holding company. Anyone who purchases shares of a financial holding company exceeding the thresholds without obtaining the prior approval from the FSC will be fined in an amount from NT$2 million to NT$10 million.

TAXATION

ROC Taxation

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of GDSs and Common Shares to a Non-Resident Individual or a Non-Resident Entity that owns GDSs or Common Shares (each a "Non-ROC Holder"). As used in the preceding sentence, a "Non-Resident Individual" is a foreign national individual who is not physically present in the ROC for 183 days or more during any calendar year, and a "Non-Resident Entity" is a corporation or a non-corporate body that is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or other permanent establishment in the ROC. Prospective purchasers of the GDSs should consult their tax advisors concerning the ROC tax consequences of owning the GDSs or Common Shares and the laws of any other relevant taxing jurisdiction to which they are subject.

GDSs

Dividends

Dividends (whether in cash or Common Shares) declared by us out of retained earnings and distributed to a Non-ROC Holder in respect of Common Shares represented by GDSs are subject to ROC income tax collected by way of withholding at the time of distribution, currently at a rate of 20%, on the amount of the distribution (in the case of cash dividends) or on the par value of the distributed shares (in the case of share dividends).

We are subject to a 10% retained earnings tax on our after-tax earnings generated after January 1, 1998 that are not distributed in the following year. The retained earnings tax so paid reduces the retained earnings available for future distribution. When we declare a dividend out of those retained earnings, a maximum amount of up to 10% of the declared dividend is credited against the 20% withholding tax imposed on Non-ROC Holders so that the actual withholding tax imposed on Non-ROC Holders may be less than 20%.

Distributions of Common Shares declared by us out of our capital reserves are not subject to ROC withholding tax.

Sale

Under current ROC law, transfers of GDSs are not subject to ROC securities transaction tax. Gains on the sale of GDSs are not subject to ROC income tax.

Common Shares

Dividends

Dividends (whether in cash or Common Shares) declared by us out of retained earnings and distributed to a Non-ROC Holder in respect of Common Shares are subject to ROC income tax collected by way of withholding at the time of distribution, currently at the rate of 20%, on the amount of the distribution (in the case of cash dividends) or on the par value of the Common Shares (in the case of share dividends).

We are subject to a 10% retained earnings tax on our after-tax earnings generated after January 1, 1998 that are not distributed in the following year. The retained earnings tax so paid reduces the retained earnings available for future distribution. When we declare a dividend out of those retained earnings, a maximum amount of up to 10% of the declared dividend is credited against the 20% withholding tax imposed on Non-ROC Holders so that the actual withholding tax imposed on Non-ROC Holders may be less than 20%.

Distributions of Common Shares declared by us out of our capital reserves are not subject to ROC withholding tax.

Sale

Securities transaction tax will be withheld at the rate of 0.3% of the transaction price upon a sale of Common Shares. Withdrawal of Common Shares from the deposit facility by a Non-ROC Holder to receive and hold the underlying Common Shares is not subject to ROC securities transaction tax.

Under current ROC law, capital gains on transactions in securities issued by ROC companies are exempt from income tax. This exemption applies to capital gains derived from the sale of Common Shares.

Preemptive Rights

Distributions of statutory subscription rights for the Common Shares in compliance with the ROC Company Law are not subject to ROC tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are currently exempted from income tax but are subject to securities transactions tax, currently at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights which are not evidenced by securities are subject to capital gains tax at the rate of (1) 25% of the gains realized by a Non-Resident Entity and (2) 35% of the gains realized by a Non-Resident Individual. Subject to compliance with ROC law, we have the sole discretion to determine whether statutory subscription rights will be evidenced by the issuance of securities.

Tax Treaties

At present, the ROC does not have a double taxation treaty with the United States, but it does have double taxation treaties with Indonesia, Singapore, South Africa, Australia, Vietnam, New Zealand, Malaysia, Swaziland, Macedonia, Gambia, the Netherlands and the United Kingdom, which generally have reduced the rate of withholding tax on dividends and interest paid by ROC companies to residents of these countries. It is unclear whether a Non-ROC Holder of GDSs will be considered as owning Common Shares for the purposes of these treaties. Accordingly, residents of these countries should consult their tax advisors concerning their eligibility for benefits under the relevant treaty.

Estate Taxation and Gift Tax

Subject to allowable exclusions, deductions and exemptions, ROC estate tax is payable on any property within the ROC of a deceased Non-Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-Resident Individual. Estate tax is currently imposed at rates ranging from 2% of the first NT$600,000 to 50% of amounts in excess of NT$100,000,000. Gift tax is imposed at rates ranging from 4% of the first NT$600,000 donated to 50% of amounts donated in excess of NT$45,000,000. Under ROC estate and gift tax laws, the Common Shares will be deemed to be located in the ROC without regard to the location of the owner. It is unclear whether a holder of GDSs will be considered to own Common Shares for this purpose.

Tax Guarantor

Any holder of GDSs withdrawing Common Shares represented by those GDSs is required under current ROC law and regulations to appoint an agent in the ROC. The agent must meet certain qualifications set by the Ministry of Finance and, upon appointment, becomes a guarantor of the withdrawing holder's ROC tax obligations. Evidence of the appointment of the agent and the approval for that appointment by the ROC tax authorities may be required as conditions to the withdrawing holder's repatriation of the profit derived from the sale of withdrawn Common Shares. There can be no assurance that a withdrawing holder of GDSs will be able to appoint and obtain approval for the required agent in a timely manner.

Under current ROC law, repatriation of profits by any holder of Common Shares sold within the ROC is subject to the submission of evidence of the appointment of a tax guarantor to, and approval thereof by, the tax authority, or submission of tax clearance certificates or submission of evidencing documents issued by such agent to the tax authority so long as the capital gains from securities transactions are exempt from ROC income tax. Notwithstanding the above requirements for the appointment of a tax guarantor or submission of tax clearance certificates as provided in the ROC regulations, the CBC has not required submission of such evidence or tax clearance certificates as a condition to repatriation of sale proceeds of shares from sales that take place within the ROC. However, there can be no assurance that the CBC will not require submission of such evidence or tax clearance certificates in the future.

United States Federal Income Taxation

The following is a discussion of material U.S. federal income tax consequences of the acquisition, ownership and disposition of GDSs or Common Shares by the U.S. Holders described herein, but does not purport to be a complete analysis of all potential tax consequences relating thereto. This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations and administrative and judicial decisions, all of which are subject to change, possibly with retroactive effect.

As used in this discussion, the term "U.S. Holder" means a beneficial owner of GDSs or Common Shares that is, for U.S. federal income tax purposes: (1) a citizen or resident of the United States; (2) a corporation, or other entity taxable as a corporation, created or organized under the laws of the United States or any political subdivision thereof; or (3) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

This discussion deals only with tax consequences to U.S. Holders who are purchasers of GDSs or Common Shares in this Offering and who hold the GDSs or Common Shares as capital assets. It does not discuss all of the tax consequences that may be relevant to a purchaser in light of such person's particular circumstances or to purchasers subject to special rules, such as certain financial institutions, tax-exempt entities, dealers in securities or foreign currencies, traders in securities that elect to mark to market, persons holding GDSs or Common Shares as part of a hedge, straddle or other integrated transaction, persons whose functional currency is not the U.S. dollar, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, persons subject to the alternative minimum tax, persons owning 10% or more of the Company's voting shares and persons carrying on a trade or business in the ROC through a permanent establishment or other fixed place of business.

This discussion is also based in part on representations by the Depositary and assumes that each obligation under the Deposit Agreements and any related agreement will be performed in accordance with its terms. For U.S. federal income tax purposes, a U.S. Holder of a GDS will generally be treated as the owner of the Common Shares underlying the GDS. The U.S. Treasury has expressed concern that parties to whom depositary receipts, such as the GDSs, are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of GDSs. Accordingly, the analysis of the creditability of ROC taxes described below could be affected by future actions that may be taken by parties to whom GDSs are pre-released or the U.S. Treasury.

Persons considering the purchase of GDSs should consult their own tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Taxation of Distributions

Distributions received with respect to GDSs or Common Shares, other than certain pro rata distributions of common shares to our shareholders (including holders of GDSs), will constitute foreign source dividend income for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits (determined in accordance with U.S. federal income tax principles). The amount of any dividend paid will include the amount of any ROC taxes withheld therefrom (reduced by any credit against such withholding tax on account of the 10% retained earnings tax paid by us), and will equal the U.S. dollar value of the NT dollar distribution, calculated by reference to the exchange rate in effect on the date the distribution is received by the Depositary, in the case of GDSs, or by the holder, in the case of Common Shares (regardless of whether the NT dollars are actually converted into U.S. dollars). Gain or loss, if any, realized on a sale or other disposition of such NT dollars will generally be ordinary income or loss. If distributions paid in NT dollars are converted into U.S. dollars on the day such currency is received by the Depositary, in the case of GDSs, or by the holder, in the case of Common Shares, U.S. Holders generally should not be required to recognize foreign currency gain or loss in respect of the distributions. The amount of any distribution of property other than cash will be the U.S. dollar fair market value of such property on the date the property is received by the Depository, in the case of GDSs, or by the U.S. Holder, in the case of Common Shares. Corporate U.S. Holders will not be entitled to claim a dividends-received deduction with respect to distributions by us. Distributions paid by us will not constitute "qualified dividend income" and, therefore, will not be taxable at lower rates (generally 15%) than other types of ordinary income for certain noncorporate U.S. Holders.

Subject to certain limitations and restrictions, ROC taxes withheld (reduced by any credit against such withholding tax on account of the 10% retained earnings tax paid by us) from distributions will be eligible for credit against a U.S. Holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends paid by us with respect to the GDSs or Common Shares will constitute "passive income" or, in the case of certain holders, "financial services income."

Pro rata distributions of common shares to our shareholders (including holders of GDSs) generally will not be subject to U.S. federal income tax. Accordingly, any such distributions generally will not give rise to income against which ROC withholding tax on the distribution may be credited for U.S. federal income tax purposes. Any ROC withholding tax on such distributions generally will be creditable only against a U.S. Holder's U.S. federal income tax liability with respect to "general limitation income" and not "passive income" or "financial services income," subject to generally applicable conditions and limitations.

Exchange of GDSs for Common Shares

No gain or loss will be recognized by a U.S. Holder of GDSs upon the withdrawal of Common Shares from the depositary facility in exchange for such GDSs. A U.S. Holder's tax basis in the withdrawn Common Shares will be the same as the U.S. Holder's tax basis in the GDSs surrendered, and the holding period of the Common Shares will include the holding period of the GDSs.

Taxation of Capital Gains

A U.S. Holder will generally recognize capital gain or loss for U.S. federal income tax purposes on a sale or other disposition of GDSs or Common Shares in the same manner as on the sale or other disposition of any other shares held as capital assets. Any ROC securities transaction tax on the sale or other disposition of the Common Shares will not be creditable against a U.S. Holder's U.S. federal income tax liability.

Passive Foreign Investment Company Rules

Based upon certain proposed Treasury regulations which are not yet in effect but are proposed to become effective for taxable years beginning after December 31, 1994 or, for electing taxpayers, for taxable years beginning after December 31, 1986, we believe that we were not a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes for our most recent taxable year and do not expect to be considered a PFIC in the foreseeable future. However, since there can be no assurance that the proposed regulations will be finalized in their current forms and since PFIC status depends on the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that we will not be considered a PFIC in any taxable year. If we were treated as a PFIC for any taxable year during which a U.S. Holder held GDSs or Common Shares, the U.S. Holder might be subject to certain adverse tax consequences.

Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and to backup withholding unless (1) the U.S. Holder is a corporation or other exempt recipient or (2) in the case of back-up withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a Purchase Agreement dated September 24, 2004, Morgan Stanley, acting as the Manager, agreed to purchase from the Selling Shareholder 6,800,000 GDSs.

The Purchase Agreement provides that the obligations of the Manager are subject to certain conditions precedent and that the Manager will be obligated to purchase all the GDSs, if any are purchased.

Each of the Company, the Selling Shareholder and our executive officers (see "Directors, Management and Organization — Executive Officers) has agreed that it, he or she (as the case may be) will not, without the prior written consent of Morgan Stanley, during the period ending 120 days after the date of this Offering Memorandum, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, or publicly announce an intention to do any of the foregoing, any (A) GDSs, (B) Common Shares or securities convertible into or exercisable or exchangeable for Common Shares, (C) securities of the same class as the GDSs or the Common Shares or (D) other instruments representing interests in securities of the same class as the GDSs or the Common Shares (collectively, the "Lock-up Securities"), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-up Securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of the GDSs, Common Shares or such other securities, in cash or otherwise. The foregoing restrictions shall not apply to (1) the following transactions entered into by the Company: (A) transactions relating to the GDSs, Common Shares or such other securities acquired in open market transactions after the completion of this Offering, (B) the issuance and/or sale of Common Shares (including treasury shares) to the Company's employee for consideration or in connection with the Company's employee stock bonus plan, (C) the issuance of Common Shares upon conversion of the existing convertible bonds and (D) the issuance of Common Shares as dividends declared on or before the date hereof, (2) the following transactions entered into by the Selling Shareholder: (A) the sale of GDSs and underlying Common Shares by the Selling Shareholder to the Manager pursuant to the Purchase Agreement, (B) transactions relating to the GDSs, Common Shares or such other securities acquired in the open market by the Selling Shareholder, and (C) the sale of no more than 8,069,028 Common Shares in the aggregate by the Selling Shareholder pursuant to the mandatory requirements set forth in the ROC Financial Holding Company Act, and (3) the following transactions entered into by an executive officer of the Company: (A) the disposal of the Lock-up Securities as bona fide gifts and (B) the disposal of the Lock-up Securities to any trust for the direct or indirect benefit of such executive officer.

In connection with this Offering, Morgan Stanley may over-allot or effect transactions which stabilize or maintain the market price of the GDSs at a level above that which might otherwise prevail in the open market. Such activities, if commenced, may be discontinued at any time. Morgan Stanley will only conduct such activities insofar as it is permitted by applicable law and regulations in the relevant jurisdictions.

The Company and the Selling Shareholder have agreed to indemnify the Manager against certain liabilities, including liabilities under the Securities Act.

Selling Restrictions

United States

The GDSs and the Common Shares underlying the GDSs have not been and will not be registered under the Securities Act and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the GDSs are being offered and sold by the Manager only (i) in the United States to QIBs pursuant to Rule 144A under the Securities Act and (ii) outside the United States in reliance on Regulation S under the Securities Act.

The International GDSs are being sold outside the United States in reliance on Regulation S. In connection with such sales, the Manager has agreed that, except as permitted by the Purchase Agreement, it will not offer, sell or deliver any GDSs or the Common Shares represented thereby to, or for the account or benefit of, U.S. Persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will send to each dealer to whom it sells any GDSs or the Common Shares represented thereby during such period a confirmation or other notice setting forth the restrictions on offers and sales of the GDSs or the Common Shares represented thereby within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Purchase Agreement provides that the Manager may, through its U.S. broker-dealer affiliates, arrange for the offer and resale of the Rule 144A GDSs within the United States only to QIBs in reliance on Rule 144A. As used in this paragraph and the immediately preceding paragraph, the term "United States" has the meaning given to it by Regulation S under the Securities Act.

In addition, until the expiration of 40 days after the commencement of this Offering, an offer or sale of GDSs or Common Shares represented thereby within the United States by a dealer that is not participating in this Offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

The Manager has represented and agreed that (i) it has not offered or sold and, prior to the expiry of a period of six months from the date of issue of the GDSs, will not offer or sell any GDSs to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the GDSs in, from or otherwise involving the United Kingdom; and (iii) it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDSs in circumstances in which section 21(1) of the FSMA does not apply to us.

Japan

The Manager has represented and agreed that the GDSs have not been and will not be registered under the Securities and Exchange Law of Japan, and represents that it has not offered or sold, and agrees not to offer or sell, directly or indirectly, any GDSs in Japan or for the account of any resident thereof except pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and otherwise in compliance with applicable provisions of Japanese Law.

Hong Kong

The Manager has represented and agreed that (i) it has not offered or sold, and will not offer or sell in Hong Kong, by means of any document, any GDSs other than to persons whose ordinary business is to buy or sell shares or debentures whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (ii) it has not issued or had in its possession and will not issue or have in its possession any document, invitation or advertisement relating to the GDSs in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to GDSs which are intended to be disposed of to persons outside Hong Kong or only to persons whose business involves the acquisition, disposal, or holding of securities, whether as principal or agent.

Singapore

This Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Manager has represented and agreed that it has not circulated or distributed nor will it circulate or distribute this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any GDSs nor has it offered or sold and nor will it offer or sell such GDSs or cause such GDSs to be made the subject of any invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

ROC

The Manager has represented and agreed that it has not offered or sold, and has agreed not to offer or sell any GDSs, directly or indirectly, into the ROC.

In connection with this Offering, the Manager (or its affiliates) may, for its own accounts, enter into asset swaps, credit derivatives or other derivative transactions relating to the GDSs and/or the Common Shares represented thereby at the same time as the offer and sale of the GDSs or in secondary market transactions. Such transactions may be entered into with our affiliates. As a result of such transactions, the Manager may hold long or short positions in such GDSs or derivatives or in the Common Shares represented by the GDSs. No disclosure will be made of any such positions. In addition, the Manager (or its affiliates) may purchase the GDSs for proprietary purposes and not with a view to distribution. Such transactions or purchases may involve a substantial portion of the GDSs.

The Manager and its affiliates may have performed certain investment banking, commercial banking or advisory services for us from time to time for which they have received customary fees and expenses. The Manager may, from time to time, engage in transactions with and perform services for us in the ordinary course of its business.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult with legal counsel prior to making any resale, pledge or transfer of the GDSs or the Common Shares.

Transfer Restrictions Applicable to this Offering

This Offering is being made pursuant to Rule 144A under the Securities Act and pursuant to Regulation S under the Securities Act. The GDR, the GDSs evidenced thereby and the Common Shares represented thereby have not been registered under the Securities Act or with any securities regulatory authority of any state in the United States or other jurisdiction and may only be offered, sold or delivered (a) within the United States to persons reasonably believed to be qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A under the Securities Act or (b) outside the United States (as defined in Regulation S under the Securities Act) to persons other than U.S. persons (as defined in Regulation S under the Securities Act) in offshore transactions in reliance on Regulation S, and in each case in accordance with any other applicable law.

Transfer Restrictions on the Rule 144A GDSs

Each owner of an interest in the Rule 144A GDSs will, by its acceptance thereof, be deemed to have acknowledged, represented to and agreed with us, the Depositary and the Manager that:

1. The Rule l44A GDSs and the underlying Common Shares have not been, and are not expected to be, registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer.

2. Such owner is a QIB purchasing the Rule l44A GDSs for its own account, or for the accounts of one or more QIBs with respect to which account it exercises sole investment discretion, and such owner is aware that the transferor of such securities is relying on the exemption from registration under the Securities Act provided by Rule l44A for the transfer.

3. Such owner will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A GDSs and the underlying Common Shares except as permitted by the applicable legend set forth in paragraph (4) below.

4. The Rule 144A GDSs and the Master Rule 144A GDR will bear a legend to the following effect, unless otherwise agreed between the Depositary and us, and that it will observe the restrictions contained therein:

   NEITHER THIS RULE 144A GDR, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES

REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE BENEFICIAL OWNER OF RULE 144A DEPOSITED SECURITIES RECEIVED UPON CANCELATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SECURITIES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SECURITIES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(A)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE RULE 144A DEPOSITED SECURITIES OR THE RULE 144A GDSs.

5. We, the Depositary, the Manager and its affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If such owner is acquiring any Rule l44A GDSs for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

6. The Rule 144A GDSs offered in this Offering will be evidenced by a Master Rule 144A GDR and before any beneficial interest in the Rule l44A GDSs evidenced by such Master Rule l44A GDR may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the International GDSs evidenced by the Master International GDR, the transferor will be required to provide a written certification, as described below in " — Other Provisions Regarding Transfers of the GDSs."

7. Any resale or other transfer, or attempted resale or other transfer, of the Rule 144A GDSs made other than in compliance with the above-stated restrictions shall not be recognized by us or the Depositary.

Transfer Restrictions on the International GDSs

Each owner of an interest in the International GDSs, by its acceptance thereof will be deemed to have acknowledged, represented to and agreed with us, the Depositary and the Manager that:

1. The International GDSs and the underlying Common Shares have not been, and are not expected to be, registered under the Securities Act or with any securities regulatory authority of any state of the United States.

2. Each owner purchasing as part of the distribution of the International GDSs during the "restricted period" is a non-U.S. person purchasing the International GDSs in an offshore transaction meeting the requirements of Regulation S.

3. Such owner, prior to the expiration of the "restricted period," will not offer, sell, pledge or otherwise transfer any interest in the International GDSs and the underlying Common Shares except as permitted by the applicable legend set forth in paragraph (4) below.

4. The International GDSs certificates and the Master International GDR, until the expiration of the "restricted period" and unless otherwise agreed between the Depositary and us, will bear a legend to the following effect and that it will observe the restrictions contained therein:

   NEITHER THIS INTERNATIONAL GDR, NOR THE INTERNATIONAL GDSs EVIDENCED HEREBY, NOR THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE PLEDGE OR OTHER TRANSFER OF THIS INTERNATIONAL GDR, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY EACH IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS INTERNATIONAL GDR AND THE INTERNATIONAL GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH INTERNATIONAL GDR, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS INTERNATIONAL GDR, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF (A) INTERNATIONAL GDSs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND (B) RULE 144A GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS AND (II) THE LATEST CLOSING DATE WITH RESPECT TO THE INTERNATIONAL GDSs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, OR (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVES IS A QUALIFIED

INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED BY SUCH INTERNATIONAL GDSs IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE INTERNATIONAL DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH INTERNATIONAL DEPOSITED SECURITIES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GDSs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS INTERNATIONAL GDR OR A BENEFICIAL INTEREST IN THE INTERNATIONAL GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, AT ANY TIME DURING THE RESTRICTED PERIOD, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS INTERNATIONAL GDR, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND, PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

5. We, the Depositary, the Manager and its affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

6. The International GDSs offered in this Offering will be evidenced by a Master International GDR and before any beneficial interest in the International GDSs evidenced by such Master International GDR may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the Rule l44A GDSs evidenced by the Master Rule l44A GDR, the transferor will be required to provide a written certification, as described below in " — Other Provisions Regarding Transfers of the GDSs."

7. Any resale or other transfer, or attempted resale or other transfer, of the International GDSs made other than in compliance with the above-stated restrictions shall not be recognized by us or the Depositary.

Other Provisions Regarding Transfers of the GDSs

The above legends and the certifications as further described in the Deposit Agreements and herein prohibit or restrict certain transfers as summarized below. Interests in GDSs evidenced by the Master Rule 144A GDR may be transferred to a person whose interest in such GDSs is subsequently represented by the Master International GDR only upon receipt by the Depositary of such written certifications from the transferor to the effect that such transfer is being made in accordance with Regulation S and subject to the terms and such further representations as may be required by the Deposit Agreements. Prior to the expiration of the restricted period, interests in GDSs evidenced by the Master International GDR may be transferred to a person whose interest in such GDSs is subsequently represented by the Master Rule l44A GDR only upon receipt by the Depositary of such written certifications from the transferor to the effect that such transfer is being made in accordance with Rule l44A and subject to the terms and such further representations as may be required by the Deposit Agreements. Any interest in GDSs evidenced by one of the Master GDSs that is transferred to a person whose interest in such GDSs is subsequently evidenced by an interest in the other Master GDR will, upon transfer, cease to be an interest in the GDSs evidenced by such first Master GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDSs evidenced by such other Master GDR for so long as it remains such an interest.

Except in the limited circumstances described in the Deposit Agreements and herein, no person will be entitled to receive physical delivery of definitive GDR certificates. The GDSs are not issuable in bearer form.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the above-stated restrictions shall not be recognized by us or the Depositary.

LEGAL MATTERS

Certain legal matters will be passed upon for us by Lee and Li as to ROC law. Certain legal matters will be passed upon for the Manager by Davis Polk & Wardwell as to United States law and New York law.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of E.Sun Financial as of December 31, 2002 and 2003, for the period from January 28, 2002 (date of establishment) to December 31, 2002 and the year ended December 31, 2003, the unconsolidated financial statements of E.Sun Bank and E.Sun Bills Finance as of and for the three years ended December 31, 2001, 2002 and 2003 and the consolidated financial statements of E.Sun Financial and the unconsolidated financial statements of E.Sun Bank and E.Sun Bills Finance as of and for the six months ended June 30, 2003 and 2004, respectively, included in this Offering Memorandum, have been audited by Deloitte & Touche, as stated in their audit reports appearing herein.

WHERE YOU CAN FIND MORE INFORMATION

We are registered with the ROC Ministry of Economic Affairs. Our registration number is 70796305. According to Article 11 of our Articles of Incorporation, the scope of our business is to engage in investment of the businesses as specified under the ROC Financial Holding Company Act, to manage our investee companies and to invest in other related businesses approved by the competent authority and in accordance with relevant law and regulations.

GENERAL INFORMATION

Listing

Application has been made to list the International GDSs on the Luxembourg Stock Exchange. The legal notice relating to the issue of the GDSs, our Articles of Incorporation and the Articles of Incorporation of the Depositary and the Deposit Agreements will be registered prior to the listing with the *Registre de Commerce et des Sociétés à Luxembourg*, where such documents will be available for inspection and where copies thereof can be obtained upon request. As long as the International GDSs are listed on the Luxembourg Stock Exchange, The Bank of New York (Luxembourg) S.A. will serve as the intermediary between our company and the Luxembourg Stock Exchange and the persons connected with the issuance and listing of the International GDSs.

Authorizations

We were incorporated on January 28, 2002 in Taiwan, ROC and are registered with the Ministry of Economic Affairs of the ROC under a uniform registration number of 70796305.

This Offering was authorized and approved by our Board of Directors on July 27, 2004 and was approved by the ROC Financial Supervisory Commission on August 20, 2004.

Material Change

Except as described in this Offering Memorandum, there has been no significant change in our financial position and our subsidiaries since June 30, 2004, the date of our latest audited financial statements contained in the Offering Memorandum.

Litigation

Except as described in this Offering Memorandum, neither we nor any of our subsidiaries are involved in any litigation or arbitration proceedings that may have, or have had during the twelve months preceding the date of this Offering Memorandum, a material adverse effect on our financial condition or our subsidiaries, nor, so far as any of them is aware, is any such proceeding pending or threatened.

Documents Available

Copies (and certified English translations where the documents are not in English) of the following documents may be inspected (and in the case of financial statement, obtainable also) at the specified office of The Bank of New York (Luxembourg) S.A. in Luxembourg for as long as the International GDSs are listed on the Luxembourg Stock Exchange:

- our Articles of Incorporation;
- a copy of each of the audited consolidated financial statements of E.Sun Financial as of December 31, 2002 and 2003 and for the period from January 28, 2002 (date of establishment) to December 31, 2002 and the years ended December 31, 2003 and each of the audit reports of the independent accountants;
- a copy of each of the audited unconsolidated financial statements of E.Sun Bank and E.Sun Bills Finance as of and for the years ended December 31, 2001, 2002 and 2003 and each of the audit reports of the independent accountants;
- a copy of each of the audited consolidated financial statements of E.Sun Financial and the audited unconsolidated financial statements of E.Sun Bank and E.Sun Bills Finance as of and for the six months ended June 30, 2003 and 2004;

- the Purchase Agreement relating to the GDSs;
- the Deposit Agreements; and
- the Articles of Incorporation and the By-laws of the Depositary.

In addition, copies of the most recent annual reports (including our audited consolidated annual financial statements), semi-annual audited consolidated financial statements and quarterly unaudited consolidated summary financial information of E.Sun Financial published by us will be available free of charge in English at the specified office of The Bank of New York (Luxembourg) S.A. in Luxembourg for as long as the International GDSs are listed on the Luxembourg Stock Exchange.

Financial notices concerning the Company (such as dividend notices, rights issues and capital increases) as well as notices of shareholders meetings are published at http://mops.tse.com.tw. Such web site is not part of this Offering Memorandum. We do not control such web site and are not responsible for the contents of such web site.

The Company will, for so long as the GDSs are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, publish all notices to holders of GDSs in a leading newspaper having general circulation in Luxembourg which is expected to be the *Luxemburger Wort*.

Clearing Systems

The International GDSs have been accepted for clearance and settlement through the facilities of DTC, Euroclear and Clearstream. The Rule 144A GDSs have been accepted for clearance through the facilities of DTC. Relevant trading information is set forth below.

GDSs	ISIN	Sedol	Common Code	CUSIP
International GDSs	US26915N2071	B02SQ92	020109157	26915N207
Rule 144A GDSs.	US26915N1081	B02SQG9	—	26915N108

The Rule 144A GDSs are expected to be designated for trading in the PORTAL Market.

Trades for the International GDSs on the Luxembourg Stock Exchange will be cleared and settled through Clearstream and Euroclear in accordance with their respective rules and operating procedures. Only GDSs evidenced by the International Master GDR have been accepted for clearance and settlement through Clearstream and Euroclear and only such GDSs may trade on the Luxembourg Stock Exchange. Interests in GDSs evidenced by the Rule 144A Master GDR may be transferred to a person whose interest in such GDSs is subsequently represented by the International Master GDR only upon receipt by the Depositary of certain certifications as provided in the Deposit Agreements. Holders of Rule 144A GDSs evidenced by the Rule 144A Master GDR wishing to effect trades on the Luxembourg Stock Exchange will have to exchange their relevant holding from the Rule 144A GDSs to the International GDSs.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN ROC GAAP AND U.S. GAAP

Certain differences between ROC GAAP and U.S. GAAP, including but not limited to, the accounting for derivatives and bonuses to employees, directors and supervisors, could have a material impact on reported net income and shareholders' equity. Given the number and nature of differences between ROC GAAP and U.S. GAAP, users of ROC GAAP financial statements should never assume that they are at all comparable to financial statements prepared in accordance with U.S. GAAP.

Our financial statements are prepared and presented in accordance with ROC GAAP. Certain principal differences between ROC GAAP applicable to us and U.S. GAAP are summarized below. Such presentation should not be taken as inclusive of all differences between ROC GAAP and U.S. GAAP. Additionally, no attempt has been made herein to identify all disclosure, presentation or classification differences that would affect the manner in which events and transactions are presented in the financial statements or notes thereto. Further, no attempt has been made to identify future differences between ROC GAAP and U.S. GAAP as a result of prescribed changes in accounting standards.

Regulatory bodies that promulgate ROC GAAP and U.S. GAAP have significant projects ongoing that could affect future comparisons such as this one.

Subject	ROC GAAP	U.S. GAAP
Presentation of non-consolidated financial statements	Parent-company financial statements are prepared and used as financial statements of the primary reporting entity for issuance to stockholders (both for interim reporting and annual reporting). In addition to parent-company financial statements, consolidated financial statements are also prepared.	Under U.S. GAAP, parent-company-only non-consolidated financial statements are not allowed to be presented as the primary financial statements for any period.

Subject	ROC GAAP	U.S. GAAP
Consolidation	Under ROC GAAP, a company is required to include in its annual consolidated financial statements only those subsidiaries that are directly or indirectly more than 50% owned. A company has the option not to consolidate directly owned subsidiaries (1) with total assets and operating revenue less than 10% of the company's non-consolidated total assets and operating revenue, (2) with a negative equity position which is considered to be other than temporary and the company did not guarantee the obligations of the subsidiary or commit to provide additional financial support, or (3) with business activities which differ from that of the company. For purposes of applying the above test, the amounts are determined on the basis of each respective subsidiary's non-consolidated financial statements. Under Securities and Futures Bureau requirements, beginning in 1995, if the combined revenue and total assets of all non-consolidated subsidiaries exceed 30% of the company's non-consolidated total assets and operating revenue, each individual subsidiary with total assets or operating revenue greater than three percent of the company's respective non-consolidated amounts must be consolidated. Such subsidiaries must be included in the consolidated financial statements thereafter, unless the percentage of the combined total assets or operating revenues for all such subsidiaries decreases to less than 20% of the company's applicable non-consolidated amount. However, according to the "Regulations Governing the Preparation of Financial Statements of Financial Holding Companies" effective beginning January 1, 2003, a financial holding company is required to prepare financial statements on a consolidated basis for interim periods. The consolidation threshold above does not apply to subsidiaries engaged in business as a bank, insurance company or securities firm. A financial holding company is required to consolidate these subsidiaries regardless of their materiality in relation to the amount of total assets and revenue.	Under U.S. GAAP, consolidation of controlled subsidiaries is required in the preparation of consolidated financial statements.
Formation of a holding company	Under ROC GAAP, the formation of a holding company that includes the combination of individual companies is recorded at historical cost, so that the aggregate book value of each individual company's net assets becomes the historical cost of the new holding company.	Under U.S. GAAP, the formation of a holding company that combines subsidiary companies that were previously under common control is recorded at historical cost, except for the acquisitions of minority interests, which would be recorded at fair value similar to purchase accounting.

Subject	ROC GAAP	U.S. GAAP
Derivative financial instrument transactions	Under ROC GAAP, foreign-currency forward contracts are accounted for in a manner similar to that required under U.S. SFAS 52, which in respect of measurement of foreign-currency forward contracts has been superseded by U.S. SFAS 133.	Under U.S. GAAP, accounting for derivative financial instruments is in large part determined by the purpose for which the instrument was entered into. In general, derivative financial instruments that are entered into for speculative or trading purposes (or which do not meet the criteria for accounting for such items as hedges), rather than to hedge exposures to risks, are accounted for at fair value with all gains and losses recognized currently in earnings. Derivative financial instruments that (i) are entered into in order to hedge certain exposures and (ii) meet defined criteria in order to be classified as hedges, are accounted for in a manner so as to offset the gains and losses applicable to the derivative financial instrument against the gains and losses on transactions or commitments that are being hedged (*i.e.*, either by recording the gains and losses on derivative financial instruments currently when they are used as hedges of existing (on-balance sheet) transactions or by deferring the gains and losses on derivative financial instruments in the equity section of the balance sheet when they are used as hedges of forecasted transactions). In addition, US Statement of Financial Accounting Standards (" US SFAS") No. 133 also defines the concept of embedded derivatives that may now exist due to a broader definition of a derivative instrument. Embedded derivatives are accounted for in the same manner as any other derivatives.
Investment in debt and equity securities of less than 20%	Short-term investments are stated at the lower of cost or market value, and unrealized losses are reported in current earnings. Long-term investments in listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at the lower of cost or market value, and unrealized losses are deducted from shareholders' equity. Investments in non-listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at cost, subject to the permanent impairment test.	Investments in debt and marketable equity securities are classified in one of three categories: trading, held-to-maturity or available-for-sale. Debt and marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; debt securities classified as held-to maturity securities are reported at amortized cost; and debt and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported in accumulated other comprehensive income.

Subject	ROC GAAP	U.S. GAAP
Equity investments of at least 20%	Under ROC GAAP, equity investments where a company has a voting rights of at least 20% are generally required to be accounted for under the equity method. However, when a company has not received the audited financial statements of the equity-method investee company in time to recognize its equity in the investee company's income (loss), the company may delay the recognition of its equity in the investee company's income (loss) until the subsequent year, unless the company meets the following criteria, in which case no delay in recognition is possible: (i) the beginning balance of the company's long-term investment balance exceeds NT$50 million and 5% of the investor company's paid-in capital; (ii) direct ownership of the investee company exceeds 30%, or direct ownership plus indirect ownership through directors, supervisors, and management exceeds 50%; and (iii) the investor company is one of the top three shareholders of the investee company or the investee company's chairperson or general manager was appointed by the investor company. Under ROC GAAP, when an investee issues additional shares and the investor's ownership interest changes as a result, any resulting difference between the investor's investment balance and its proportionate share of the investee's net equity is adjusted to its investment account with an offsetting entry to the investor's capital reserve or retained earnings. Upon subsequent disposition of the investment, amounts previously recorded to capital reserve relating to the respective investment will be reversed and recorded as part of the gain or loss recorded on disposal. With respect to intercompany transactions between an investor company and an unconsolidated investee affiliate, ROC GAAP provides that any resulting profit on such transactions be eliminated in the investor company's financial statements. In general, net intercompany profit on such transactions is deferred and offset against the long-term investment account, with the deferred net intercompany profit amortized to income over future periods based on the nature of the transaction which give rise to the deferred intercompany profit.	Under U.S. GAAP, the equity method of accounting is generally required for investments with an ownership percentage of greater than 20% but less than 50%, unless (i) the investment is considered temporary, or (ii) the investor does not possess the ability to exercise significant influence over the investee. There are no provisions which allow the investor company to delay recognition of its equity in the investee company's income (loss). Under U.S. GAAP, when an investee issues additional shares at an amount over/under the carrying value of the shares held by the investor, and the investor's ownership interest decreases as a result of not fully subscribing to the issue, the resulting difference between the investor's investment balance and its proportionate share of the investee's net equity is adjusted to its investment account with an offsetting entry either to (i) gain or loss to record the deemed disposition of shares or (ii) paid-in capital. If an adjustment has been made to paid-in capital to recognize investee capital transactions, U.S. GAAP would not permit the adjustment of such amounts on the subsequent disposition of all or a part of the adjustment. Under U.S. GAAP, the gross impact as well as the net intercompany profit arising from intercompany transactions between an investor company and an unconsolidated investee affiliate are generally eliminated in the investor company's financial statements. This elimination is either complete or partial to the extent of the investor company's interest in the investee affiliate.

Subject	ROC GAAP	U.S. GAAP
Acquisition of business	Under ROC GAAP, if a company acquires an enterprise by issuing shares of its stock in exchange for 100% of the outstanding shares of the enterprise's stock, the book value of the net assets acquired may be used to determine the fair value of the acquired enterprise. Under this method of accounting, the shares of stock issued by the acquirer are recorded at the book value of the net assets by the acquirer under this method. If a company acquires an enterprise using cash or an exchange of shares as the purchase consideration, the difference between the fair value of the purchase consideration and the fair value of the net assets acquired is accounted for as a consolidation debit asset (goodwill) and amortized to income over five to twenty years.	Under U.S. GAAP, business combinations subsequent to July 1, 2001, are accounted for based on the purchase method. The difference between purchase consideration and historical net assets acquired is allocated based on the fair values of the net assets and other identifiable intangible assets acquired is allocated based on the fair values of the net assets and other identifiable intangible assets acquired. No goodwill is recognized acquired, with any residual accounted for as goodwill. In an acquisition resulting in the exchange of shares of stock, the purchase consideration is measured based on the fair value of exchanged stock of either the acquirer or acquiree, whichever stock has a more readily determinable market value. The income of the acquirer includes the operations of the acquiree subsequent to the acquisition. U.S. GAAP requires goodwill to be recorded on the balance sheet as an intangible asset and not to be amortized but, rather, to be tested for impairment when events or circumstances indicate that goodwill of a reporting entity within a company might be impaired. A goodwill impairment loss would be charged to operations, if the implied fair value of a reporting unit's goodwill is less than its carrying amount.
Bonuses to employees, directors and supervisors	According to ROC regulations and our Articles of Incorporation, a portion of distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or shares or both. All of these appropriations, including share bonuses which are valued at par value of NT$10, are charged against retained earnings under ROC GAAP, after such appropriations are formally approved by the shareholders in the following year.	All bonuses and remuneration are charged to current income in the year incurred. Shares issued as part of these bonuses are recorded at fair market value. Since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of the aforementioned bonuses is initially accrued based on management's estimate regarding the amount to be paid based on the company's articles of incorporation. Any difference between the initially accrued amount and the fair market value of the bonuses settled by the issuance of shares is recognized in the year of approval by shareholders.
Share dividends	Share dividends are recorded as a reduction to retained earnings for the par value of the shares issued, and a like amount is recorded to the capital stock account.	Share dividends are recorded as a reduction to retained earnings based on the fair value of the shares issued, and a like amount is recorded to the capital stock and capital surplus accounts.

Subject	ROC GAAP	U.S. GAAP
Gains on disposition of property, plant and equipment	Gains on the dispositions of property, plant and equipment generated before 2001 are first credited to non-operating income and then transferred, after deducting the applicable income tax, to capital surplus in the applicable fiscal year. Starting in 2001, the gains on disposition of property, plant and equipment is credited to non-operating income.	Any gains on the dispositions of property, plant and equipment is credited to operating income, with no transfer to capital surplus.
Retained earnings tax	Companies in the ROC are subject to a 10% tax on profits retained and earned after December 31, 1997. If the retained profits are distributed to the shareholders in the following fiscal year, the tax can be avoided. Under ROC GAAP, such tax is recorded in the statement of income in the following fiscal year if the earnings are not distributed to the shareholders.	Under U.S. GAAP, income tax expense related to the 10% retained profit tax is recorded in the statement of income in the year that the profits were earned. In addition, all material temporary differences between the carrying amounts of assets and liabilities and their respective tax bases are recognized using a tax rate that includes the 10% retained profit tax.
Depreciation lives of fixed assets.	In practice, depreciation is generally provided using the guideline service lives as prescribed by ROC Tax Authorities plus one additional year as salvage value. Securities of Futures Commission regulations applicable to public companies require that when fixed assets have been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining unamortized value (i.e. the salvage value portion) is depreciated over the asset's remaining economic life. The estimated life of a building under ROC GAAP can be depreciated over a period of up to 55 years.	Depreciation is provided over the asset's estimated useful life. No additional depreciation is provided on fully depreciated assets which continue to be used in the business. In general, 55 years would be considered too long a period over which to depreciate fixed assets.
Economic dependency	ROC GAAP has no specific disclosure requirements concerning economic dependency.	Disclosure of economic dependency on one or more parties, as appropriate, including such parties as sole/major customer, supplier, franchiser, distributor, general agent, customer or lender is required.

Subject	ROC GAAP	U.S. GAAP
Segment reporting	ROC SFAS No. 20, “Disclosure of Segment Information,” establishes standards for reporting information about industry and foreign operating segments, and information on export sales and sales to major customers. ROC SFAS No. 20 defines industry segment as a revenue generating unit of an enterprise which sells certain products or provides services, or a group of related products or services to customers and a foreign operating segment as a revenue generating unit of an enterprise that operates outside Taiwan and sells products or services to customers located in its area of operation. The industry and foreign operating segments information to be provided includes primarily revenues, profits and losses, and book values of identifiable assets. Information on export sales by geographic area are required to be disclosed if they are at least 10% of the enterprise’s total sales. Similar threshold applies to the requirement regarding the disclosure of the information on sales to major customers. The segment information should be prepared using the same standards applied to the financial statements except that inter-segment sales and transfers should be recognized based on internal transfer pricing.	Under U.S. SFAS 131, a public business enterprise is required to present segment information based on operating segments. Several operating segments may, provided aggregation criteria are met, be aggregated to reportable segments for which the required information is disclosed. Disclosure is based on the management’s approach for reporting segments information to the company’s chief operating decision-makers.

Subject	ROC GAAP	U.S. GAAP
Measurement of impaired loans by banks (allowance for loan losses)	Under ROC GAAP, in determining the allowance for credit losses, the collectability of the loan portfolio and credit guarantees must be evaluated based on borrowers'/clients' payment history and the related loan classification as non-performing, in accordance with "The Rules for Bank Assets Evaluation, Loss Reserve Provision, and Disposal of Overdue Loans, Non-accrual Loans and Bad Debts" issued by the MOF. Under the MOF rules, an allowance for loan losses of at least a minimum of (i) 50% must be set aside against doubtful loans and (ii) 100% must be set aside against loss loans. No specific allowance is required for substandard loans. Write-offs of specific loans under MOF guidelines are First offset against the recorded allowance for loan losses. If the allowance is insufficient to cover write-offs, additional losses are recognized on loans in the statement of income for the current period. Amounts of bad debts recovered are accounted for allowance for credit losses.	Under U.S. GAAP, recognition of loan losses is provided by US SFAS No. 5, "Accounting for Contingencies," and US SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." An estimated loss from a loss contingency, such as the collectability of receivables, should be accrued when, based on information available prior to the issuance of the financial statements, it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Loan loss allowance methodology generally should: • Include a detailed analysis of the loan portfolio, performed on a regular basis; • Consider all loans (whether on an individual or group basis); • Identify loans to be evaluated for impairment on an individual basis under US SFAS No. 114 and segment the remainder of the portfolio into groups of loans with similar risk characteristics for evaluation and analysis under US SFAS No. 5; • Consider all known relevant internal and external factors that may affect loan collectability; • Be applied consistently but, when appropriate, be modified for new factors affecting collectability; • Consider the particular risks inherent in different kinds of lending. Consider current collateral values (less costs to sell), where applicable; • Require that analyses, estimates, reviews and other loan loss allowance methodology functions be performed by competent and well-trained personnel; • Be based on current and reliable data; • Be well documented, in writing, with clear explanations of the supporting analyses and rationale; and • Include a systematic and logical method to consolidate the loss estimates and ensure the loan loss allowance balance is recorded in accordance with U.S. GAAP.
Securities purchased under agreements to resell (RS) and sold under agreements to repurchase (RP)	In compliance with a directive of the MOF, these transactions entered into by a bank are treated as outright sales and purchases before 2004. Starting in 2004, the treatment of RP or RS is the same under both ROC GAAP and U.S. GAAP.	Recorded as financing transactions (the financing method).

Subject	ROC GAAP	U.S. GAAP
Minority interest in consolidated subsidiary companies	Under ROC GAAP, the minority interest in consolidated subsidiary companies can be presented either as part of liabilities, between liabilities and stockholders' equity or in stockholders' equity in the consolidated financial statements.	Under U.S. GAAP, the minority interest in consolidated subsidiary companies is presented as a separate item between liabilities and stockholders' equity in the consolidated financial statements.
Comprehensive income	There is no requirement to present comprehensive income.	Effective for fiscal year beginning after December 31, 1997, comprehensive income and its components (revenues, expenses, gains and losses) must be presented in a full set of financial statements under U.S. GAAP. Comprehensive income includes all changes in shareholders' equity during a period, except changes resulting from investments by or distributions to owners, including certain items not included in the current results of operations.
Disclosure of new accounting pronouncements.	Under ROC GAAP, disclosure of recently issued accounting standards not yet effective as of the balance sheet date is required.	U.S. GAAP requires disclosure of the impact that recently issued accounting standards will have on the financial statements when adopted in the future.

The information set forth above does not in any way attempt to quantify the effects of the aforementioned differences between ROC GAAP and U.S. GAAP and the impact such differences would have on net income or shareholders' equity under U.S. GAAP.

INDEX TO FINANCIAL STATEMENTS

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

January 28, 2004, except for translations into U.S. dollars at the exchange rate as of June 30, 2004, stated in Note 2

The Board of Directors and Stockholders
E.Sun Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of E.Sun Financial Holding Co., Ltd. and its subsidiaries (the "Company") as of December 31, 2002 and 2003 and the related statements of income, changes in stockholders' equity and cash flows for the period January 28, 2002 (date of establishment) to December 31, 2002 and the year ended December 31, 2003, all expressed in New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of E.Sun Financial Holding Co., Ltd.'s subsidiaries, E.Sun Securities Corp. ("E.Sun Securities") and E.Sun Securities Investment Trust Corp. ("ESSIT"), had been audited by other auditors, whose reports were furnished to us, and our opinion expressed herein, insofar as it relates to the accounts of E.Sun Securities, which are included in these consolidated financial statements, and the long-term equity investments in ESSIT, are based solely on the reports of other auditors. The total assets of E.Sun Securities were 3% (NT$8,278,655 thousand) and 2% (NT$7,270,015 thousand) of the Company's consolidated total assets as of December 31, 2002 and 2003, respectively. The balances of E.Sun Securities' net operating income were 1% (NT$218,191 thousand) and 3% (NT$436,866 thousand) of the Company's consolidated net operating income in 2002 and 2003, respectively. The balance of the long-term equity investment in ESSIT was NT$397,730 thousand as of December 31, 2003. The Company's equity in ESSIT's net income in 2003 was NT$31,519 thousand.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of E.Sun Financial Holding Co., Ltd. and its subsidiaries as of December 31, 2002 and 2003, and the results of its consolidated operations and its cash flows for the period January 28, 2002 to December 31, 2002 and for the year ended December 31, 2003, in conformity with Criteria Governing the Preparation of Financial Reports by Financial Holding Companies, Criteria Governing the Preparation of Financial Reports by Securities Issuers, Criteria Governing the Preparation of Financial Reports by Securities Firms and accounting principles generally accepted in the Republic of China.

We have also reviewed the translation of the New Taiwan dollar financial statements as of and for the year ended December 31, 2003 into U.S. dollars, which have been included solely for the reader's convenience, against the exchange rate stated in Note 2 to the financial statements and, in our opinion, the U.S. dollar amounts have been properly translated at that rate. The convenience translations should not be construed as representations 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.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2002 and 2003
(In Thousands of Dollars, Except Par Value)

	2002	2003	
	NT$	NT$	US$ (Note 2)
ASSETS			
CASH AND CASH EQUIVALENTS *(Notes 2 and 4)*	$ 14,883,515	$ 13,421,669	$ 398,742
DUE FROM BANKS *(Notes 5 and 28)*	8,080,741	7,253,886	215,505
DUE FROM THE CENTRAL BANK OF CHINA (Note 6)	12,117,374	13,560,837	402,877
SECURITIES PURCHASED — Net *(Notes 2, 7, 27 and 28)*	49,120,651	51,481,469	1,529,455
RECEIVABLES — Net *(Notes 2, 8 and 27)*	18,299,238	27,082,312	804,584
PREPAID EXPENSES	48,029	72,501	2,154
LOANS, BILLS AND DISCOUNTS — Net *(Notes 2, 9 and 27)*	170,775,271	199,070,296	5,914,150
LONG-TERM INVESTMENTS — Net *(Notes 2, 10 and 28)*			
Long-term equity investments — equity method	1,426,394	1,592,592	47,315
Long-term equity investments — cost method	560,531	679,935	20,200
Bonds	1,099,973	8,300,232	246,590
Other	60,000	—	—
Total long-term investments — net	3,146,898	10,572,759	314,105
PROPERTIES *(Notes 2 and 11)*			
Cost			
Land	2,868,893	3,015,143	89,576
Buildings	1,586,920	1,686,726	50,110
Computers	1,281,417	1,595,570	47,403
Transportation equipment	178,451	190,671	5,665
Miscellaneous equipment	658,386	762,595	22,656
Total cost	6,574,067	7,250,705	215,410
Accumulated depreciation	1,552,898	1,708,860	50,768
	5,021,169	5,541,845	164,642
Prepayments	157,796	4,318,771	128,306
Net properties	5,178,965	9,860,616	292,948
OTHER ASSETS — Net *(Notes 2, 12 and 23)*			
Deferred income tax assets — net	1,357,095	430,973	12,804
Refundable deposits	804,417	879,373	26,125
Operating deposits	296,345	307,197	9,126
Settlement funds	43,802	73,170	2,174
Others	276,397	394,391	11,717
Total other assets — net	2,778,056	2,085,104	61,946
TOTAL ASSETS	$284,428,738	$334,461,449	$9,936,466

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Balance Sheets — Continued
December 31, 2002 and 2003
(In Thousands of Dollars, Except Par Value)

	2002	2003	
	NT$	NT$	US$ (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Short-term debts *(Note 13)*	$ —	$ 100,000	$ 2,971
Commercial paper issued *(Note 14)*	—	1,467,956	43,611
Bonds sold under agreements to repurchase *(Notes 2 and 27)*	4,976,714	3,114,802	92,537
Current portion of long-term liabilities *(Notes 2, 15 and 21)*	461,000	6,371,764	189,298
Due to banks *(Note 16)*	17,540,380	29,284,199	870,000
Payables *(Note 17)*	5,203,962	5,578,463	165,730
Advances	34,238	175,122	5,203
Deposits and remittances *(Notes 18 and 27)*	222,335,038	241,716,006	7,181,105
Bonds *(Notes 19 and 27)*	9,840,000	14,840,000	440,879
Corporate bonds payable *(Notes 2 and 20)*	—	3,000,000	89,127
Long-term debts *(Note 21)*	1,019,000	888,000	26,382
Other *(Note 2)*	897,493	1,120,050	33,275
Total liabilities	262,307,825	307,656,362	9,140,118
STOCKHOLDERS' EQUITY			
Capital stock — $10 par value, authorized 5,000,000 thousand shares, issued 2,470,000 thousand shares in 2002 and 2,506,367 thousand shares in 2003	24,700,000	25,063,669	744,613
Capital surplus	4,839,667	1,769,432	52,567
Retained earnings (deficit)	(3,091,451)	4,529,029	134,552
Unrealized loss on long-term equity investments	(82,606)	(56,391)	(1,675)
Cumulative translation adjustments	2,906	2,624	78
Treasury stock — 349,849 thousand shares in 2002 and 374,629 thousand shares in 2003	(4,247,603)	(4,503,276)	(133,787)
Total stockholders' equity	22,120,913	26,805,087	796,348
CONTINGENCIES AND COMMITMENTS *(Notes 2 and 29)*			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$284,428,738	$334,461,449	$9,936,466

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Income
For the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003 (Note 1)
(In Thousands of Dollars, Except Per Share Amounts)

	2002	2003	
	NT$	NT$	US$ (Note 2)
OPERATING INCOME AND GAINS			
Interest *(Notes 2 and 27)*	$12,368,375	$11,403,641	$338,789
Service fees *(Note 2)*	1,118,051	1,874,630	55,693
Gain on sales of securities — net *(Note 2)*	1,915,947	1,505,527	44,728
Income from long-term equity investments under the equity method — net *(Notes 2 and 10)*	68,229	78,942	2,345
Foreign exchange gain — net	118,585	312,140	9,273
Other	62,612	453,926	13,486
Total operating income and gains	15,651,799	15,628,806	464,314
OPERATING COSTS AND EXPENSES			
Interest *(Notes 2 and 27)*	5,719,528	3,962,238	117,714
Service charges	320,749	647,990	19,251
Provisions *(Note 2)*	9,614,558	853,908	25,369
Operating expenses	3,974,160	4,849,495	144,073
Other	9,373	5,603	166
Total operating costs and expenses	19,638,368	10,319,234	306,573
OPERATING INCOME (LOSS)	(3,986,569)	5,309,572	157,741
NONOPERATING INCOME AND GAINS	42,238	31,958	949
NONOPERATING EXPENSES AND LOSS	100,648	96,555	2,868
INCOME (LOSS) BEFORE INCOME TAX AND DEDUCTION OF NET INCOME FROM SUBSIDIARIES BEFORE SHARE SWAP	(4,044,979)	5,244,975	155,822
LESS: NET INCOME OF SUBSIDIARIES FROM JANUARY 1, 2002 TO JANUARY 27, 2002	(129,233)	—	—
INCOME (LOSS) BEFORE INCOME TAX	(4,174,212)	5,244,975	155,822
INCOME TAX BENEFIT (EXPENSE) *(Notes 2 and 23)*	1,082,761	(715,946)	(21,270)
CONSOLIDATED NET INCOME (LOSS)	($3,091,451)	$ 4,529,029	$134,552

	2002		2003			
	Pretax	After Tax	Pretax	After Tax	Pretax	After Tax
	NT$		NT$		US$ (Note 2)	
EARNINGS (LOSS) PER SHARE *(Note 25)*						
Basic	($1.97)	($1.46)	$2.47	$2.13	$0.073	$0.063
Diluted	($1.97)	($1.46)	$2.25	$1.94	$0.067	$0.058

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003 (Note 1)
(In Thousands of New Taiwan Dollars)

	Capital Stock		Capital Surplus (Notes 2 and 22)	Retained Earnings (Deficit) (Note 22)	Cumulative Translation Adjustment (Note 2)	Unrealized Loss on Long-term Equity Investments (Note 2)	Treasury Stock (Notes 2 and 24)	Total Stockholders' Equity
	Shares (thousands)	Amount						
BALANCE, JANUARY 28, 2002 *(Note 1)*	2,290,000	$22,900,000	$6,796,125	$ —	$ —	$ —	($498,017)	$29,198,108
Reclassification of shares held by subsidiary to treasury stock	—	—	—	—	—	—	(3,749,586)	(3,749,586)
Capital surplus transferred to capital stock — 8%	180,000	1,800,000	(1,800,000)	—	—	—	—	—
Appropriation of bonus to directors, supervisors and employees of subsidiaries before the establishment of the Company	—	—	(156,458)	—	—	—	—	(156,458)
Consolidated net loss from January 28, 2002 to December 31, 2002	—	—	—	(3,091,451)	—	—	—	(3,091,451)
Translation adjustment	—	—	—	—	2,906	—	—	2,906
Unrealized loss on long-term equity investments	—	—	—	—	—	(82,606)	—	(82,606)
BALANCE, DECEMBER 31, 2002	2,470,000	24,700,000	4,839,667	(3,091,451)	2,906	(82,606)	(4,247,603)	22,120,913
Offset of deficit against capital surplus	—	—	(3,091,451)	3,091,451	—	—	—	—
Issuance of shares for a share swap *(Note 22)*	35,400	354,000	12,211	—	—	—	—	366,211
Reclassification of shares held by subsidiaries to treasury stock	—	—	—	—	—	—	(255,673)	(255,673)
Conversion of corporate bonds payable to capital stock	967	9,669	9,005	—	—	—	—	18,674
Consolidated net income in 2003	—	—	—	4,529,029	—	—	—	4,529,029
Translation adjustment	—	—	—	—	(282)	—	—	(282)
Reversal of unrealized loss on long-term equity investments	—	—	—	—	—	26,215	—	26,215
BALANCE, DECEMBER 31, 2003	2,506,367	$25,063,669	$1,769,432	$4,529,029	$2,624	($56,391)	($4,503,276)	$26,805,087

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity — Continued
For the Year Ended December 31, 2003
(In Thousands of U.S. Dollars — Note 2)

	Capital Stock		Capital Surplus (Notes 2 and 22)	Retained Earnings (Deficit) (Note 22)	Cumulative Translation Adjustment (Note 2)	Unrealized Loss on Long-term Equity Investments (Note 2)	Treasury Stock (Notes 2 and 24)	Total Stockholders' Equity
	Shares (thousands)	Amount						
BALANCE, JANUARY 1, 2003	2,470,000	$733,809	$143,780	($91,843)	$86	($2,454)	($126,191)	$657,187
Offset of deficit against capital surplus	—	—	(91,843)	91,843	—	—	—	—
Issuance of shares for a share swap *(Note 22)*	35,400	10,517	363	—	—	—	—	10,880
Reclassification of shares held by subsidiaries to treasury stock	—	—	—	—	—	—	(7,596)	(7,596)
Conversion of corporate bonds payable to capital stock	967	287	267	—	—	—	—	554
Consolidated net income in 2003	—	—	—	134,552	—	—	—	134,552
Translation adjustment	—	—	—	—	(8)	—	—	(8)
Reversal of unrealized loss on long-term equity investments	—	—	—	—	—	779	—	779
BALANCE, DECEMBER 31, 2003	2,506,367	$744,613	$ 52,567	$134,552	$78	($1,675)	($133,787)	$796,348

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003 (Note 1)
(In Thousands of Dollars)

	2002	2003	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income (loss)	($3,091,451)	$ 4,529,029	$ 134,552
Net income from subsidiaries for the period January 1, 2002 to January 27, 2002	129,233	—	—
Reversal of allowance for losses on securities purchased	(36,049)	(60,507)	(1,798)
Provisions	9,470,441	853,908	25,369
Reversal of reserve for losses on sale of bonds	(4,451)	(126,442)	(3,756)
Depreciation and amortization	322,587	404,508	12,017
Recovery of written-off credits and guarantees	200,486	1,887,109	56,064
Equity in net income of equity-method investees, net of cash dividends received	(67,211)	(37,105)	(1,102)
Amortization of premium or discount on long-term bond investments	—	36,061	1,071
Loss on sale of properties and foreclosed collaterals	4,649	18,651	554
Unrealized loss on market value decline of foreclosed collaterals	75,500	—	—
Deferred income tax	(1,337,028)	926,122	27,514
Amortization of premium on corporate bonds payable	—	(20,569)	(611)
Pension liability	198	12,552	373
Others	(4,616)	30,004	891
Net changes in operating assets and liabilities:			
Securities purchased for trading purposes	1,204,903	4,528,569	134,539
Receivables	(6,420,447)	(10,021,164)	(297,717)
Prepaid expenses	14,257	(24,472)	(727)
Bonds sold under agreements to repurchase	2,094,889	(2,011,912)	(59,772)
Payables	(968,415)	366,946	10,901
Advances	5,359	140,884	4,186
Net cash provided by operating activities	1,592,834	1,432,172	42,548
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in due from banks	5,106,045	826,855	24,565
Increase in due from the Central Bank of China	(4,048,604)	(1,443,463)	(42,884)
Increase in loans, bills and discounts	(608,851)	(29,932,004)	(889,245)
Increase in securities purchased for investing purposes	(7,276,022)	(6,798,519)	(201,976)
Acquisition of properties	(555,367)	(5,046,770)	(149,934)
Proceeds from sales of properties	528	989	29
Proceeds from sales of foreclosed collaterals	363,194	258,406	7,677
Increase in long-term equity investments	(1,075,677)	(60,345)	(1,793)
Increase in long-term bond investments	(1,500,053)	(7,276,998)	(216,191)
Proceeds from sale of long-term bond investments	689,952	—	—
Increase in other assets	(55,552)	(350,143)	(10,402)
Net cash used in investing activities	(8,960,407)	(49,821,992)	(1,480,154)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows — Continued
For the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003 (Note 1)
(In Thousands of Dollars)

	2002	2003	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term debts	$ —	$ 100,000	$ 2,971
Increase in commercial paper issued	—	1,467,956	43,611
Increase in due to banks	7,675,156	11,743,819	348,895
Increase in deposits and remittances	760,439	19,569,754	581,395
Proceeds from issuance of bonds	5,000,000	5,000,000	148,544
Increase in corporate bonds payable	—	9,233,676	274,322
Increase in long-term debts	1,480,000	50,000	1,486
Repayment of long-term debts	—	(351,000)	(10,428)
Increase (decrease) in other liabilities	(179,582)	229,734	6,825
Payment of bonus to directors, supervisors and employees	(156,457)	—	—
Net cash provided by financing activities	14,579,556	47,043,939	1,397,621
EFFECTS OF EXCHANGE RATE CHANGES	(1,050)	(115,965)	(3,445)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,210,933	(1,461,846)	(43,430)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (PERIOD)	7,672,582	14,883,515	442,172
CASH AND CASH EQUIVALENTS, END OF YEAR	$14,883,515	$13,421,669	$ 398,742
SUPPLEMENTARY INFORMATION			
Interest paid	$ 6,565,520	$ 4,096,403	$ 121,699
Income tax paid	$ 430,151	$ 281,923	$ 8,376
NONCASH INVESTING AND FINANCING ACTIVITIES			
Reclassification of shares held by subsidiaries to treasury stock	$ 4,247,603	$ 255,673	$ 7,596
Share swap resulting in E.Sun Securities Investment Trust Corp. becoming a 100% subsidiary of E.Sun Financial Holding Co., Ltd.	$ —	$ 366,211	$ 10,880
Conversion of corporate bonds payable to capital stock	$ —	$ 18,674	$ 555

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements for the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. Organization and Operations

E.Sun Financial Holding Company, Ltd. ("ESFHC") was established by E.Sun Commercial Bank Ltd. ("E.Sun Bank"), E.Sun Bills Finance Corp. ("E.Sun Bills") and E.Sun Securities Corp. ("E.Sun Securities") through a share swap on January 28, 2002 based on the Financial Holding Companies Law and related regulations in the Republic of China (the "ROC"). The swap ratio was 1 share of ESFHC stock for 1.0 share of E.Sun Bank, 1.10 shares of E.Sun Bills and 1.25 shares of E.Sun Securities. After the swap, E.Sun Bank, E.Sun Bills and E.Sun Securities became 100% subsidiaries of ESFHC.

E.Sun Securities Investment Trust Corp. ("ESSIT") became a 100% subsidiary of ESFHC through a share swap on September 16, 2003. The swap ratio was 1.18 shares of ESFHC for 1.0 share of ESSIT.

ESFHC invests in, and manages businesses related to, financial institutions.

The ESFHC's shares have been listed on the Taiwan Stock Exchange ("TSE") since January 28, 2002.

E.Sun Bank engages in commercial banking permitted under the Banking Laws and regulations of the ROC. The operations of the Bank's Trust Department consist of planning, managing and operating a trust business. These operations are regulated under the Banking Law and Trust Law of the ROC. As of December 31, 2003, the Bank had a business department, a international banking department, trust department, an offshore banking unit (OBU), 2 overseas branches (Los Angeles and Hong Kong) and 51 domestic branches.

The operations of E.Sun Bills are (a) underwriting and acting as registrar of commercial paper and bank acceptances; (b) brokering and dealing in commercial paper and bank acceptances; (c) providing guarantees on or endorsements of commercial paper and bank acceptances; (d) brokerage of call loans between financial institutions; (e) providing consulting services on corporate financial matters; (f) brokering and dealing in government bonds; (g) underwriting and acting as registrar of financial institution bonds; (h) brokering and dealing in financial institution bonds; and (i) conducting derivative activities approved by the Ministry of Finance. As of December 31, 2003, it had branches in Kaohsiung, Taichung, Taoyuan and Panchiau.

E.Sun Securities engages in underwriting, dealing and brokerage of securities.

E.Sun Insurance Broker Co., Ltd. ("ESIB") brokers life and property insurance.

As of December 31, 2002 and 2003, ESFHC and its subsidiaries had 1,858 and 2,143 employees, respectively.

2. Summary of Significant Accounting Policies

The consolidated financial statements were issued in conformity with the Criteria Governing the preparation of Financial Reports by Financial Holding Companies, Criteria Governing the Preparation of Financial Reports by Securities Issuers, Criteria Governing the Preparation of Financial Reports by Securities Firms and accounting principles generally accepted in ROC. The estimates of significant accounts-allowances for possible losses, reserve for losses on guarantees, depreciation, pension, losses on a suspended lawsuit, etc.—do not include any adjustments that might be required if related contingent liabilities arise.

Significant accounting policies are summarized below.

Consolidation

The consolidated financial statements include the accounts of ESFHC, E.Sun Bank, E.Sun Bills, E.Sun Securities and ESIB (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated for consolidation purposes.

Neither the operating revenues nor total assets of ESFHC's other subsidiaries — E.Sun Venture Capital Co., Ltd. ("ESVC"), E.Sun Finance & Leasing Co., Ltd., E.Sun Insurance Agent Co., Ltd., ESSIT and E.Sun Securities Investment Consulting Co., Ltd. ("ESSIC") — individually reached 10%, or collectively reached 30% of those of the Company. Thus, their accounts were not included in these consolidated financial statements.

Current and Noncurrent Assets and Liabilities

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the financial statements of E.Sun Bank were not classified as current or noncurrent. Nevertheless, these accounts were properly categorized according to the nature of each account and sequenced by their liquidity.

Except for the matter stated in the preceding paragraph, assets to be converted or consumed within one year are classified as current. Obligations to be liquidated or settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

The consolidated financial statements, however, did not show a classification of current or noncurrent assets/liabilities because the banking industry accounted for a major part of the consolidated accounts. Thus, accounts in the consolidated financial statements were instead categorized by nature and sequenced by their liquidity. Please refer to Note 33 for the maturity analysis of assets and liabilities.

Currency Translation

The Company maintains its accounts and expresses its financial statements in New Taiwan (NT) dollars. The NT dollar amounts in the financial statements as of and for the year ended December 31, 2003 were translated into U.S. dollars solely for the readers' convenience. The translation was made at NT$33.66=US$1.00, the noon buying rate of the U.S. Federal Reserve Bank of New York as of June 30,

2004. This convenience translation should not be construed as a representation that the NT 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.

Cash Equivalents

Cash equivalents are highly liquid investments with maturities of up to three months.

Securities Purchased

Securities purchased are carried at aggregate cost less any allowance for decline in value. Except that the operating securities held by E.Sun Securities, which traded in OTC-Emerging stock are carried at cost and the other are carried at aggregate cost less any allowance for decline in value by dealing department and underwriting department, respectively. The allowance is reversed when the market value recovers and recognized as income.

Costs of securities sold are determined by the following methods: Stocks, mutual funds, and government bonds — moving average; and others — specific identification. For E.Sun Bills, costs of short-term negotiable instruments sold are determined by the moving-average method.

For E.Sun Bank, under a directive of the Ministry of Finance, sales of bonds and other short-term securities under agreements to repurchase are treated as outright sales, while purchases of bonds and other short-term securities under agreements to resell are recorded as assets. But from 2004, the Bank will treat these transactions as financing, according to the Criteria Governing the Preparation of Financial Reports by Public Banks.

For E.Sun Bills, consistent with the industry practice, sales of short-term negotiable instruments and bonds under agreements to repurchase (“repo”) are recorded at their carrying value, and gains or losses are deferred and recognized until an actual sale is made. Purchases of short-term negotiable instruments and bonds under agreements to resell are recorded at purchase cost, and gains or losses are recognized when the instruments are sold. Under the Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporations, starting in 2004, sales of short-term negotiable instruments and bonds under agreements to repurchase and purchase of short-term negotiable instruments and bonds under agreements to resell will be treated as financing activities rather than outright sales.

E.Sun Securities treats the sales (purchases) of bonds and other short-term securities under agreements to repurchase (resell) as financing activities.

Overdue Loans

Under a Ministry of Finance guideline, E.Sun Bank classifies loans and other credits (including accrued interest) outstanding for at least six months as overdue loans.

Allowances for Possible Losses and Reserve for Losses on Guarantees

The Company makes provisions for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for their specific risks or general risks. E.Sun Bills should provide a reserve of at least equal to 1% of the amount guaranteed, full provisions for credits deemed uncollectible and 50% provision for credits with high uncollectibility.

Debts and guarantees with specific risks are evaluated internally for their collaterals, collectibility and customers' overall credit. Under Ministry of Finance (MOF) guidelines, E.Sun Bank makes full provisions for credits deemed uncollectible and makes at least 50% provisions for credits with high uncollectibility.

Under MOF guidelines, credits deemed uncollectible may be written off if the write-off is approved under a resolution issued by the E.Sun Bank's Board of Directors.

Long-term Investments

Long-term bond investments are stated at cost. Premium or discount is amortized (as a charge or credit to interest income, respectively) over the remaining term of each bond. Cost of bonds sold are determined by the specific identification method.

Under a directive of the Accounting Research and Development Foundation of the ROC, a financial holding company should treat the investees' net worth as paid-in capital if the holding company is incorporated or the affiliated company becomes the subsidiary of the holding company through stock conversion. The stock issued by the holding company is accounted for as capital stock, and the amount in excess of the par value of the issued stock is accounted for as capital surplus.

Investments in shares of stock of companies in which the Company exercises significant influence on their operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investments are carried at cost on the acquisition date and subsequently adjusted for the Company's proportionate share in the net income or loss of the investees. The proportionate share in the net income or loss is recognized as current income or loss, and any cash dividends received are reflected as a reduction of the carrying values of the investments. A capital increase of investees that results in the increase in the Company's equity in the investees' net assets is credited to capital surplus, and any decrease is charged to such capital surplus to the extent of the available balance, with the difference charged to unappropriated earnings. The Company recognizes the investees' cumulative translation adjustments and unrealized losses on long-term equity investments proportionately. The difference, on the acquisition date, between the acquisition cost and the Company's proportionate equity in the investees' net assets is amortized over five years.

Other long-term equity investments are accounted for by the cost method and are stated at cost. Investments in stocks with no quoted market price are accounted for at cost. The carrying amount of the investment is reduced to reflect an other than temporary decline in the value of the investments, with the related losses charged to current income. Investments in stock with a quoted market price is stated at the lower of aggregate cost or market. The reduction of an investment cost to reflect a lower market value and its write-up due to the subsequent recovery in market value are charged or credited to stockholders' equity. Cash dividends received from a year after the acquisition date are recorded as investment income. Foreign-currency investments are recorded in New Taiwan dollars at the rate of exchange in effect when the transactions occur. At year-end, the balances of these investments are restated at the year-end exchange rates. If the restated balances are lower than cost, the differences are recognized as translation adjustment under stockholders' equity; otherwise, no adjustment is made.

For both equity-method and cost-method investments, stock dividends received are recognized only as increases in the number of shares held, and not as income. Cost of long-term equity investments sold is determined by the weighted-average method.

Properties

Properties are carried at cost less accumulated depreciation. The cost of betterments and major renewals that extend the useful life of an item of property and equipment is also capitalized. The cost of repairs and maintenance is charged to expense as incurred.

Depreciation is calculated by the straight-line method over service lives estimated as follows: buildings, 10 to 55 years; computers, 3 to 5 years; transportation equipment, 5 to 8 years; and miscellaneous equipment, 3 to 10 years. If an asset reaches its residual value but is still in use, it is further depreciated over its newly estimated service life.

The cost and accumulated depreciation are removed from the accounts when property is disposed of or retired, and any gain or loss is credited or charged to nonoperating income or expenses.

Foreclosed Collaterals

Foreclosed collaterals (part of other assets) are recorded at the lower of cost or net realizable value on the balance sheet dates.

Amortization of Corporate Bond Issuance Expenses

The direct and necessary costs related to the issuing of Euro-convertible bonds are recognized as other assets — other and amortized by the straight-line method over the period from the issuance date to the expiration date of the put option.

Corporate Bonds Payable

The net carrying amount of the Euro-convertible bonds (the face amount adjusted unamortized premium and bond issuance expenses at the date of conversion) is credited to the appropriate capital accounts (capital stock equal to par value, with the balance credited to capital surplus) upon bond conversion.

Reserves for Losses on Sale of Bonds

Under the regulations of the Securities and Futures Commission of the ROC, reserves for losses on sale of bonds (part of other liabilities) are computed at 10% of net gain on sale of bonds until the balance of the reserve reaches the required amount set under relevant regulations. This reserve should be used only to offset actual losses on the sale of the bonds.

Treasury Stock

The reacquisition if issued capital stock is carried at cost and presented as a deduction to arrive at stockholders' equity.

The reissuance of treasury stocks is accounted for as follows: (a) reissue price higher than the acquisition cost — the excess is credited to capital surplus on treasury stock; and (b) reissue price less than the acquisition cost — initially charged to capital surplus on treasury stock, with any remaining deficiency charged to unappropriated earnings.

Under to a directive issued by the Securities and Futures Commission (SFC), if a financial institution ("FI") repurchases its own capital stock pursuant to the Securities and Exchange Law and becomes a wholly owned subsidiary of a financial holding company ("FHC"), resulting in the conversion of the FI's treasury stocks to the FHC's stock, the FHC's shares held by the FI should be treated as treasury stock. The FHC should also present the shares it issued in exchange for FI's capital stock as treasury stock. If shares of the FIs under the same FHC were held among each other before the share swap, these shares will be stated as equity investments after the swap. However, the FHC should state these shares as treasury stocks starting with its 2002 financial statements.

Pension Costs

E.Sun Bank and E.Sun Bills recognize pension costs on the basis of actuarial calculations, and unrecognized net transition asset is amortized over 29 and 27 years, respectively.

E.Sun Securities started to recognize pension costs on the basis of actuarial calculations from 2003, and unrecognized net transition obligation is amortized over 15 years.

Recognition of Revenue

Interest revenue is recorded on an accrual basis. Under the regulations of the Ministry of Finance (MOF), no interest revenue is recognized on loans and other credits extended by the Company that are classified as overdue loans. The interest revenue on those loans is recognized upon collection on these loans and credits.

The unpaid interest on rescheduled loans should be recorded as deferred revenue, and the paid interest is recognized as interest revenue.

Service fees are recorded when a major part of the earnings process is completed and revenue is realized.

Other operating revenue is recorded on an accrual basis when a major part of the earnings process is completed.

Income Tax

The provision for income tax is based on inter-period tax allocation. The tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred tax liabilities. Valuation allowance is provided for deferred tax assets that are not probable to be realized.

ESFHC and its subsidiaries elected to file a consolidated tax return for 2003. If the sum of the amounts allocated to the individual group members does not equal the total current and deferred income tax expense or benefit of the consolidated group, the difference is considered as a consolidation entry. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Income tax on interest in short-term negotiable instruments, which is levied separately, and any adjustment of income taxes of prior years are added to or deducted from the current year's tax expense.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders resolve to retain the earnings.

Contingencies

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. A footnote disclosure is made of the situation that might result in a loss if loss is possible but the amount of loss cannot be reasonably estimated.

Foreign-Currency Transactions

Foreign-currency transactions (except forward transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of prevailing exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the period of settlement. The year-end balances of foreign-currency assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as credits or charges to income.

E.Sun Bank's foreign currency transactions are included in the financial statements at their equivalent New Taiwan dollar amounts at the following rates: Assets and liabilities — current exchange rates; and income and expenses — rates prevailing on the date of each transaction. Exchange gains or losses are credited or charged to income.

Forward Contracts

For forward contracts, which are used for trading purposes, assets and liabilities are recorded at the contracted forward rate. Gains or losses resulting from the difference between the spot rate and the contracted forward rate on the settlement date are credited or charged to income.

For contracts outstanding as of the balance sheet date, the gains or losses resulting from the difference between the contracted forward rates and the forward rates available for the remaining periods of the contracts are credited or charged to income. In addition, the receivables and payables related to the forward contracts are netted out, and the resulting amount is presented as an asset or liability.

Foreign-currency Swap Contracts

Foreign-currency spot-position assets or liabilities arising from foreign currency swap contracts, which are entered into for trading purposes, are recorded at spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates.

The related differences between spot rates and contracted forward rates are amortized and recorded as interest revenue or interest expense over the contract period on the straight-line basis. The receivables and payables related to the foreign currency swap contracts are netted out, and the resulting amount is presented as an asset or liability as of the balance sheet date.

Asset Swaps

The Company agrees to swap the fixed interest and redemption premium or conversion right on its investments in bonds for the floating interest rates. There is no exchange of contract (notional) principals (equal to the aggregate face values of the bonds). For swaps entered into for nontrading purposes, the net interest upon each settlement is recorded as an adjustment to interest revenue or expense associated with the items being hedged.

Cross-currency Swap

Cross-currency swap contracts, which are intended for nontrading purposes, are recorded at their forward rates on the contract dates. The interest received or paid under the contract is recorded as an adjustment to the revenue or expense of the items being hedged.

Interest Rate Swaps

Interest rate swap (IRS) contracts are recorded through memorandum entries on the contract dates since there is no exchange of notional principals. For IRS contracts used for nontrading purposes, interest received or paid upon each settlement is recorded as adjustment to interest income or expense of the hedged item.

For IRS contracts used for trading purposes, net interest received or paid upon each settlement date is recorded as revenue or expense. Loss from the valuation of contracts on the balance sheet date are recorded as expense.

Foreign-currency Options

The Company enters into foreign-currency option contracts for trading purposes. Premiums received or paid are recorded as liability or assets and amortized on the straight-line method over the contract period. Gains or loss from the exercise of options are credited or charged to current income.

Reclassifications

Certain accounts for 2002 had been reclassified to conform to the 2003 presentation.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

3. Eliminated Significant Intercompany Transactions

Transacting Party	Eliminated Account	Amount	Transaction Counter-party
2002			
ESFHC	Cash and cash equivalents	$ 13,876	E.Sun Bank
E.Sun Bank	Bonds	160,000	E.Sun Bills
	Deposits and remittances	3,404,562	ESFHC, E.Sun Bills and E.Sun Securities
	Interest payable	4,737	E.Sun Bills and E.Sun Securities
	Interest expense	73,982	E.Sun Bills and E.Sun Securities
	Operating expenses	1,920	E.Sun Securities
E.Sun Bills	Cash and cash equivalents	2,104,185	E.Sun Bank
	Pledged time deposits	50,000	E.Sun Bank
	Securities purchased	150,000	E.Sun Securities
	Interest receivable	2,817	E.Sun Bank
	Long-term bond investments	160,000	E.Sun Bank
	Interest revenue	47,683	E.Sun Bank
E.Sun Securities	Cash and cash equivalents	586,501	E.Sun Bank
	Pledged time deposits	510,000	E.Sun Bank
	Interest receivable	1,920	E.Sun Bank
	Operating deposits	140,000	E.Sun Bank
	Bonds sold under agreements to repurchase	150,000	E.Sun Bills
	Interest revenue	26,299	E.Sun Bank
	Nonoperating income	1,920	E.Sun Bank
2003			
ESFHC	Cash and cash equivalents	3,415,790	E.Sun Bank
	Interest receivable	6,491	E.Sun Bank
	Other payable	129,459	E.Sun Bank, E.Sun Bills and E.Sun Securities
	Interest revenue	15,869	E.Sun Bank

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Transacting Party	Eliminated Account	Amount	Transaction Counter-party
E.Sun Bank	Other receivable	$ 80,131	ESFHC
	Bonds	160,000	E.Sun Bills
	Deposits and remittances	5,300,465	ESFHC, E.Sun Bills, E.Sun Securities and ESIB
	Interest payable	6,682	ESFHC and E.Sun Securities
	Interest revenue	13	E.Sun Bills
	Interest expense	65,964	ESFHC, E.Sun Bills, E.Sun Securities and ESIB
	Service charges	2,499	E.Sun Securities
	Rent revenue	1,290	E.Sun Securities
	Rent expense	1,440	E.Sun Securities
E.Sun Bills	Cash and cash equivalents	1,515,917	E.Sun Bank
	Other receivable	30,849	ESFHC
	Long-term bond investments	160,000	E.Sun Bank
	Refundable deposits	50,000	E.Sun Bank
	Interest revenue	40,205	E.Sun Bank
	Interest expense	13	E.Sun Bank
E.Sun Securities	Cash and cash equivalents	7,076	E.Sun Bank
	Pledged time deposits	10,000	E.Sun Bank
	Interest receivable	191	E.Sun Bank
	Other receivable	18,479	ESFHC
	Operating deposits	280,000	E.Sun Bank
	Interest revenue	9,886	E.Sun Bank
	Service fees	2,499	E.Sun Bank
	Rent revenue	1,440	E.Sun Bank
	Rent expense	1,290	E.Sun Bank
ESIB	Cash and cash equivalents	21,682	E.Sun Bank
	Interest revenue	4	E.Sun Bank

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

4. Cash and Cash Equivalents

	December 31	
	2002	2003
Cash on hand	$ 2,113,849	$ 2,050,386
Negotiable certificates of deposit	10,369,560	6,607,996
Checks for clearing	2,400,106	2,485,692
Cash equivalents — earnings ratio is 0.75%–1.12%	—	2,277,595
	$14,883,515	$13,421,669

5. Due from Banks

	December 31	
	2002	2003
Due from banks	$3,014,271	$4,746,353
Call loans to banks	5,066,470	2,507,533
	$8,080,741	$7,253,886

6. Due from the Central Bank of China

	December 31	
	2002	2003
Reserves for deposits	$ 9,742,971	$11,171,225
Deposit	2,374,403	2,389,612
	$12,117,374	$13,560,837

As required by law, the reserves for deposits are calculated by applying the prescribed rates to the average monthly balances of various types of deposit accounts held by E.Sun Bank. As of December 31, 2002 and 2003, deposit reserve portions of $5,268,678 and $5,873,524, respectively, were restricted from Bank use, as required by certain regulations.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

7. Securities Purchased — Net

	December 31	
	2002	2003
Overseas securities	$11,999,757	$21,332,271
Certificates of deposit	7,011,115	11,806,444
Government bonds and treasury bills	7,840,917	7,237,411
Stocks and mutual funds	4,640,022	4,174,771
Operating securities — dealing department	3,246,473	2,880,864
Commercial paper	10,662,495	2,235,180
Corporate bonds and bank debentures	1,571,669	928,154
Bonds purchased under agreements to resell	2,188,385	787,347
Operating securities — underwriting department	55,278	78,327
Other	—	46,112
	49,216,111	51,506,881
Less — allowance for decline in value	95,460	25,412
	$49,120,651	$51,481,469

8. Receivables — Net

	December 31	
	2002	2003
Credit cards	$16,171,931	$22,215,161
Margin loans receivable	—	1,453,183
Acceptances	340,429	942,906
Accrued interest	809,160	922,879
Accrued income	266,736	307,337
Other	1,066,346	1,625,567
	18,654,602	27,467,033
Less — allowance for possible losses	355,364	384,721
	$18,299,238	$27,082,312

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

9. Loans, Bills and Discounts — Net

	December 31	
	2002	2003
Loans		
Short-term	$ 48,612,524	$ 44,916,198
Medium-term	59,607,025	60,402,800
Long-term	60,830,353	92,234,971
Overdue loans	2,137,685	1,677,190
Bills and discounts	1,128,439	2,008,897
	172,316,026	201,240,056
Less — allowance for possible losses	1,540,755	2,169,760
	$170,775,271	$199,070,296

As of December 31, 2002 and 2003, the loan and credit balances for which accrual of interest revenues was discontinued, amounted to $2,137,685 and $1,677,190, respectively. The unrecognized interest revenues on these loans and credits amounted to $315,806 in 2002 and $60,994 in 2003.

In 2002 and 2003, E.Sun Bank carried out the legal procedures required before writing off certain credits.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

The details of and changes in the allowance for credit losses on loans, bills and discounts are summarized below:

	2002		
	Specific Risk	General Risk	Total
Balance, January 1, 2002	$1,075,932	$ 438,066	$1,513,998
Provisions	7,820,012	998,096	8,818,108
Write-offs	(8,949,253)	—	(8,949,253)
Recovery of written-off credits	157,902	—	157,902
Balance, December 31, 2002	$ 104,593	$1,436,162	$1,540,755

	2003		
	Specific Risk	General Risk	Total
Balance, January 1, 2003	$ 104,593	$1,436,162	$1,540,755
Recovery of written-off credits	1,808,204	—	1,808,204
Provisions (reversal)	(900,880)	508,721	(392,159)
Write-offs	(784,233)	—	(784,233)
Effect of exchange rate changes	—	(2,807)	(2,807)
Balance, December 31, 2003	$ 227,684	$1,942,076	$2,169,760

10. Long-Term Investments — Net

	December 31	
	2002	2003
Long-term equity investments	$1,986,925	$ 2,272,527
Long-term bond investments	1,099,973	8,300,232
Other long-term investments — prepaid investments	60,000	—
	$3,146,898	$10,572,759

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The details of long-term equity investments are summarized below:

	December 31			
	2002		2003	
	Amount	% of Ownership	Amount	% of Ownership
Equity method:				
With no quoted market prices				
E.Sun Venture Capital Co., Ltd.	$1,002,206	100.0	$1,010,214	100.0
E.Sun Securities Investment Trust Corp.	239,675	70.0	397,730	100.0
E.Sun Finance & Leasing Co., Ltd.	151,769	99.0	131,993	99.0
E.Sun Insurance Agent Co., Ltd.	32,744	79.0	42,306	99.0
E.Sun Securities Investment Consulting Co., Ltd.	—	—	10,349	100.0
	1,426,394		1,592,592	
Cost method:				
With quoted market prices				
United Micro Electronics	$ 200,451	—	$ 200,451	—
With no quoted market prices				
Fu Bon Securities Finance Co.	155,857	2.6	155,857	2.6
Taiwan Asset Management Corporation	100,000	0.6	100,000	0.6
Other	210,228	—	303,417	—
	666,536		759,725	
Less — allowance for possible losses	106,005		79,790	
	560,531		679,935	
	$1,986,925		$2,272,527	

The equity-method investees' financial statements on which the calculation of investment carrying value and the related income was based, had all been audited, except those of E.Sun Insurance Agent Co., Ltd. The Company's management believes that, had the investee's accounts been audited, the effect of any adjustments on the consolidated financial statements would not have been significant.

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Long-term bond investments are summarized below:

	December 31	
	2002	2003
Government bonds	$ —	$7,040,255
Bank debentures	899,976	859,980
Corporate bonds	199,997	399,997
	$1,099,973	$8,300,232

11. Accumulated Depreciation

	December 31	
	2002	2003
Buildings	$ 303,760	$ 346,926
Computers	756,292	769,778
Transportation equipment	107,861	121,454
Miscellaneous equipment	384,985	470,702
	$1,552,898	$1,708,860

12. Other Assets — Net

	December 31	
	2002	2003
Refundable deposits	$ 804,417	$ 879,373
Deferred income tax assets — net	1,357,095	430,973
Operating deposits	296,345	307,197
Foreclosed collaterals	181,364	130,418
Deferred charges — net of amortization	89,981	83,266
Settlement fund	43,802	73,170
Others	5,052	180,707
	$2,778,056	$2,085,104

13. Short-Term Debts

	December 31, 2003
Credit loans — annual interest rate at 1.48%	$100,000

14. Commercial Paper Issued

The face value of commercial paper issued was $1,470,000 as of December 31, 2003, and the annual discount rate was 0.75% to 1.07%.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

15. Current Portion of Long-Term Liabilities

	December 31	
	2002	2003
Corporate bonds payable	$ —	$6,039,745
Add: Premium of corporate bonds payable	—	41,019
	—	6,080,764
Current portion of long-term debts *(Note 21)*	461,000	291,000
	$461,000	$6,371,764

On June 27, 2003, ESFHC issued US$178,200,000 worth of zero coupon Euro convertible bonds (the "Bonds") with par of US$1,000 in Luxembourg. The terms of the Bonds are as follows:

a. *Redemption method*

ESFHC will redeem the Bonds on the maturity date at a price equal to 100% of the outstanding principal amount unless the Bonds had been previously redeemed, repurchased and canceled or converted.

1) *Redemption at the option of ESFHC*

a) At any time on or after June 27, 2004 and prior to November 27, 2004, ESFHC may redeem all the Bonds at one time or make piecemeal redemptions at 100% of the principal amount if the closing price of the shares, translated into U.S. dollars at the prevailing rate on the issue date, for at least 20 out of 30 consecutive trading days immediately preceding the date of such notice of redemption, is at least 115% of the conversion price then in effect, translated into U.S. dollars at the fixed exchange rate.

b) ESFHC may redeem all the Bonds at one time, i.e., not piecemeal, at 100% of the principal at any time if at least 90% of the principal of the Bonds had already been redeemed, repurchased and canceled or converted.

c) ESFHC may redeem all the Bonds at one time, i.e., not piecemeal, at 100% of the principal at any time if any changes in ROC taxation would require ESFHC to gross up payment of interest or premium.

2) *Redemption at the options of holders*

a) Each holder of the Bonds has the right to require the ESFHC to redeem, all or part of the Bonds only on June 27, 2004 at 100% of the principal unless the Bonds had been previously redeemed, repurchased and canceled or converted.

b) Each holder has the right to require ESFHC to buy all or a portion of the holder's Bonds at 100% of the principal amount (a) if the shares cease to be listed or admitted for trading on the Taiwan Stock Exchange for at least five consecutive trading days or (b) there is change of control over the ESFHC (e.g., a change of half of the members of the ESFHC's board of directors.)

b. ***Maturity date***

The maturity period is one year and six months after the issuance. The Bonds were issued on June 27, 2003; thus, their maturity is on December 27, 2004.

c. ***Pledged***

Negative.

d. ***Conversion period***

The bondholder can convert the bonds to the ESFHC's stock for the period starting on or after November 24, 2003 up to December 12, 2004. The holders of the Bonds, however, will not be able to effect conversions into shares during any closed period. A closed period means (i) 60 days before the date of any general stockholders' meetings; (ii) 30 days before the date of any special stockholders' meetings; (iii) the period from the date following the third trading day before the date of the ESFHC's notification to the Taiwan Stock Exchange of the record date for the determination of stockholders entitled to the receipt of dividends, subscription of new shares due to capital increase or appropriation of other benefits and bonuses; and (iv) such other periods during which the ESFHC may be required to close its stock transfer books under ROC laws and regulations.

e. ***Conversion price***

1) The conversion price on issuance is NT$19.716 (US$0.5688) per share. The conversion price in U.S. dollars is based on the exchange rate of US$1=NT$34.661. The conversion price is subject to adjustment based on certain terms of the related indenture.

2) If the average closing price of the shares for any of the periods of 5, 10 or 15 consecutive trading days immediately before June 4, 2004 (the 15th trading day before the holder's put date, or the "Standard Reset Date"), converted into U.S. dollars at the prevailing rate on the Standard Reset Date, is less than the conversion price then in effect as converted into U.S. dollars at the fixed exchange rate, the conversion price may be adjusted. The conversion price adjustment should only be downward and should not be less than 80% of the initial conversion price.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

3) If the average closing prices of the shares for any of the periods of 10, 15 and 20 consecutive trading days immediately before November 15, 2004 (the 30th trading day before the maturity day, or the "Special Reset Date"), converted into U.S. dollars at the prevailing rate on the Special Reset Date, is less than the conversion price then in effect converted into U.S. dollars at the fixed exchange rate, the conversion price may be adjusted.

f. *Cash settlement option*

Instead of delivering to the holders some or all of the shares required for the valid exercise of a conversion right, the ESFHC may elect to make a cash payment for all or any portion of a holder's Bonds deposited for conversion.

16. Due to Banks

	December 31	
	2002	2003
Call loans from banks	$16,360,831	$27,890,309
Due to banks	1,084,978	657,609
Bank overdraft	94,571	736,281
	$17,540,380	$29,284,199

17. Payables

	December 31	
	2002	2003
Checks for clearing	$2,400,106	$2,485,407
Accrued interest	1,151,436	1,016,055
Accrued expenses	574,353	236,315
Acceptances	350,661	963,726
Other	727,406	876,960
	$5,203,962	$5,578,463

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

18. Deposits and Remittances

	December 31	
	2002	2003
Deposits:		
Savings — time	$ 76,890,277	$ 76,988,620
Time	70,441,337	62,777,583
Savings — demand	47,282,144	59,528,129
Demand	23,807,532	30,192,157
Negotiable certificates of deposit	1,254,600	9,145,000
Checking	2,608,516	3,050,177
Remittances	50,632	34,340
	$222,335,038	$241,716,006

19. Bonds

	December 31	
	2002	2003
Bonds issued on August 6, 2001; 3.76% interest, payable annually; principal due on maturity date (5 years after the issue date)	$ 3,000,000	$ 3,000,000
Subordinated bonds issued on August 6, 2001; 4.2% interest, payable annually; principal repayable in five installments from the third year from the issue date and final installment due at the end of the seventh year	1,840,000	1,840,000
Four types of subordinated bonds issued on June 13, 2002; 5.0%–8.6% interest rate minus the 90 days' interest rate of commercial paper (stated below), payable quarterly; principal due on the maturity date (5 years after the issue date)	1,700,000	1,700,000
Four types of subordinated bonds issued on August 16, 2002; 5.94% interest rate minus a floating interest rate (stated below), payable semiannually; principal due on the maturity date (5 years after the issue date)	1,300,000	1,300,000
Five types of bonds issued on August 23, 2002; 6% interest rate minus a floating interest rate (stated below), payable semiannually; principal due on the maturity date (5.5 years after the issue date	2,000,000	2,000,000
Eight types of bonds issued on October 9, 2003; interest rate at (a) 3.8% for the first year and 5.0% minus 6M LIBOR for the second to fifth year for types A and B bonds; (b) 5.15% minus 6M LIBOR for types C to E bonds; and (c) 4.22% minus 90 days' interest rate of commercial paper for types F to H bonds, with all interest rates not to fall below 0% and payable semiannually; principal due on the maturity date (5 years after the issue date).	—	2,000,000

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	December 31	
	2002	2003
Seven types of bonds issued on October 16, 2003; interest rate at (a) twice the five years' NT$ interest rate swap (IRS) minus the two years' NT$ IRS for types A to D bonds; (b) twice the five years' NT$ IRS minus the two years' NT$ IRS plus 0.75% for types E and F bonds; and (c) 3% for the first year and twice the five years' NT$ IRS minus the two years' NT$ IRS plus 0.4% for the second to the fifth year for the type G bond, with all interest rates not to fall below 0% and payable semiannually; principal due on the maturity date (5 years after the issue date).	—	1,800,000
Five types of bonds issued on October 29, 2003; interest rates at (a) 3M LIBOR plus 1.2% if 3M LIBOR is less than 1% or 4.7% minus 3M LIBOR if 3M LIBOR is more than or equal to 1% for type A bond; (b) 2.5 times of the five years' NT$ IRS minus two years' NT$ IRS plus 0.45%, with limit of 3.75%, for types B and C bonds; and (c) 2.5 times of the five years' NT$ IRS minus the two years' NT$ IRS plus 0.4%, with limit of 3.7%, for types D and E bonds, with all interest rate not to fall below 0% and payable semiannually for type A bond and quarterly for other bond types; principal due on the maturity date (5 years after the issue date).	—	1,200,000
	$9,840,000	$14,840,000

The above 90 days' interest rate for commercial paper and floating interest rate were based on the average interest rate quoted by Hong Kong's Moneyline Telerate.

20. Corporate Bonds Payable

On December 22, 2003, E.Sun Bills made a first issue of its secured corporate bonds with aggregate face value of $3,000,000. The corporate bonds are categorized from A to J at the stated interest rate. The corporate bonds will mature in five years, and the principal is payable when due (5 years after the issue date). Interest is payable semiannually, and interest calculation is based on the six months' London Interbank Offered Rate for U.S. dollars (6M LIBOR). If the 6M LIBOR is less than 1.05%, the interest rate will be between 6M LIBOR and 6M LIBOR plus 0.005%. If the 6M LIBOR falls between 1.05% and 2.00%, the interest rate is 3.5%, but if 6M LIBOR is more than 2%, the interest rate is 4.52% minus 6M LIBOR. However, the interest rate should not be zero.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

21. Long-Term Debts

	December 31	
	2002	2003
Secured long-term debts — annual interest rate at 2.219%–2.872% in 2002 and 1.5391%–1.6300% in 2003	$1,480,000	$1,179,000
Less: Due in one year	461,000	291,000
	$1,019,000	$ 888,000

The term of the debts is three years through July 2006. Of these debts, $500,000 is repayable on maturity date. The other debts will be repaid as follows: 30% after one year, 30% after two years, and 40% on maturity. ESFHC has provided E.Sun Bank's 494,000 thousand shares as collaterals for the long-term debts as of December 31, 2002 and 2003.

22. Stockholder's Equity

a. *Capital stock*

In 2002, the stockholders resolved to increase capital to $24,700,000 through the issuance of stock dividends from capital surplus amounting to $1,800,000.

In 2003, the stockholders resolved to have ESSIT become a 100% subsidiary of ESFHC through a share swap. The swap ratio was 1.18 shares of the ESFHC for 1.0 share of ESSIT. The swap date was September 16, 2003, and the ESFHC's capital increased to $25,054,000 on that date.

b. *Capital surplus*

Under the Company Law, capital surplus arising from issuance of shares in excess of par value and from donations may be transferred to common stock or used to offset a deficit, with the approval of the stockholders. The timing and amount of the capital surplus transferred to common stock are subject to restrictions by the Securities and Futures Commission (SFC).

Capital surplus from long-term equity-method investments can not be distributed for any purpose.

Under the Financial Holding Company Law and related directives issued by the SFC, the distribution of the ex-conversion unappropriated earnings that are generated by financial institutions (the subsidiaries) and become part of capital surplus of the financial holding company through stock conversion, is exempted from the appropriation restriction of the Securities and Exchange Law.

The subsidiaries' unappropriated retained earnings before stock conversion amounted to $2,919,727, which was already stated as ESFHC's capital surplus as of its establishment date. In 2002, the stockholders resolved to increase ESFHC's capital by $1,800,000 through the issuance of stock dividends from capital surplus.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

The capital surplus in 2003 came from the issuance of shares in excess of par value. Capital surplus sources and uses were as follows:

Sources	
From subsidiaries	
Capital surplus (mainly paid-in capital in excess of par value)	$ 413,733
Legal reserve	2,776,834
Special reserve	109,230
Unappropriated earnings	2,919,727
Proportionate share in the unrealized loss of equity-method investee	(23,399)
	6,196,125
Total capital stock of subsidiaries in excess of ESFHC's issuance	600,000
Balance on January 28, 2002	6,796,125
From ESSIT which became a 100% subsidiary of ESFHC in 2003 through a share swap	
Legal reserve	4,350
Unappropriated earnings	7,861
	6,808,336
Bonds payable converted into capital stock in 2003	9,005
	6,817,341
Uses	
Bonus to directors, supervisors and employees of subsidiaries	(156,458)
Issuance of ESFHC's stock dividends in 2002	(1,800,000)
Offset of deficit in 2003	(3,091,451)
	$1,769,432

c. ***Appropriation of earnings***

When ESFHC appropriates its earnings, legal reserve should be appropriated from the annual net income less any accumulated deficit. A special reserve may then be appropriated. Any remainder should be appropriated as follow:

a. 96% as dividends
b. 1% as remuneration to directors and supervisors
c. 3% as bonus to employees.

Under ESFHC's Articles of Incorporation, the stockholders may decide not to declare any dividends or declare only a portion of distributable earnings as dividends.

Under ESFHC's dividend policy, the issuance of stock dividends takes precedence over the payment of cash dividends to strengthen ESFHC's financial structure. This policy is also intended to improve the ESFHC's capital adequacy ratio and keep it at a level higher than the ratio set under relevant regulations. However, when dividends are declared, cash dividends must at least be 10% of total dividends declared, unless the resulting cash dividend per share falls below NT$0.10.

Under the Company Law, legal reserve should be appropriated until the reserve equals ESFHC's paid-in capital. This reserve is used only to offset a deficit, or, when its balance reaches 50% of the aggregate par value of ESFHC's outstanding capital stock, up to 50% of the reserve may be distributed as stock dividends.

Under an SFC directive, a special reserve is appropriated from the balance of the retained earnings at an amount that is equal to the debit balance of accounts in the stockholders' equity section (except treasury stocks purchased). The balance of the special reserve is adjusted to reflect any changes in the debit balance of the related accounts on the balance sheet dates.

The appropriation of retained earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of the year.

On June 6, 2003, the stockholders resolved to offset a deficit of $3,091,451 against capital surplus. As of January 28, 2004, the date of the accompanying auditors' report, the board of directors had not resolved the appropriation of the 2003 earnings. Information on the appropriation of earnings or deficit offsetting can be accessed through the Web site of the Taiwan Stock Exchange (http://mops.tse.com.tw).

Under the integrated income tax system, certain stockholders are allowed tax credits for the income tax paid by the Company.

23. Income Tax

Under Article 49 of the Financial Holding Company Law, a financial holding company (FHC) can elect to file income tax returns with a 10% income tax on undistributed earnings for both itself and its domestic subsidiaries since FHC held more than 90% of the subsidiaries' outstanding shares for the entire tax year.

ESFHC and its subsidiaries, E.Sun Bank, E.Sun Bills, E.Sun Securities and ESVC, will file consolidated tax returns for 2003.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

a. Income tax information is as follows:

	2002	2003
Income tax expense — current before tax credits	$ 170,903	$ 214,878
Net change in deferred income tax:		
Tax credits	(10,139)	(540)
Allowance for possible losses on loans and receivables	(33,631)	(74,840)
Unrealized foreign exchange gain	(1,986)	(6,842)
Reserve for losses on guarantees	11,382	(8,759)
Loss carryforwards	(1,305,242)	1,012,843
Others	(5,468)	(1,358)
Valuation allowance	8,055	5,617
Tax on unappropriated earnings (10%)	79,077	154,448
Tax effect on consolidated tax returns	—	(171,782)
Adjustment of prior year's tax	4,288	(407,719)
	($1,082,761)	$ 715,946

b. A reconciliation of income tax expense-current before tax credits and income tax expense on income before income tax is shown below:

	2002	2003
Income tax expense on income before income tax at statutory rate (25%)	($1,002,526)	$1,311,590
Effect of income tax adjustment items:		
Permanent differences:		
Tax-exempt income	(190,900)	(183,303)
Others	27,410	15,228
Temporary differences	1,336,919	(928,637)
Income tax expense — current before tax credits	$ 170,903	$ 214,878

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

c. Net deferred income tax assets were as follows:

	December 31	
	2002	2003
Deferred income tax assets (liabilities)		
Reserve for losses on guarantees	$ 42,461	$ 51,220
Employees' welfare funds	3,826	5,746
Allowance for possible losses on loans and receivables	35,948	110,788
Tax credits	10,139	10,679
Loss carryforwards	1,336,938	324,094
Unrealized foreign exchange gain	(66,263)	(59,421)
Others	5,622	5,060
	1,368,671	448,166
Less: Allowance evaluation	11,576	17,193
Net deferred income taxes assets	$1,357,095	$ 430,973

The use of tax credits and loss carryforwards will expire in 2007.

d. Imputed tax credit information is as follows:

	ESFHC	E.Sun Bank	E.Sun Bills	E.Sun Securities	ESIB
Balance of stockholders' imputed tax credits					
December 31, 2002	$66,742	$ 43,303	$69,719	$12,782	$—
December 31, 2003	91,317	141,565	62,804	14,561	—
Actual creditable tax ratio for distributing the 2002 earnings	—	—	3.49%	37.07%	—
Estimated creditable tax ratio for distributing the 2003 earnings	6.39%	4.89%	6.09%	14.08%	33.33%

The estimated creditable ratio may change depending on the balance of the ICA on the dividend distribution date. The estimated creditable tax ratio as of December 31, 2003 may differ from the actual creditable tax ratio applicable on the date of the actual distribution of the dividends.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

e. The unappropriated earnings generated before January 1, 1998 were as follows:

	ESFHC	E.Sun Bank	E.Sun Bills	E.Sun Securities	ESIB
December 31, 2002 and 2003	$—	$—	$91,777	$—	$—

f. For E.Sun Bank and E.Sun Securities, income tax returns through 2001, and for E.Sun Bills, income tax returns through 2000, had been examined by the tax authorities.

g. In their assessment of the 1994, 1995, 1997, 1998, 2000 and 2001 tax returns of E.Sun Bank, the tax authorities denied the creditability of 10% withholding tax on interest income on bonds pertaining to periods in which those bonds, totaling $290,044, were held by other investors. In addition, the 1996 and 1999 income tax returns included a reduction of $30,431 in income tax obligations, which the tax authorities had already examined but could still deny. E.Sun Bank had accrued liabilities and written off assets that were related to the foregoing withholding taxes as part of income tax expense in 2001. In August 2002, the Supreme Administrative Court decided that the Taipei National Tax Administration should find another disciplinary action to deal with the withholding tax issue.

In 2003, the Taipei National Tax Administration decided to rebate 65% of the foregoing withholding taxes. E.Sun Bank accepted this decision and thus recognized a tax refund receivable of $218,988 for 1994 to 2001 and wrote off withholding taxes of $10,711 from its 2002 accounts.

h. The tax authorities challenged E.Sun Bills' income tax refund claim of $277,515 (covering the period 1995 to 2000). The claim pertains to the tax withheld from interest income on bonds for the periods when other investors held those bonds. In light of this tax issue, E.Sun Bills might also face questioning by the tax authorities on the taxes of $56,771 withheld in 2001 and $25,960 withheld in 2002 for bonds held under the same situation.

In view of the tax authorities' challenge, E.Sun Bills wrote off from its 2001 and 2002 accounts the related income tax refunds of $334,286 for 2001 and $25,960 for 2002, which had been recognized as assets in its accounts. However, in 2002 and 2003, the supreme court decided that the tax refund of $219,305 covering 1996 to 1999 be given to E.Sun Bills.

The tax authorities informed the Bills Finance Trade Association in the Republic of China of their intent to negotiate with each bills financing company for the return of 60% of tax credit from interest income for the periods when other investor held those bonds in 2002 and earlier. In turn, E.Sun Bills will negotiate with the tax authorities the increase in the return rate. Thus, on December 31, 2003, E.Sun Bills reversed the tax refund receivable of $207,758, which referred to the period 1995 to 2002.

i. The effective tax rate for 2002 and 2003 was about 25%.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

24. Treasury Stock

(Unit: Thousand Shares)

Reason for Redemption	Shares at Beginning of the Period	Share Increase During the Period	Shares at End of the Period
2002			
Reissuance to employees of shares held by E.Sun Bank	40,000	—	40,000
Treasury stock previously classified by E.Sun Bank as long-term investments	286,897	22,952	309,849
	326,897	22,952	349,849
2003			
Reissuance to employees of shares held by E.Sun Bank	40,000	—	40,000
Treasury stock previously classified by E.Sun Bank and E.Sun Securities as long-term investments	309,849	24,780	334,629
	349,849	24,780	374,629

On December 31, 2002 and 2003, the market values of treasury stock pertaining to shares of ESFHC held by E.Sun Bank and E.Sun Securities as a result of the share swap were as follows:

	December 31	
	2002	2003
Market values	$4,049,729	$6,846,513

Under the Financial Holding Company Law, when a financial institution (a subsidiary) holds the shares of a financial holding company (FHC) as a result of a share swap, those shares should be sold to the FHC or the subsidiary's employees or exchanged for other purposes e.g., sold on the Taiwan Stock Exchange or over-the-counter exchange — within three years from the swap date. Otherwise, the shares will be regarded as the FHC's unissued capital, and the FHC may change the amount of its registered capital. Thus, E.Sun Bank should sell the 40,000 shares of ESFHC's capital stock (reissuance to employee) by December 2004. On December 1, 2003, the board of directors of E.Sun Bank resolved to issue bonds for exchange with the underlying shares of ESFHC within the limit of 150,000 thousand shares under Article 31 of the Financial Holding Company Law. On January 23, 2004, E.Sun Bank issued three-year debenture exchangeable bonds amounting to $2,696,100 at 0% interest. However, the board of directors of E.Sun Bank and E.Sun Securities had not resolved how the remaining treasury stock would be disposed of.

Under the Securities and Exchange Law, ESFHC is not allowed to buy more than 10% of its issued and outstanding capital stock. In addition, ESFHC may not spend more than the sum of retained earnings and all realized capital surplus. Further, ESFHC cannot pledge or hypothecate any purchased capital stock and exercise stockholders' rights before reissuance the stocks.

ESFHC's capital stock held by subsidiaries is treated as treasury stock. However, the subsidiaries can not exercise stockholders' rights on the treasury stock if the shares had been bought by subsidiaries before ESFHC's establishment.

Under SFC regulations, to maintain the stability of the Company's financial structure and protect stockholders, ESFHC appropriated a special reserve from retained earnings at an amount equal to the carrying value of the treasury stock held by subsidiaries in excess of the market value at balance sheet date. The special reserve may be reversed if the market value recovers. Since the market value of the treasury stock held by subsidiaries was higher than its carrying value as of December 31, 2002 and 2003, the special reserve was not appropriated.

25. Earnings (Loss) Per Share

The numerators and denominators used in computing earnings (loss) per share are summarized as follows:

	Amounts (Numerator)		Share (Denominator in Thousands)	Earnings (Loss) Per Shares (Dollar)	
	Pretax	After Tax		Pretax	After Tax
2002					
Basic loss per share	($4,174,212)	($3,091,451)	2,120,151	($1.97)	($1.46)
Effect of diluted common shares:					
Convertible bonds	—	—	—		
Diluted loss per share	($4,174,212)	($3,091,451)	2,120,151	($1.97)	($1.46)
2003					
Basic earnings per share	$5,244,975	$4,529,029	2,123,299	$2.47	$2.13
Effect of diluted common shares:					
Convertible bonds	(105,005)	(105,005)	161,326		
Diluted earnings per share	$5,139,970	$4,424,024	2,284,625	$2.25	$1.94

The number of shares outstanding should be retroactively adjusted to reflect the effects of the stock dividends distributed subsequently. But since no stock dividends were distributed for the latest two years, the earnings (loss) per share in 2002 and 2003 need not be retroactively adjusted.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

26. Pension Plan

The Company has a pension plan for all regular employees. Upon retirement, an employee will receive the Company's contributions before Labor Standards Law (LSL) took effect on May 1, 1997 for E.Sun Bank and on March 1, 1998 for E.Sun Bills, which were credited to his/her account, plus earnings thereof and an amount calculated on the basis of length of service after LSL took effect date and monthly average basic pay of the six months before retirement.

E.Sun Bank and E.Sun Bills make monthly contributions, equal to 5.54% and 4%, respectively, of salaries, to a pension fund. The fund is deposited in the Central Trust of China in the name of a workers fund administrative committee, which manages the fund. The difference between the contributions and the pension costs based on actuarial calculations for E.Sun Bank is deposited in E.Sun Bank's Business Department in the name of the employees' pension fund administrative committee. E.Sun Bills makes another contributions, equal to 4% of salaries, to a pension fund, which is deposited in a financial institution in the name of the employees' pension fund administrative committee.

E.Sun Securities make monthly contributions, equal to 4% of salaries, to a pension fund. The fund is managed by a workers fund administrative committee and deposited in its name in the Central Trust of China. E.Sun Securities started to recognize pension costs based on actuarial calculations in 2003.

Pension information for 2002 and 2003 is as follows:

	2002	2003	2002	2003	2003
	E.Sun Bank		E.Sun Bills		E.Sun Securities
a. Net pension cost					
Service cost	$64,783	$ 69,429	$3,733	$4,086	$4,787
Interest cost	12,243	12,642	677	784	641
Actual return on plan assets	(7,166)	(199,363)	(799)	(628)	(68)
Amortization	(9,068)	183,714	(404)	(636)	878
Net pension cost	$60,792	$ 66,422	$3,207	$3,606	$6,238

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. Reconciliation of the plan funded status to balance sheet amounts:

	December 31				
	2002	2003	2002	2003	2003
	E.Sun Bank		E.Sun Bills		E.Sun Securities
Benefit obligations:					
Vested benefit obligation	($ 16,646)	($ 13,983)	($ 4,524)	($ 5,312)	($ 5,524)
Non-vested benefit obligation	(210,087)	(278,234)	(11,263)	(14,884)	(14,308)
Accumulated benefit obligation	(226,733)	(292,217)	(15,787)	(20,196)	(19,832)
Additional benefits based on future salaries	(134,471)	(196,354)	(6,626)	(9,358)	(7,204)
Projected benefit obligation	(361,204)	(488,571)	(22,413)	(29,554)	(27,036)
Fair value of plan assets	382,179	627,216	29,288	34,474	6,851
Funded status	20,975	138,645	6,875	4,920	(20,185)
Unrecognized net transition obligation (asset)	(25,504)	(24,404)	(3,556)	(3,399)	13,023
Additional minimum pension liability	—	—	—	—	(9,148)
Unamortized gains or losses	3,792	(115,941)	(1,089)	1,661	3,331
Prepaid pension cost (accrued pension cost)	($737)	($1,700)	$2,230	$ 3,182	($12,979)

c. Vested benefits

Vested benefits	($ 16,646)	($ 13,989)	($4,524)	($5,312)	($ 5,524)

d. Actuarial assumptions

Discount rate	3.5%	3.0%	3.5%	3.0%	3.0%
Rate of increase in compensation	3.0%	3.0%	3.0%	3.0%	2.5%
Expected long-term rate of return on plan assets	3.5%	3.0%	3.5%	3.0%	3.0%

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

e. Summary of contributions and payment of benefits

	2002	2003	2002	2003	2003
	E.Sun Bank		E.Sun Bills		E.Sun Securities
Contributions	$60,488	$65,459	$4,613	$4,558	$3,342
Payment of benefits	$33,832	$19,785	$ —	$ —	$ —

27. Related-Party Transactions

The Company's related parties and significant related-party transactions are summarized as follows:

a. ***Related parties***

Related Party	Relationship with the Company
E.Sun Foundation	The funds are donated by E.Sun Bank
E.Sun Venture Capital Co., Ltd. ("ESVC"), E.Sun Finance & Leasing Co., Ltd., E.Sun Insurance Agent Co., Ltd., E.Sun Securities Investment Trust Corp. ("ESSIT") and E.Sun Securities Investment Consulting Co., Ltd. ("ESSIC")	Equity-method investees
E.Sun Technologies Co., Ltd. and E.Sun Capital Co., Ltd.	Equity-method investees of subsidiaries
E.Sun Volunteer & Social Welfare Foundation	One-third of the funds are donated by E.Sun Bills
Fu Bon Securities Finance Co. and Bank-Pro E-Service Technology Co., Ltd.	E.Sun Bank is a director of the Company
Others	ESFHC's and subsidiaries' chairman, president, directors, supervisors, and managers and their relatives

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. *Significant transactions with related parties*

1) Loans, deposits and bank debentures

	December 31			
	Amount	% to Total	Interest Rate (%)	Revenue (Expense)
2002				
Loans	$ 792,490	—	1.5–9.85	$21,992
Deposits	$1,005,643	—	0–13	($ 1,294)
Bank debentures	$ 200,000	3	4.2	($ 5,216)
2003				
Loans	$514,181	0.2	1.10–7.02	$10,308
Deposits	$989,498	0.4	0–13	($ 116)
Bank debentures	$100,000	0.7	4.2	($ 4,080)

The interest rates shown above are similar to, or approximate, those offered to third parties. However, the interest rates on deposits given to managers of the E.Sun Bank are the same as the interest rates on a certain amount of savings deposits of employees.

Under the Banking Law, except for consumer loans and government loans, credits extended by the E.Sun Bank to any related party should be 100% secured, and the terms of credits extended to related parties should be similar to those for third parties.

2) Securities sold under agreements to repurchase

	December 31			
	2002		2003	
Name	Amount	% to Total	Amount	% to Total
Funds under ESSIT	$458,046	9	$602,065	19

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

3) Bill and bond transactions

Purchase from:

Name	2002	2003
E.Sun Finance & Leasing Co., Ltd.	$ —	$953,581
ESSIT	$201,683	$ —
Funds managed by ESSIT	$870,914	$435,021

Sale to:

Name	2002	2003
ESSIT	$ 207,373	$49,888
Funds managed by ESSIT	$1,757,342	$ —

	December 31 2003
4) Securities purchased (mutual funds) — Funds managed by ESSIT	$36,001

	2003
5) Donation — E.Sun Volunteer & Social Welfare Foundation	$18,000

The purpose of the donation above is for social welfare charity.

	December 31, 2003
6) Other receivable (part of receivable) — ESVC	$748

The Company will file consolidated corporate tax returns for 2003. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

7) Rental expenses

Name	Rented Property	Contract Term	2002	2003
E.Sun Finance & Leasing Co., Ltd.	2F., No. 178, Fu-Xhin North Road, Taipei, Taiwan	2003.10.1–2006.09.30	$6,000	$5,800

8) Rental revenue

Name	Rented Property	Contract Term	2002	2003
ESSIC	5F., No. 77, Sec. 1, Wuchang St., Taipei, Taiwan	2003.05.1–2008.09.30	$—	$630

9) Brokerage service fee

Name	2002	2003
E.Sun Finance & Leasing Co., Ltd.	$241	$46
Funds managed by ESSIT	$2,805	$5,189

10) E.Sun Securities signed an investment consultation service contract with ESSIC. The contract term is from June 30, 2003 to December 31, 2004. E.Sun Securities paid $6,500 of the service fee in 2003, and $13,000 was unpaid as of December 31, 2003.

11) ESIB bought the shares of E.Sun Insurance Agent Co., Ltd. from E.Sun Finance & Leasing Co., Ltd. in 2003. The purchase price was $8,556, based on the net equity of E.Sun Insurance Agent Co., Ltd. on the transaction day.

The term of the above transactions were similar to or approximated those made with third parties.

28. Pledged Assets

	December 31	
	2002	2003
Securities purchased (face value)	$7,114,400	$11,265,200
Long-term bond investments	199,976	199,980
Due from banks	—	40,000
	$7,314,376	$11,505,180

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

As of December 31, 2002 and 2003, the abovementioned pledged assets with aggregate face values of $6,297,000 and $7,200,000, respectively, had been provided as collaterals for day-term overdraft to comply with the Central Bank's clearing system requirement for Real-time Gross Settlement (RTGS). The unused overdraft amount at the end of a day may also be treated as liquidity reserve. As of December 31, 2003, the abovementioned securities purchased amounting to $3,200,000 had been provided to the International Commercial Bank of China and Chiao Tung Bank as collaterals for issuing corporate bonds. The remaining pledged assets were provided as collaterals for bank loan and credit line and as court deposits for certain lawsuits.

E.Sun Bills and E.Sun Securities' time deposits — which are not included in foregoing pledged assets — with face values of $560,000 and $10,000 as of December 31, 2002 and 2003, respectively, were among the eliminated significant items not included in the consolidated financial statements (Note 3).

29. Contingencies and Commitments

a. *E.Sun Bank*

1) Sale up to January 7, 2004 of short-term negotiable instruments for $467,878, which had been acquired for $467,672 under agreements to resell; and purchase for $14,045,896 by June 14, 2004 of short-term negotiable instruments sold for $14,037,871 under agreements to repurchase;

2) Renewable operating lease agreements on premises occupied by E.Sun Bank's branches, which will expire on various dates before 2013. Rentals are calculated on the basis of the leased areas and are paid monthly, quarterly or semiannually. Refundable deposits on these leases totaled $693,486 (shown as "refundable deposits") as of December 31, 2003. Minimum annual rentals for the next five years are as follows:

Year	Amount
2004	$265,489
2005	196,930
2006	162,549
2007	125,427
2008	83,566

Total rentals for 2009 to 2013 will aggregate $314,500. The present value of these rentals is $290,464, based on 1% annual interest.

3) Agreements entered into by E.Sun Bank to acquire land and buildings, decorate a building, and make purchases to improve the various branch premises. The total amount of these agreements was approximately $4,866,556. As of December 31, 2003, the unpaid balance on these contracts was approximately $577,540.

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4) Trust-related items, as shown in the following balance sheet and property list of trust items:

Balance Sheet of Trust
December 31, 2002 and 2003

Trust Assets	December 31 2002	December 31 2003
Deposits	$ 1,702	$ 409
Short-term investments	12,465,802	19,744,466
Total assets	$12,467,504	$19,744,875

Trust Liabilities	December 31 2002	December 31 2003
Trust capital		
Trust by cash	$12,467,504	$19,744,875
Total liabilities	$12,467,504	$19,744,875

Property List of Trust
December 31, 2002 and 2003

Investment Items	December 31 2002	December 31 2003
Employee deposit trust	$ 1,702	$ 409
Security investment trust fund	10,735,390	19,526,856
Bonds	1,533,806	—
Stocks	196,606	217,610
	$12,467,504	$19,744,875

5) Derivative contracts (please see Note 34).

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. *E.Sun Bills*

Commitments and contingent liabilities as of December 31, 2003:

1) Arising in the ordinary course of business

Negotiable instruments and bonds sold under agreements to repurchase	$44,551,324
Negotiable instruments and bonds purchased under agreements to resell	151,102
Guarantees on commercial paper	18,366,200
Negotiable instruments underwritten	505,000

2) Leases

E.Sun Bills rents certain properties under operating lease agreements expiring on various dates until April 30, 2007. The leases are payable quarterly. Refundable deposits on these leases aggregated $2,551 (shown as "refundable deposits") as of December 31, 2003.

Future minimum annual rentals are as follows:

Year	Amount
2004	$8,099
2005	4,989
2006	2,389
2007	447

c. *E.Sun Securities*

1) Sale for $787,691 of bonds acquired for $787,347 under agreements to resell; purchase for $3,116,489 of bonds sold for $3,114,802 under agreements to repurchase.

2) Rent by E.Sun Securities of certain properties under operating lease agreements expiring on various dates. Future minimum annual rentals are as follows:

Year	Amount
2004	$24,096
2005	19,369
2006	13,136
2007	7,194
2008	2,031

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

3) E.Sun Securities entered into agreements to acquire office equipment. The related contract is summarized as follows:

	Contract Amount	Paid Amount	Unpaid Balance
Office equipment	$22,601	$11,015	$11,586

d. ***E.Sun Securities Investment Trust Corp.***

1) ESSIT rents certain properties under operating lease agreements expiring on various dates. The contract amount was approximately $2,538.

2) ESSIT entered into internet service agreements with E.Sun Technology Co., Ltd. The contract amount was approximately $450.

e. ***E.Sun Insurance Broker Co., Ltd.***

ESIB entered into insurance agent contracts with various insurance companies. The contracts are summarized as follows:

Insurance Company	Contract Date	Commission Received	Contract Period
Zurich Insurance (Taiwan) Ltd.	2003.08.01	Billed and received according to contract terms	Effectivity starts on contract date. The term is one year after the contract date. The contract may be preterminated if a party provides a written notice of termination 30 days before the contract expiry.
Aegon Life Insurance Company	2003.08.01	Billed and received according to contract terms	Same as the above
Allianz President Insurance	2003.08.01	Billed and received according to contract terms	Same as the above
Nan Shan Life	2003.08.01	Billed and received according to contract terms	Same as the above

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

30. Personnel, Depreciation and Amortization Expenses

	2002	2003
Personnel expenses		
Salaries	$1,418,589	$1,662,248
Insurance	89,720	112,985
Pension	66,105	76,266
Other	94,888	111,470
Depreciation expenses	296,818	357,246
Amortization expenses	25,769	47,262

31. Capital Adequacy Ratio

Under the Financial Holding Company Law and related regulations, ESFHC should maintain a consolidated capital adequacy ratio (CAR) of at least 100%. If the ratio falls below 100%, the appropriation of earnings as cash dividends or others assets will be restricted, and the authorities may discipline ESFHC, depending on the situation. The consolidated CARs of ESFHC were 108.08% and 113.47% as of December 31, 2002 and 2003, respectively.

The Banking Law and related regulations require that E.Sun Bank maintain both the stand-alone and consolidated CARs at a minimum of 8% each. If E.Sun Bank's CAR falls below 8%, the Ministry of Finance may impose certain restrictions on the amount of cash dividends that E.Sun Bank may declare or, in certain conditions, totally prohibit the E.Sun Bank from declaring cash dividends. As of December 31, 2002 and 2003, the stand-alone CARs of E.Sun Bank were 10.38% and 9.97%, respectively, and the consolidated CARs of E.Sun Bank were 10.51% and 9.99%, respectively.

Under the law governing bills finance companies and related regulations, E.Sun Bills should maintain a CAR of at least 8%. If the CAR falls below 8%, the authorities might subject E.Sun Bills' earnings appropriations to certain restrictions. The CARs of E.Sun Bills were 17.21% and 14.90% as of December 31, 2002 and 2003, respectively.

Under the rules governing securities firms and related regulations, the CAR of a securities firm should be at least 200% to ensure its stability as well as maintain the health of the security markets. If the ratio is below 200%, the authorities may impose certain restrictions on a firm's operations. The CARs of E.Sun Securities were 1,097.98% and 607.39% as of December 31, 2002 and 2003, respectively.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

32. Average Amount and Average Interest Rate of Interest-Earning Assets and Interest-Bearing Liabilities

For E.Sun Bank, average balance is calculated at the daily average balance of interest-earning assets and interest-bearing liabilities.

	2002		2003	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-earning assets				
Cash — negotiable certificates of deposit	$ 10,221,460	1.25	$ 8,415,190	1.73
Due from banks	5,836,637	1.63	12,633,361	1.18
Due from the Central Bank of China	7,455,678	2.41	7,713,786	1.74
Securities purchased	32,947,556	4.14	41,010,919	2.59
Receivables of credit cards	12,459,733	17.57	19,356,279	14.87
Loans, bills and discounts	165,292,897	4.98	180,280,515	3.96
Long-term bond investments	—	—	1,646,479	3.11
Interest-bearing liabilities				
Due to banks	5,950,803	1.84	28,357,388	1.16
Demand	18,282,262	0.74	23,076,362	0.26
Savings — demand	44,742,793	1.73	52,851,142	0.69
Time	74,309,578	2.45	68,817,865	1.53
Savings — time	75,850,097	2.92	78,478,447	1.87
Negotiable certificates of deposit	2,600,000	2.26	3,077,525	1.13
Bonds	7,700,733	3.34	11,045,479	3.21

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

33. Maturity Analysis of Assets and Liabilities

The maturity of the Company's assets and liabilities is based on the remaining period from balance sheet dates. The remaining period to maturity is based on maturity dates specified under agreements and, if there are no specified maturity dates, on the expected dates of collection.

	December 31, 2002			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash and equivalents	$ 14,883,515	$ —	$ —	$ 14,883,515
Due from banks	8,080,741	—	—	8,080,741
Due from the Central Bank of China	12,117,374	—	—	12,117,374
Securities purchased	49,216,111	—	—	49,216,111
Receivables	18,654,602	—	—	18,654,602
Loans, bills and discounts	67,867,168	45,651,540	58,797,318	172,316,026
Long-term bond investments	—	1,099,973	—	1,099,973
	$170,819,511	$46,751,513	$58,797,318	$276,368,342
Liabilities				
Bonds sold under agreements to repurchase	$ 4,976,714	$ —	$—	$ 4,976,714
Due to banks	17,540,380	—	—	17,540,380
Payables	5,203,962	—	—	5,203,962
Deposits and remittances	212,436,653	9,898,385	—	222,335,038
Bonds	—	9,840,000	—	9,840,000
Long-term debts	461,000	1,019,000	—	1,480,000
	$240,618,709	$20,757,385	$—	$261,376,094

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	December 31, 2003			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash and equivalents	$ 13,421,669	$ —	$ —	$ 13,421,669
Due from banks	7,253,886	—	—	7,253,886
Due from the Central Bank of China	13,560,837	—	—	13,560,837
Securities purchased	51,506,881	—	—	51,506,881
Receivables	27,467,033	—	—	27,467,033
Loans, bills and discounts	63,956,107	47,204,336	90,079,613	201,240,056
Long-term bond investments	—	2,525,499	5,774,733	8,300,232
	$177,166,413	$49,729,835	$95,854,346	$322,750,594
Liabilities				
Short-term debts	$ 100,000	$ —	$—	$ 100,000
Commercial paper issued	1,467,956	—	—	1,467,956
Bonds sold under agreements to repurchase	3,114,802	—	—	3,114,802
Due to banks	29,284,199	—	—	29,284,199
Payables	5,578,463	—	—	5,578,463
Deposits and remittances	241,716,006	—	—	241,716,006
Bonds	—	14,840,000	—	14,840,000
Corporate bonds payable	6,039,745	3,000,000	—	9,039,745
Long-term debts	291,000	888,000	—	1,179,000
	$287,592,171	$18,728,000	$—	$306,320,171

34. Financial Instruments

a. *Derivative financial instruments*

E.Sun Bank uses forward exchange, swap contracts and foreign-currency option as hedge instruments for foreign-currency exposures primarily related to its clients' import obligations and export receipts and remittances. It also uses these instruments to hedge its own exposures. It also uses cross-currency swap contracts, interest rate swap contracts and asset swap contracts to hedge its exchange rate and interest rate exposures, respectively.

E.Sun Bills used interest rate swaps to hedge interest rates exposures pertaining primarily to its first issuance of corporate bonds in 2003.

Credit risk represents the exposure of the Company to potential losses due to defaults by counter-parties. To manage this risk, the Company reviews the credit history and credit rating of individual customers before entering into any derivative contracts with them. The general terms of the contracts (including maximum limits on contractual amounts and, if necessary, required guarantees) are approved by the Company on the basis of the results of the reviews. The transactions are carried out within the terms and limits of the contracts. The acceptability of doing business with a counterparty that is another bank is evaluated on the basis of its world ranking and credit rating. The evaluation also covers determining limits on contractual amounts, and the transactions are made within these limits.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

The contract (notional) amounts, credit risks, and fair values of derivative transactions were as follows:

1) *E.Sun Bank*

	December 31, 2002			December 31, 2003		
	Contract (Notional) Amount	Credit Risk	Fair Value	Contract (Notional) Amount	Credit Risk	Fair Value
Trading purposes						
Forward exchange contracts	$ 406,098	$4,715	$ 1,363	$ 1,583,647	$ 6,647	$ 261
Foreign-currency swap contracts	8,628,331	28,623	(46,417)	14,319,423	8,776	150
Interest rate swap contracts	—	—	—	10,000,000	169,735	(9,704)
Foreign-currency option contracts						
Buy	—	—	—	1,533,956	58,228	58,745
Sell	—	—	—	1,533,956	—	(58,745)
Nontrading purposes						
Asset swap contracts	5,140,871	3,258	(167,563)	7,653,800	20,547	(113,269)
Cross-currency swap contracts	3,300,000	—	(187,326)	5,500,044	52,705	31,109
Interest rate swap contracts	—	—	—	5,000,000	151,337	151,337

2) *E.Sun Bills*

	December 31, 2003		
	Contract (Notional) Amount	Credit Risk	Fair Value
Nontrading purposes			
Interest rate swap contracts	$3,000,000	$28,982	$28,982

E.Sun Bills did not have derivative transactions in 2002.

E.Sun Bank calculates the fair value of each forward contract at the forward rate for the remaining term on the basis of quotations from Reuters or the Telerate Information System. E.Sun Bills calculates the fair value of each contract on the interest rate shown on TWD–T6165 from the Telerate Information System.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

The contract (notional) amount is used to calculate amounts for settlement with the counter-parties, so it is neither the actual amount delivered nor the cash requirement for the Company. Also, the Company can enter into derivative financial contracts at reasonable market terms. In addition, the Company do not expect significant cash flow requirements to settle these contracts.

The gains and losses on the derivative transactions in 2002 and 2003 were as follows:

1) E.Sun Bank

	2002	2003
Forward contracts (under "foreign exchange gain — net")	$ 3,836	$ 3,254
Foreign currency swap contracts		
Interest revenue	$ 30,088	$ 46,476
Interest expense	(14,767)	(13,195)
	$ 15,321	$ 33,281
Asset swap contracts (under "interest revenue")	$ 17,342	$ 3,609
Cross-currency swap contracts		
Gains from derivatives (part of other operating revenue and gains)	$ —	$ 92,905
Interest revenue	45,424	92,747
Interest expense	(33,088)	(76,571)
	$ 12,336	$109,081
Interest rate swap contracts		
Gains from derivatives (part of other operating revenue and gains)	$ —	$217,396
Interest expense reduction	—	102,688
	$ —	$320,084
Foreign-currency option contracts		
Premium revenue	$ —	$ 38,961
Premium expense	—	(36,906)
Gains from derivatives (part of other operating revenue and gains)	—	2,249
	$ —	$ 4,304

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

2) E.Sun Bills

	2002	2003
Interest rate swap contracts	$—	$2,877
Interest revenue	—	(275)
Interest expense	$—	$2,602

b. ***Fair value of nonderivative financial instruments***

	December 31			
	2002		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Assets with fair value the same as carrying value	$224,844,787	$224,844,787	$261,092,006	$261,092,006
Securities purchased	49,120,651	49,145,327	51,481,469	51,579,397
Long-term investments	3,146,898	3,147,486	10,572,759	10,086,523
Operating deposits	296,345	325,543	307,197	323,703
Liabilities				
Liabilities with fair value the same as the carrying value	261,373,959	261,373,959	297,642,070	297,642,070
Corporate bonds payable	—	—	9,080,764	9,797,310

Methods and assumptions used in estimating the fair value of nonderivative financial instruments were as follows:

1) The carrying values of cash and cash equivalents, due from banks, due from the Central Bank of China, receivables, bonds purchased (sold) under agreements to resell (repurchase), refundable deposits, settlement fund, due to banks, commercial paper issued, payables and remittances approximate fair values because of the short maturity of these instruments. The carrying value of other liabilities also approximate the expected cash inflows or outflows at settlement dates; thus, their carrying value also approximates its fair value.

2) If market prices for securities purchased, long-term investments and operating deposits are available, the fair value of these financial instruments should be based on the market price. Otherwise, their carrying value represents current fair value.

3) Loans, bills and discounts, deposits, short-term debts, bonds and long-term debts are interest-bearing financial assets and liabilities. Thus, their carrying value represents current fair value.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

4) If market prices for corporate bonds payable are available, the fair value of these financial instrument should be based on the market price. Otherwise, carrying values represent current fair values because corporate bonds payable are interest-bearing financial liabilities.

Only the fair values of financial instruments were listed above, thus, the total of the fair values listed above does represent fair value of the Company.

c. *Financial instruments with off-balance-sheet credit risks*

Under normal business operations, E.Sun Bank is a party to transactions involving financial services with off-balance-sheet risks, such as issuing credit cards, extending credit facilities and providing financial guarantee and obligations under letters of credit issued. Generally, the related transactions are for one year. The interest rates for loans ranged from 1.50% to 18.25% in 2002 and from 1.00% to 18.25% in 2003. The highest interest rate for credit cards was 19.71% in both 2002 and 2003. There is no concentration of maturity dates in one particular period that would potentially result in liquidity problems to E.Sun Bank.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2002 and 2003 were as follows:

	2002	2003
Credit card commitments	$138,459,413	$190,074,198
Guarantees and issuance of letter of credit	7,267,006	10,328,590

Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The total potential loss (without considering the value of any collateral) in case of default by counter-parties is equal to the above contractual amounts, if completely drawn upon.

E.Sun Bank evaluates the creditworthiness of credit applications case by case, taking into account the applicant’s credit history, credit rating and financial condition. Collateral, mostly in the form of real estate, cash, inventories and marketable securities, may be required depending on the evaluation result. As of December 31, 2002 and 2003, about 55% and 58%, respectively, of total loans granted and about 31% and 25%, respectively, of the aggregate guarantees and letters of credit issued, were secured. No collateral is required for credit card facilities but the credit status of each credit card holder is closely monitored. Depending on the results of credit status monitoring, appropriate measures are adopted, including amending the credit limit and, if necessary, canceling the facility.

E.Sun Bills guarantees commercial paper issued by other entities. The guarantee period is normally one year. The rate for guarantee service fees ranged from 0.1% to 1.0% in 2002 and from 0.1% to 2% in 2003 of the amount guaranteed. As of December 31, 2002 and 2003, the total amounts guaranteed were $19,412,600 and $18,366,200, respectively.

Most of the guarantee contracts are expected to expire without entailing any payment by E.Sun Bills. Thus, the total amount guaranteed does not necessarily represent future cash payments. In addition, the potential total loss on each guarantee is equal to the amount guaranteed, without considering the value of any collateral.

E.Sun Bills approves the guarantee arrangements for commercial paper (including the maximum amount to be guaranteed) after reviewing a customer's credit history and credit rating. An appropriate collateral is required, if needed, and the transaction is made within the approved maximum amount. As of December 31, 2002 and 2003, about 25.61% and 29.74%, respectively, of total amounts guaranteed were covered by securities or other properties. If a customer defaults, E.Sun Bills is entitled to sell the related collateral.

d. ***Concentration of credit risks***

Concentration of credit risk exists when counter-parties to financial transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. For the Company, concentrations of credit risk do not involve individuals but industry groups, as follows:

	December 31	
	2002	2003
Loans — by industries		
Manufacturing	$21,028,849	$25,461,903
Guarantees on commercial paper — by industries		
Financial	6,594,000	7,138,000
Electronic and mechanical equipment	2,705,000	2,078,000
Real estate	1,401,000	807,000

E.Sun Bank's net position on foreign-currency transactions is shown as in thousands of New Taiwan dollars below:

	December 31	
Currency	2002	2003
U.S. Dollars	$249,929	($1,190,032)
H.K. Dollars	(73,386)	495,793

35. Disclosure Required Under Article 46 of The Financial Holding Company Law

Please see Table 6.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

36. Condensed Financial Statements of Subsidiaries

a. *Condensed balance sheets*

E.Sun Commercial Bank, Ltd.
Condensed Balance Sheets
December 31, 2002 and 2003

Assets	2002	2003
Cash	$ 14,883,265	$ 11,143,454
Due from banks	5,759,946	4,658,909
Due from the Central Bank	12,117,374	13,560,837
Securities purchased — net	38,885,871	36,262,455
Receivables — net	18,096,974	24,915,454
Prepaid expenses	42,264	45,269
Loans, bills and discounts — net	170,775,271	199,070,296
Long-term investments — net	4,755,205	10,512,806
Net properties	5,018,224	9,395,216
Other — net	2,309,086	1,433,136
Total assets	$272,643,480	$310,997,832

Liabilities and Stockholders' Equity	2002	2003
Liabilities		
Due to banks	$ 13,620,380	$ 21,664,199
Payables	5,045,561	5,287,111
Advances	34,238	175,034
Deposits and remittances	225,739,600	247,016,471
Bonds	10,000,000	15,000,000
Other	290,310	545,647
Total liabilities	254,730,089	289,688,462
Stockholders' equity		
Capital stock	18,175,000	18,175,000
Capital surplus	326,233	233,502
Retained earnings (deficit)	(92,731)	3,396,261
Cumulative translation adjustments	2,906	2,624
Treasury stock	(498,017)	(498,017)
Total stockholders' equity	17,913,391	21,309,370
Total liabilities and stockholders' equity	$272,643,480	$310,997,832

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES — Continued
Notes to Consolidated Financial Statements for the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Bills Finance Corp.
Condensed Balance Sheets
December 31, 2002 and 2003

Assets	2002	2003
Cash	$ 4,124,620	$ 3,869,343
Call loans to banks	200,000	200,000
Securities purchased	3,790,635	9,940,333
Other short-term investments	—	290,000
Receivables	151,402	561,532
Prepaid expenses	2,842	3,704
Long-term bond investments	1,259,973	2,685,499
Net properties	103,852	96,758
Other	431,790	427,253
Total assets	$10,065,114	$18,074,422

Liabilities and Stockholders' Equity	2002	2003
Liabilities		
Commercial paper issued	$ —	$ 798,837
Bank loans	3,920,000	7,620,000
Payables	122,377	129,132
Corporate bonds payable	—	3,000,000
Reserve for losses on guarantees	406,551	431,123
Reserve for losses on sale of bonds	185,670	96,476
Total liabilities	4,634,598	12,075,568
Stockholders' equity		
Capital stock	4,265,000	4,265,000
Capital surplus	87,500	87,500
Retained earnings	1,078,016	1,646,354
Total stockholders' equity	5,430,516	5,998,854
Total liabilities and stockholders' equity	$10,065,114	$18,074,422

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES — Continued
Notes to Consolidated Financial Statements for the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Securities Corp.
Condensed Balance Sheets
December 31, 2002 and 2003

Assets	2002	2003
Current assets	$7,864,394	$6,243,191
Long-term investments	145,105	163,022
Net properties	56,889	368,642
Intangible assets	—	9,148
Other assets	211,662	486,012
Securities brokerage accounts — net	605	—
Total assets	$8,278,655	$7,270,015

Liabilities and Stockholders' Equity	2002	2003
Liabilities		
Current liability	$5,167,256	$4,028,061
Other	14,476	36,184
Securities brokerage accounts — net	—	10,601
Total liabilities	5,181,732	4,074,846
Stockholders' equity		
Capital stock	3,060,000	3,060,000
Retained earnings	36,923	135,169
Total stockholders' equity	3,096,923	3,195,169
Total liabilities and stockholders' equity	$8,278,655	$7,270,015

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES — Continued
Notes to Consolidated Financial Statements for the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Insurance Broker Co., Ltd.
Condensed Balance Sheet
December 31, 2003

Assets	Amount
Current assets	$81,881
Long-term investments	8,537
Other assets	4
Total assets	$90,422

Liabilities and stockholders' equity	Amount
Liabilities	
Current liabilities	$21,689
Stockholders' equity	
Capital stock	10,000
Retained earnings	58,733
Total stockholders' equity	68,733
Total liabilities and stockholders' equity	$90,422

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES — Continued
Notes to Consolidated Financial Statements for the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. *Condensed income statements*

E.Sun Commercial Bank, Ltd.
Condensed Income Statements
For the Years Ended December 31, 2002 and 2003

Item	2002	2003
Operating revenues and gains	$14,315,778	$13,898,432
Operating costs	15,313,456	5,334,985
Gross profit (loss)	(997,678)	8,563,447
Operating expenses	3,667,837	4,354,843
Operating income (loss)	(4,665,515)	4,208,604
Nonoperating income and gains	26,107	29,134
Nonoperating expenses and loss	100,648	47,059
Income (loss) before income tax	($ 4,740,056)	$ 4,190,679
Net income (loss)	($ 3,510,807)	$ 3,396,261
Earnings (loss) per share-pretax	($ 2.61)	$ 2.31
Earnings (loss) per share-after tax	($ 1.93)	$ 1.87

E.Sun Bills Finance Corp.
Condensed Income Statements
For the Years Ended December 31, 2002 and 2003

Item	2002	2003
Operating income	$1,158,668	$1,152,130
Operating expenses	457,043	280,429
Income before income tax	$ 701,625	$ 871,701
Net income	$ 570,941	$ 966,177
Earnings per share — pretax	$ 1.65	$ 2.04
Earnings per share — after tax	$ 1.34	$ 2.27

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES — Continued
Notes to Consolidated Financial Statements for the Period January 28, 2002 to December 31, 2002 and the Year Ended December 31, 2003
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Securities Corp.
Condensed Income Statements
For the Years Ended December 31, 2002 and 2003

Item	2002	2003
Operating income	$277,660	$494,309
Operating expenses	249,331	399,412
Income before income tax	$ 28,329	$ 94,897
Net income	$ 12,525	$ 98,246
Earnings per share — pretax	$ 0.14	$ 0.31
Earnings per share — after tax	$ 0.06	$ 0.32

E.Sun Insurance Broker Co., Ltd.
Condensed Income Statement
For the Year Ended December 31, 2003

Item	Amount
Operating income	$80,191
Operating expenses	1,877
Nonoperating revenue and expenses	(10)
Income before income tax	$78,304
Net income	$58,733

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

37. Allocation of Revenue, Cost and Expense Resulting From Intercompany Sharing of Resources

Under cooperation arrangements, E.Sun Bank and E.Sun Securities shared some equipment and operating sites; thus, related expenses were apportioned as follows:

2002	E.Sun Bank	E.Sun Securities	Total	Apportionment Method
Rental expense	$ 180	$ 90	$ 270	E.Sun Bank: 2/3; E.Sun Securities: 1/3.
Fixtures	7,950	6,410	14,360	Based on area actually occupied
Broadcasting and security systems	73	73	146	50% each
Networking, monitoring and telephone systems	$ 667	$1,949	$ 2,616	Based on actual number of equipment used
Others	181	498	679	Signboard, telephone and miscellaneous expenses — based on actual occurrence Insurance and cleaning expenses — 50% each Utilities — based on the actual number of employees Building maintain expenses-based on space actually occupied
	$9,051	$9,020	$18,071	

2003	E.Sun Bank	E.Sun Securities	Total	Apportionment Method
Rental expense	$ 4,400	$ 2,200	$ 6,600	E.Sun Bank: 2/3; E.Sun Securities: 1/3.
Fixtures	4,346	3,369	7,715	Based on area actually occupied
Broadcasting and security systems	4,494	4,494	8,988	50% each
Networking, monitoring and telephone systems	—	1,142	1,142	Based on actual number of equipment used.
Others	1,359	2,615	3,974	Signboard, telephone and miscellaneous expenses — based on actual occurrence Insurance and cleaning expenses — 50% each Utilities — based on the actual number of employees Building maintenance expenses — based on space actually occupied
	$14,599	$13,820	$28,419	

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

38. Subsidiaries' Asset Quality, Management Information, Profitability, Liquidity and Sensitivity to Market Risk

a. *Asset quality*

(1) *E.Sun Bank*

Items	December 31, 2002	December 31, 2003
Nonperforming loans (including overdue loans)	$2,382,888	$2,381,188
Overdue loans	$2,137,685	$1,677,190
Non-performing loans ratio	1.38%	1.18%
Surveillance loans	$1,801,053	$821,022
Surveillance loans/Total loan	1.05%	0.41%
Allowance for possible losses on loans and receivables	$1,540,755	$2,169,760
Bad debts written off	$9,423,249	$1,981,085

Note 1: Nonperforming loans represent the amounts of reported nonperforming loans, as required by the Ministry of Finance (MOF) rulings dated February 16, 1994 (Ref. No. Tai-Tsai-Zong-832292834) and December 1, 1997 (Ref. No. Tai-Tsai-Zong- 86656564)

Note 2: Nonperforming loans ratio = Nonperforming loans (including overdue loans)/(Outstanding loan balances + Overdue loans)

Note 3: Surveillance loans

(a) Midterm and long-term loans repayable in installments, with repayments on delinquent for more than three months but less than six months

(b) Other loans, with principal repayments overdue by less than three months and interest overdue by more than three months but less than six months

(c) Nonperforming loans exempted from reporting (including reschedule loans which repayment terms meet the regulated criteria; nonperforming loans which will be repay by a credit insurance fund and settlement fund; nonperforming loans which have the same amount of certificates of time deposits as collaterals; and loans extended under other approved exemption programs).

(d) Loans of companies experiencing financial difficulty enterprise loans do not qualify as overdue loans.

Note 4: Bad debts written off = Accumulated bad debts written off in 2002 and 2003.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(2) *E.Sun Bills*

Items	December 31, 2002	December 31, 2003
Nonperforming loans	$ —	$ —
Overdue loans	$ —	$ —
Nonperforming loans/Total loan	—	—
Allowance for possible losses on loans and receivables	$406,551	$431,123

b. ***Management information***

(1) *Concentration of credit risk*

E.Sun Bank

Items	December 31, 2002	December 31, 2003
Credit to interested party	$3,713,923	$3,981,127
Credit to interested party/Total credit	2.12%	1.92%
Credit with stock pledged/Total credit	1.29%	1.02%

		Type of Industry	%		Type of Industry	%
Loan concentration by industry	a.	Manufacturing	15	a.	Manufacturing	16
	b.	Finance, insurance and real estate	14	b.	Finance, insurance and real estate	12
	c.	Wholesale, retail and catering	6	c.	Wholesale, retail and catering	6

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Bills

Items	December 31, 2002	December 31, 2003
Credit to interested party	$503,000	$375,000
Credit to interested party/Total credit	2.59%	2.04%
Credit with stock pledged/Total credit	8.30%	9.60%

	Type of Industry	%	Type of Industry	%
Loan concentration by industry	Finance	34	Finance	39
	Electronics and machinery	14	Electronics and machinery	11
	Real estate	7	Real estate	4
	Others	45	Others	46

Note:

(a) Total credit includes loans, bills and discounts (including import and export negotiations), acceptances and guarantees.

(b) Ratios of credit extensions to interested parties: Credit to interested parties ÷ Total credit.

(c) Ratios of credit extensions secured by pledged stocks: Credit with stocks pledged ÷ Total credit

(d) The calculation of amounts of credit extensions to interested parties should be based on the Banking Law provisions.

(2) *Investees: Please see Table 2.*

(3) *Accounting policies on allowances for loss on loans, overdue loans, and securities purchased:*

E.Sun Bank

(a) Allowances for possible loss and reserve for loss on guarantees:

E.Sun Bank makes provisions for bad debts and loss on guarantees based on the evaluation of specific risks and general risks on the collectibility of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances. Allowances for specific-risk debts are evaluated internally for their collaterals, collectibility and customers' overall credit.

Under guidelines from the Ministry of Finance, E.Sun Bank should make full provisions for credits deemed uncollectible. Provisions for credits with high uncollectibility should be at least 50% of the credits. In addition, credits deemed uncollectible may be written off subject to a resolution issued by the Board of Directors.

(b) Allowances for possible losses on investments

i. Securities purchased

Securities purchased are carried at aggregate cost less allowance for decline in value. Cost of securities sold is determined by the following methods: Stocks, mutual funds, and government bonds — moving average; and others — specific identification.

ii. Long-term equity investments

Investments in stocks with no quoted market price are accounted for at cost. The carrying amount of the investment is reduced to reflect an other than temporary decline in the value of the investments, with the related loss charged to current income. Investment in stock with quoted market price is stated at the lower of aggregate cost or market. The reduction of an investment cost to reflect a lower market value and its write-up due to the subsequent recovery in market value are charged and credited, respectively, to stockholders' equity. Cash dividends received from a year after investment acquisition are recorded as investment income. Foreign-currency investments are recorded in New Taiwan dollars at the rate of exchange in effect when the transactions occur. At year-end, the balances of these investments are restated at year-end exchange rates. If the restated amounts are lower than cost, the differences are recognized as translation adjustments under stockholders' equity; otherwise, no adjustment is made.

E.Sun Bills

(a) Allowance for doubtful receivables and reserve for losses on guarantees

A reserve for losses on guarantees for commercial paper issued is provided for any defaults by commercial paper issuers. Under the regulations of the Ministry of Finance of the Republic of China (ROC), the balance of this reserve should be at least equal to 1% of the amount guaranteed, full provisions for credits deemed uncollectible and 50% provision for credits with high uncollectibility.

(b) Reserves for losses on sale of bonds

Under the regulations of the Securities and Futures Commission of the ROC, reserves for loss on the sale of bonds are computed at 10% of the net gain on the sale of these bonds until the balance of the reserve reaches $200,000. This reserve should be used only to offset actual loss on the sale of bonds.

(4) *Matters requiring special notation*

E.Sun Bank

Causes	December 31, 2003 (In Thousands of New Taiwan Dollars) Summary and Amount
Within the past year, a responsible person or professional employee violated the law in the course of business, resulting in an indictment by a prosecutor	None
Within the past year, a fine was levied for violations of related regulations	None
Within the past year, misconduct occurred, resulting in the Ministry of Finance's imposing strict corrective measures on the Bank	None
Within the past year, the individual loss or the total loss from employee fraud, accidental and material events, or failure to abide by the "Guidelines for the Maintenance of Soundness of Financial Institutions" exceeded $50 million dollars	None
Other	None

Note 1: The term "within the past year" means one year before the balance sheet date.

Note 2: The term "a fine levied for violations of the related regulations within the past year" means a fine levied by the Bureau of Monetary Affairs, Securities and Futures Commission or Department of Insurance.

(5) *Business information of E.Sun Bills*

Items	December 31, 2002	December 31, 2003
Guarantees and endorsements	$19,412,600	$18,366,200
Guarantees and endorsements/stockholders' equity	3.99	3.65
Short-term negotiable instruments sold under agreements to repurchase	$29,944,400	$25,522,988
Short-term negotiable instruments sold under agreements to repurchase/ stockholders' equity	6.16	5.07

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

c. ***Profitability***

E.Sun Bank

Unit: %

Items	**For the Year Ended December 31, 2002**	**For the Year Ended December 31, 2003**
Return on assets	(1.76)	1.44
Return on equity	(23.28)	21.37
Net income ratio	(33.11)	30.15

E.Sun Bills

Unit: %

Items	**For the Year Ended December 31, 2002**	**For the Year Ended December 31, 2003**
Return on assets	7.30	6.20
Return on equity	13.29	15.25
Net income ratio	60.55	75.66

Note:

(a) Return on total assets = Income before income tax/Average total assets

(b) Return on net equity = Income before income tax/Average equity

(c) Net income ratio = Income before income tax/Total operating revenues

(d) Income before income tax represents income for the year ended December 31, 2002 and 2003.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

d. *Liquidity as of December 31, 2003*

(1) *Maturity analysis of assets and liabilities for E.Sun Bank*

		Period Remaining until Due Date				
	Total	0–30 Days	31–90 Days	91–180 Days	181 Days to 1 Year	Over 1 Year
		(In Thousand of New Taiwan Dollars)				
Assets	282,310,000	40,358,000	16,646,000	18,166,000	23,619,000	183,521,000
Liabilities	262,853,000	33,606,000	30,959,000	114,848,000	52,951,000	30,489,000
Gap	19,457,000	6,752,000	(14,313,000)	(96,682,000)	(29,332,000)	153,032,000
Accumulated gap	19,457,000	6,752,000	(7,561,000)	(104,243,000)	(133,575,000)	19,457,000

Note: Listed amounts of the head office and domestic branches are in New Taiwan dollars (i.e., excluding foreign-currency amounts).

(2) *Liquidity analysis of E.Sun Bills*

Items		Period				
		1–30 Days	31–90 Days	91–180 Days	181 Days to 1 Year	Over 1 Year
		(In Thousand of New Taiwan Dollars)				
Usage of funds	Bills	$ 21,905,000	$ 7,041,000	$ 666,000	$ 3,703,000	$ 306,000
	Bonds	517,000	—	53,000	45,000	23,358,000
	Deposits	614,000	930,000	666,000	1,749,000	—
	Call loans	200,000	—	—	—	—
	R.S*	129,000	22,000	—	—	—
	Total	23,365,000	7,993,000	1,385,000	5,497,000	23,664,000
Source of funds	Borrowings	6,730,000	890,000	—	—	—
	R.P*	33,129,000	8,728,000	2,329,000	365,000	—
	Capital	—	—	—	—	—
	Total	39,859,000	9,618,000	2,329,000	365,000	—
Net flows		(16,494,000)	(1,625,000)	(944,000)	5,132,000	23,664,000
Accumulated net flows		(16,494,000)	(18,119,000)	(19,063,000)	(13,931,000)	9,733,000

**Note:* R.S — securities purchased under agreement to resell
R.P — securities sold under agreement to repurchase.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

e. ***Market risk***

E.Sun Bank

Unit: %

Items	December 31, 2002	December 31, 2003
Ratio of interest-rate sensitive assets to liabilities	71.77	84.48
Ratio of interest-rate sensitive gap to stockholders' equity	(342.09)	(149.38)

E.Sun Bills

Unit: %

Items	December 31, 2002	December 31, 2003
Ratio of interest-rate sensitive assets to liabilities	84.17	73.30
Ratio of interest-rate sensitivity gap to stockholders' equity	(128.00)	(232.23)

Note 1: interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by the change of interest rates.

Note 2: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest-rate sensitive liabilities (with maturities of less than one year in New Taiwan dollars).

Note 3: Interest-rate sensitivity gap = Interest-rate sensitive assets — Interest-rate sensitive liabilities

39. Additional Disclosures

Following are the additional disclosures required by the Securities and Futures Commission for ESFHC and its investees:

a. Significant transactions and subsidiaries: Tables 1 to 5 (attached) and Note 34

b. Investment in Mainland China: None.

40. Segment Information

ESFHC and its subsidiaries engage in investing, banking, bills financing and the securities industry. The revenues, operating profits and identifiable assets related to the Company's banking operations represent more than 90% of those of all the Company's operations.

TABLE 1

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Endorsement/Guarantee Provided
For the Year Ended December 31, 2003
(In Thousands of U.S. Dollars)

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Individual Collateral or Guarantee Amounts	Maximum Balance for the Year	Ending Balance	Carrying Value (As of Balance Sheet Date) of Properties Guaranteed by Collateral	Ratio of Accumulated Amount of Guarantee to Net Asset Value of the Latest Financial Statement	Maximum Collateral/ Guarantee Amounts Allowable
		Name	Nature of Relationship						
1.	E.Sun Finance & Leasing Co., Ltd.	E.Sun International Co.	Affiliate	$2,000	$1,234	$—	None	—	$2,000

TABLE 2

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Marketable Securities Held
December 31, 2003
(In Thousands of New Taiwan Dollars)

				December 31, 2003				
Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
E.Sun Financial Holding Co., Ltd.	**Stock**							
	E.Sun Commercial Bank, Ltd.	Equity-method investee	Long-term investments	1,817,500	$17,315,206	100.00	$17,315,206	3 (494,000 thousands shares are hypothecated to a bank)
	E.Sun Bills Finance Corp.	Equity-method investee	Long-term investments	426,500	5,998,854	100.00	5,998,854	3
	E.Sun Securities Corp.	Equity-method investee	Long-term investments	306,000	3,104,285	100.00	3,104,285	3
	E.Sun Venture Capital Co., Ltd.	Equity-method investee	Long-term investments	100,000	1,010,214	100.00	1,010,214	3
	E.Sun Securities Investment Trust Corp.	Equity-method investee	Long-term investments	30,000	397,730	100.00	397,730	3
	E.Sun Insurance Broker Co., Ltd.	Equity-method investee	Long-term investments	1,000	68,733	100.00	68,733	3
	Taiwan Negotiable Instruments Depository and Clearing Co., Ltd.	—	Long-term investments	4,000	40,000	2.00	39,538	
	Corporate bonds and notes							
	JP Morgan Chase & Co	—	Short-term investments	—	379,026	—	364,493	
E.Sun Commercial Bank, Ltd. . . .	**Stock**							
	E.Sun Financial Holding Co., Ltd.	Parent company	Long-term investments	325,779	3,914,375	13.00	6,665,442	1
	Fu Bon Securities Finance Co.	Director	Long-term investments	16,148	155,857	2.56	192,812	2
	Taipei Forex Inc.	—	Long-term investments	80	800	0.40	1,215	3
	Apex Venture Capital Corp.	—	Long-term investments	5,000	50,000	4.67	47,622	2
	Taiwan Futures Exchange Co., Ltd.	—	Long-term investments	900	9,000	0.45	14,918	2
	E.Sun Finance & Leasing Co., Ltd.	Equity-method investee	Long-term investments	19,600	131,993	98.99	131,993	3
	Gapura Incorporated	—	Long-term investments	750	14,828	4.90	14,828	2
	Financial Information Service Co., Ltd.	—	Long-term investments	4,550	45,500	1.14	67,229	2
	National Venture Capital Corp.	—	Long-term investments	2,700	27,000	4.99	22,780	2
	E.Sun Insurance Agent Co., Ltd.	Equity-method investee	Long-term investments	1,280	33,769	79.00	33,769	2
	Bank-Pro E-Service Technology Co, Ltd.	Director	Long-term investments	450	4,500	3.33	3,377	2
	United Micro Electronics	—	Long-term investments	4,115	200,451	0.03	120,661	1
	Taiwan Asset Management Corporation	—	Long-term investments	10,000	100,000	0.57	107,286	2
	Taiwan Financial Asset Service Corporation	—	Long-term investments	5,000	50,000	2.94	50,788	2
	Government bonds							
	A9007	—	Long-term investments	—	1,959,412	—	1,753,833	
	A9104	—	Long-term investments	—	3,815,321	—	3,604,972	

				December 31, 2003				
Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
E.Sun Bills Finance Corp.	**Corporate and financial institution bonds**							
	E.Sun Commercial Bank	Common parent company	Long-term bond investments	—	$ 160,000	—	$ 160,000	
	Taishin Bank	—	Long-term bond investments	—	199,980	—	199,980	
	Chang Hwa Bank	—	Long-term bond investments	—	100,000	—	100,501	
	Hua Nan Commercial Bank	—	Long-term bond investments	—	100,000	—	100,000	
	The Farmers Bank of China	—	Long-term bond investments, Other assets	—	200,000	—	200,000	
	Sunny Bank	—	Long-term bond investments	—	200,000	—	200,000	
	Union Bank	—	Long-term bond investments	—	100,000	—	102,165	
	Hua Nan Financial Holding Company	—	Long-term bond investments	—	199,997	—	199,992	
	China Development Financial Holding Corp.	—	Long-term bond investments	—	200,000	—	200,000	
	Government bonds							
	Central Government Bonds — 914	—	Long-term bond investments	—	1,265,522	—	1,272,343	
	Central Government Bonds — 873	—	Other assets	—	215,547	—	230,784	
	Central Government Bonds — 890	—	Other assets	—	11,650	—	12,919	
E.Sun Finance & Leasing Co., Ltd.	**Stock**							
	Gapura Incorporated	—	Long-term investments	950	18,757	6.20	18,757	2
	Government bonds							
	Central Government Bonds — 832	—	Long-term investments	—	3,000	—	3,000	Bonds of $7,588 were placed with courts of justice for the collection cases on overdue loans
	Central Government Bonds — 854	—	Long-term investments	—	1,000	—	1,000	
	Central Government Bonds — A862	—	Long-term investments	—	4,588	—	4,537	
E.Sun Securities Corp.	**Stock**							
	E.Sun Financial Holding Co., Ltd.	Parent company	Long-term investments	8,850	90,884	0.35	181,071	1
	E.Sun Investment Consulting Co., Ltd.	Equity-method investee	Long-term investments	1,000	10,349	100.00	10,349	3
	Top Taiwan Financial Consulting Co., Ltd.	—	Long-term investments	6,000	60,000	6.00	60,000	2
	Giantcom International Telecommunication Co., Ltd.	—	Long-term investments	96	1,789	0.18	1,789	2
E.Sun Securities Investment Trust Corp.	**Financial institution bonds**							
	E.Sun Commercial Bank	Common parent company	Long-term investments	—	100,547	—	100,547	
	Fu Bon Commercial Bank	—	Long-term investments	—	200,000	—	200,000	
	First Commercial Bank	—	Long-term investments	—	50,000	—	50,000	

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003 Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
E.Sun Venture Capital Co., Ltd. .	**Stock**							
	Univacco Technology Inc.	—	Long-term investments	1,000	$ 30,000	2.86	$ 18,187	2
	Ampire Co., Ltd.	—	Long-term investments	995	19,169	2.31	13,014	2
	E.Sun Technologies Co., Ltd.	Equity-method investee	Long-term investments	1,200	13,119	48.00	9,034	2
	Bank-Pro E-Service Technology Co., Ltd.	—	Long-term investments	325	3,250	2.41	2,442	2
	E.Sun Capital Co., Ltd.	Equity-method investee	Long-term investments	450	4,430	45.00	3,961	2
	Twinhan Technology Co., Ltd.	—	Long-term investments	550	33,192	1.78		
	Chunghwa Chemical Synthesis Biotech Co., Ltd.	—	Long-term investments	2,000	20,005	3.07	17,573	2
	Epoch Chemtronics Corp.	—	Long-term investments	400	10,800	4.00	5,235	2
	Funds							
	Mega Diamond Bond Fund	—	Short-term investments	12,103	130,389	—	133,308	
	Seng Hua 5599 Bond Fund	—	Short-term investments	11,443	120,227	—	122,951	
	IIT Wan Hwa Fund	—	Short-term investments	3,690	50,000	—	51,131	
	KGI Victory Fund	—	Short-term investments	4,944	50,000	—	51,091	
	Grand Cathay Bond Fund	—	Short-term investments	1,686	20,537	—	20,976	
E.Sun Insurance Broker Co., Ltd.	**Funds**							
	E.Sun Gin-Ru-E Balanced Fund	Common parent company with the fund management company	Short-term investment	2,588	26,001	—	25,905	
	E.Sun New Era Bond Fund	Common parent company with the fund management company	Short-term investment	967	10,000	—	10,061	
	TLAM B. B. Bond Fund	—	Short-term investment	418	4,500	—	4,529	
	Sheng Hua 1699 Bond Fund	—	Short-term investment	337	4,000	—	4,013	
	Sheng Hua 5599 Bond Fund	—	Short-term investment	93	1,000	—	1,003	
	Stock							
	E.Sun Insurance Agent Co., Ltd.	Equity-method investee	Long-term investments	324	8,537	20.00	8,537	2
E.Sun Technologies Co., Ltd. . . .	**Stock**							
	E.Sun Capital Co., Ltd.	Equity-method investee	Long-term investments	550	4,973	55.00	4,841	2

Notes:

1. Market value of the listed stocks was based on the average closing prices in December 2003.

2. The amounts are based on the latest unaudited financial statements.

3. The amounts are based on the latest audited financial statements.

TABLE 3

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Marketable Securities Acquired and Disposed of at Costs or Prices of at Least NT$100 Million or 20% of the Paid-in Capital
For the Year Ended December 31, 2003
(In Thousands of New Taiwan Dollars)

					Beginning Balance		Acquisition		Disposal				Ending Balance	
Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount
E.Sun Financial Holding Co., Ltd.	JP Morgan Chase & Co.	Short-term investments	—	—	—	$—	—	$ 379,026	—	$ —	$ —	$ —	—	$ 379,026
E.Sun Commercial Bank, Ltd.	Central government bond 9007	Long-term bond investments	—	—	—	—	—	1,973,048	—	—	13,636 *(Note 1)*	—	—	1,959,412
	Central government bond 9104	Long-term bond investments	—	—	—	—	—	3,837,746	—	—	22,425 *(Note 1)*	—	—	3,815,321
E.Sun Bills Finance Corp.	China Development Financial Holding Co.	Long-term bond investments	China Development Financial Holding Co.	—	—	—	—	200,000	—	—	—	—	—	200,000
	Central government bond 914	Long-term bond investments	Public trading market	—	—	—	—	1,266,204	—	—	682 *(Note 1)*	—	—	1,265,522
E.Sun Securities Investment Trust Corp. *(Note 2)* . .	Bank debentures (issue by Fu Bon Commercial Bank)	Long-term investments	IBT Securities Co., Ltd.	—	—	—	—	200,000	—	—	—	—	—	—
	Bank debentures (issue by Fu Bon Commercial Bank)	Long-term investments	ABN-AMRO Asset Management Taiwan Ltd.	—	—	—	—	—	—	205,700	200,000	5,700	—	—
	Bank debentures (issue by Fu Bon Commercial Bank)	Long-term investments	IBT Securities Co., Ltd.	—	—	—	—	200,000	—	—	—	—	—	200,000

Notes:

1. This amount is the premium amortized.

2. This Company became the subsidiary of E.Sun Financial Holding Co., Ltd. on September 16, 2003.

TABLE 4

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Acquisition of Individual Real Estates at Costs of at Least NT$100 Million or 20% of the Paid-in Capital
For the Year Ended December 31, 2003
(In Thousand New Taiwan Dollars)

							Prior Transaction of Related Counter-party						
Company Name	Property	Transaction Date	Transaction Amount	Payment Amount	Counter-party	Nature of Relationship	Owner	Relationship	Transfer Date	Amount	Price Reference	Purpose of Acquisition	Other Terms
E.Sun Commercial Bank, Ltd.	No. 115 and 117, Minsheng E. Rd., Sec. 3, Songshan District, Taipei City 105, Taiwan (R.O.C.)	2003.12.11	$4,280,000	$3,870,949	Walsin Lihwa Corp.	—	—	—	—	$—	Appraisal of DTZ and Honda Appraisers Firm	For use by the head office and business unit	
E.Sun Securities Corp.	3F, 4F, 5F, 7F-3, 8F-2, 8F-3, B2, No. 77, Wuchang St., Sec. 1, Jhongjheng District, Taipei City 100, Taiwan (R.O.C.)	2003.06.27	225,000	225,000	Yung Li Securities Co., Ltd.	—	—	—	—	—	Top Real Estate Appraisal Co., Ltd. $265,071 thousand	To establish business unit	

TABLE 5

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Names, Locations, and Other Information Significant Influence
For the Year Ended December 31, 2003
(In Thousands of New Taiwan Dollars)

				Original Investment Amount		Balance as of December 31, 2003					
Investor Company	Investee Company	Location	Main Businesses and Products	Dec. 31, 2003	Dec. 31, 2002	Shares (Thousands)	Percentage of Ownership	Carrying Value	Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
E.Sun Financial Holding Co., Ltd.	E.Sun Commercial Bank, Ltd.	Taipei	Banking	$19,160,117	$19,160,117	1,817,500	100.00	$17,315,206	$3,396,261	$3,396,261	
	E.Sun Bills Finance Corp.	Taipei	Dealing in and brokering short-term negotiable instruments	5,150,581	5,150,581	426,500	100.00	5,998,854	966,177	952,189	
	E.Sun Securities Corp.	Taipei	Dealing in, underwriting and brokering securities	3,137,819	3,137,819	306,000	100.00	3,104,285	98,246	98,246	
	E.Sun Venture Capital Co., Ltd.	Taipei	Investment	1,000,000	1,000,000	100,000	100.00	1,010,214	8,008	8,008	
	E.Sun Insurance Broker Co., Ltd.	Taipei	Insurance broker	10,000	—	1,000	100.00	68,733	58,733	58,733	
	E.Sun Securities Investment Trust Corp.	Taipei	Investing funds under full discretionary authorization from customers	366,211	—	30,000	100.00	397,730	91,529	31,519	
E.Sun Commercial Bank, Ltd. . . .	E.Sun Finance & Leasing Co., Ltd.	Taipei	Leasing and sale of machinery and equipment	196,000	196,000	19,600	98.99	131,993	(19,978)	(19,776)	
	E.Sun Insurance Agent Co., Ltd.	Taipei	Life insurance agent	3,950	3,950	1,280	79.00	33,769	22,598	17,662	
E.Sun Finance & Leasing Co., Ltd.	E.Sun Insurance Agent Co., Ltd.	Taipei	Life insurance agent	—	1,800	—	—	—	22,598	4,521	
E.Sun Securities Corp.	E.Sun Securities Investment Consulting Co., Ltd.	Taipei	Security consulting	10,000	—	1,000	100.00	10,349	349	349	
E.Sun Venture Capital Co., Ltd. .	E.Sun Technologies Co., Ltd.	Taipei	Provides information software and computer installation services	12,000	—	1,200	48.00	13,119	(1,435)	1,119	
	E.Sun Capital Co., Ltd.	Taipei	Agency of service and human resource	4,500	—	450	45.00	4,430	(1,165)	(70)	
E.Sun Technologies Co., Ltd. . . .	E.Sun Capital Co., Ltd.	Taipei	Agency of service and human resource	5,500	—	550	55.00	4,973	(1,165)	(527)	

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Disclosure Required Under Article 46 of
the Financial Holding Company Law
December 31, 2003
(In Thousands of New Taiwan Dollars)

	Name	Relation Condition	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of ESFHC's Equity
1.	Masterlink Securities Co., Ltd.	The same person	$2,125,000	8.57
2.	Tai Power Co., Ltd.	The same person	2,037,500	8.22
3.	Department of National Treasury	The same person	2,000,000	8.07
4.	City Bus Operation Office	The same person	1,842,018	7.43
5.	Hsinchu International Bank	The same person	1,700,000	6.86
6.	Walsin Lihwa Corp. and related parties	The same affiliate	5,080,904	20.49
7.	Far Eastern Textile Co., Ltd. and related parties	The same affiliate	3,599,090	14.51
8.	Ton Y Industrial Ltd. and related parties	The same affiliate	2,808,640	11.33
9.	Fuhwa Securities Co., Ltd. and related parties	The same affiliate	2,327,379	9.39
10.	China Trust Financial Holding Co., Ltd. and related parties	The same affiliate	2,221,583	8.96
11.	Continental Engineering Corp. and related parties	The same affiliate	1,975,367	7.97
12.	SinoPac Financial Holding Co., Ltd. and related parties	The same affiliate	1,792,035	7.23
13.	Fubon Securities Co., Ltd. and related parties	The same affiliate	1,668,056	6.73
14.	Taiwan Cement Corp Ltd. and related parties	The same affiliate	1,570,467	6.33
15.	Union Bank of Taiwan Co., Ltd. and related parties	The same affiliate	1,496,000	6.03
16.	Yuanta Core Pacific Securities Co., Ltd. and related parties	The same affiliate	1,285,953	5.19
17.	Kuang-Hwa Investment Holding Co., Ltd. and related parties	The same affiliate	1,260,000	5.08
18.	Taishin Financial Holding Co., Ltd. and related parties	The same affiliate	1,256,087	5.07

UNAUDITED PRO FORMA BALANCE SHEETS AND STATEMENTS OF INCOME DATA OF E.SUN FINANCIAL HOLDING CO., LTD.

E.Sun Financial Holding Company, Ltd. (“E.Sun Financial”) was established by E.Sun Commercial Bank Ltd. (“E.Sun Bank”), E.Sun Bills Finance Corp. (“E.Sun Bills”) and E.Sun Securities Corp. (“E.Sun Securities”) through a share swap on January 28, 2002. The swap ratio was 1 share of E.Sun Financial’s stock for 1.0 share of E.Sun Bank, 1.10 shares of E.Sun Bills and 1.25 shares of E.Sun Securities. After the swap, E.Sun Bank, E.Sun Bills and E.Sun Securities became 100% subsidiaries of E.Sun Financial.

The following unaudited pro forma balance sheets and statements of income as of December 31, 2001 and 2002 have been prepared on an ROC GAAP basis based on the assumption that E.Sun Financial was established on January 1, 2001 and the share swap by which E.Sun Bank, E.Sun Bills and E.Sun Securities became subsidiaries of E.Sun Financial had taken place on January 1, 2001.

The unaudited pro forma balance sheets and statements of income of E.Sun Financial are based on, and derived from, and should be read in conjunction with the historical ROC GAAP financial statements of E.Sun Bank and E.Sun Bills, together with the related notes, included elsewhere in this Offering Memorandum. E.Sun Securities financial statements have not been included in the Offering Memorandum as its financial position and operating results are not deemed by management as material to the pro forma financial statements.

These unaudited pro forma balance sheets and statements of income are presented for illustrative purposes only. This information is not necessarily indicative of the financial position and operating results that might have occurred had the formation of E.Sun Financial occurred on January 1, 2001, nor is it necessarily indicative of the future financial position or operating results of E.Sun Financial.

E.SUN FINANCIAL HOLDING CO., LTD
Unaudited pro forma balance sheet
December 31, 2001
(Amounts in thousands of New Taiwan Dollars)

	E.Sun Bank	E.Sun Bills Finance	E.Sun Securities	Total	pro forma adjustments Note	pro forma adjustments Debit	pro forma adjustments Note	pro forma adjustments Credit	Total	elimination entries (Note 8) Debit	elimination entries (Note 8) Credit	Total
ASSETS												
Cash	7,672,482	0	100	7,672,582	1	124,170	2	79,250	8,107,502			8,107,502
					3	420,000	4	30,000				
Due from banks	10,917,831	4,975,828	112,772	16,006,431					16,006,431		1,584,081	14,422,350
Due from Central Bank of China	8,068,770	0	0	8,068,770					8,068,770			8,068,770
Securities purchased	36,751,847	2,865,830	3,168,313	42,785,990					42,785,990		448,000	42,337,990
Pledged time deposits	0	150,000	460,000	610,000					610,000		610,000	0
Receivable	12,331,437	112,713	61,498	12,505,648					12,505,648		41,779	12,463,869
Prepaid expenses	54,652	6,297	1,337	62,286					62,286			62,286
Loans, bills and discounts-net	179,345,170	0	0	179,345,170					179,345,170			179,345,170
Long-term investments	4,664,698	574,241	59,133	5,298,072	2	79,250	5	273,819	1,595,128			1,595,128
							6	3,508,375				
Properties	4,787,855	108,530	38,489	4,934,874					4,934,874			4,934,874
Other	1,279,092	372,066	173,720	1,824,878					1,824,878		110,000	1,714,878
Total Assets	265,873,834	9,165,505	4,075,362	279,114,701					275,846,677			273,052,817
LIABILITIES												
Due to banks	6,535,224	3,330,000	0	9,865,224					9,865,224			9,865,224
Bonds sold under agreement to repurchase	0	0	2,881,825	2,881,825					2,881,825	88,000		2,793,825
Payables	5,925,374	189,634	57,369	6,172,377					6,172,377	41,779		6,130,598
Advances	28,879	0	0	28,879					28,879			28,879
Deposits and remittances	225,029,161	0	0	225,029,161					225,029,161	2,304,081		222,725,080
Bonds	5,000,000	0	0	5,000,000					5,000,000	360,000		4,640,000
Long-term debts	0	0	0	0			3	420,000	420,000			420,000
Other	551,684	518,006	6,664	1,076,354					1,076,354			1,076,354
Total Liabilities	243,070,322	4,037,640	2,945,858	250,053,820					250,473,820			247,679,960
					5	273,819	1	124,170				
					6	3,508,375						
					4	30,000						
Net Assets	22,803,512	5,127,865	1,129,504	29,060,881					25,372,857			25,372,857

E.SUN FINANCIAL HOLDING CO., LTD
Unaudited pro forma statement of income
For the year ended December 31, 2001
(Amounts in thousands of New Taiwan Dollars)

					pro forma adjustments					elimination entries (Note 8)		
	E.Sun Bank	E.Sun Bills Finance	E.Sun Securities	Total	Note	Debit	Note	Credit	Total	Debit	Credit	Total
OPERATING REVENUE												
Interest	14,418,749	282,913	150,356	14,852,018					14,852,018	123,290		14,728,728
Service fees	679,808	158,992	24,153	862,953					862,953			862,953
Gain on sales of securities	1,456,199	1,002,372	105,631	2,564,202					2,564,202			2,564,202
Income(loss) on long-term investments	257,027	0	(867)	256,160	5	273,819			(17,659)			(17,659)
Other	174,995	4,430	3,630	183,055					183,055			183,055
Total operating revenue	16,986,778	1,448,707	282,903	18,718,388					18,444,569			18,321,279
OPERATING COST												
Interest	(9,139,018)	(157,518)	(94,247)	(9,390,783)					(9,390,783)		123,290	(9,267,493)
Service charges	(202,033)	(8,666)	(1,869)	(212,568)					(212,568)			(212,568)
Provisions	(2,092,606)	(405,160)	0	(2,497,766)					(2,497,766)			(2,497,766)
Other	(7,722)	0	0	(7,722)					(7,722)			(7,722)
Total operating cost	(11,441,379)	(571,344)	(96,116)	(12,108,839)					(12,108,839)			(11,985,549)
GROSS PROFIT	5,545,399	877,363	186,787	6,609,549					6,335,730			6,335,730
Operating expense	(2,963,268)	(153,876)	(129,156)	(3,246,300)	4	29,000			(3,275,300)		1,920	(3,273,380)
INCOME FROM OPERATIONS	2,582,131	723,487	57,631	3,363,249					3,060,430			3,062,350
NON-OPERATING INCOME	27,339	0	2,034	29,373					29,373	1,920		27,453
NON-OPERATING EXPENSE	(23,214)	0	0	(23,214)	4	1,000			(24,214)			(24,214)
INCOME BEFORE INCOME TAX	2,586,256	723,487	59,665	3,369,408					3,065,589			3,065,589
INCOME TAX BENEFIT (EXPENSE)	(658,291)	(354,731)	4,504	(1,008,518)					(1,008,518)			(1,008,518)
NET INCOME	1,927,965	368,756	64,169	2,360,890					2,057,071			2,057,071

E.SUN FINANCIAL HOLDING CO., LTD
Unaudited pro forma balance sheet
December 31, 2002
(Amounts in thousands of New Taiwan Dollars)

					pro forma adjustments					elimination entries (Note 8)			
	E.Sun Bank	E.Sun Bills Finance	E.Sun Securities	Total	Note	Debit	Note	Credit	Total	Debit	Credit	E.Sun FHC (Note 9)	Total
ASSETS													
Cash	14,883,265	0	250	14,883,515	1	124,170	2	79,250	15,318,435			13,976	15,332,411
					3	420,000	4	30,000					
Due from banks	5,759,946	4,324,620	686,761	10,771,327					10,771,327		2,690,637		8,080,690
Due from Central Bank of China	12,117,374	0	0	12,117,374					12,117,374				12,117,374
Securities purchased	38,885,871	3,790,635	6,594,145	49,270,651					49,270,651		310,000		48,960,651
Pledged time deposits	0	50,000	510,000	560,000					560,000		560,000		0
Receivable	18,096,974	151,402	55,402	18,303,778					18,303,778		4,737	197	18,299,238
Prepaid expenses	42,264	2,842	2,923	48,029					48,029				48,029
Loans, bills and discounts-net	170,775,271	0	0	170,775,271					170,775,271				170,775,271
Long-term investments	4,755,205	1,259,973	145,105	6,160,283	2	79,250	5	273,819	2,439,022			896,200	3,335,222
							6	3,508,375					
							7	18,317					
Properties	5,018,224	103,852	56,889	5,178,965					5,178,965				5,178,965
Other	2,309,086	381,790	227,180	2,918,056					2,918,056		140,000		2,778,056
Total Assets	272,643,480	10,065,114	8,278,655	290,987,249					287,700,908				284,905,907
LIABILITIES													
Due to banks	13,620,380	3,920,000	0	17,540,380					17,540,380				17,540,380
Bonds sold under agreement to repurchase	0	0	5,126,714	5,126,714					5,126,714	150,000			4,976,714
Payables	5,045,561	122,377	40,056	5,207,994					5,207,994	4,737		705	5,203,962
Advances	34,238	0	0	34,238					34,238				34,238
Deposits and remittances	225,739,600	0	0	225,739,600					225,739,600	3,390,637			222,348,963
Bonds	10,000,000	0	0	10,000,000					10,000,000	160,000			9,840,000
Long-term debts	0	0	0	0			3	420,000	420,000			1,480,000	1,900,000
Other	290,310	592,221	14,962	897,493					897,493				897,493
Total Liabilities	254,730,089	4,634,598	5,181,732	264,546,419					264,966,419				262,741,750
					5	273,819	1	124,170				(106,006)	
					6	3,508,375							
					4	30,000							
					7	18,317							
Net Assets	17,913,391	5,430,516	3,096,923	26,440,830					22,734,489				22,164,157

E.SUN FINANCIAL HOLDING CO., LTD
Unaudited pro forma statement of income
For the year ended December 31, 2002
(Amounts in thousands of New Taiwan Dollars)

	E.Sun Bank	E.Sun Bills Finance	E.Sun Securities	E.Sun FHC	Total	pro forma adjustments				Total	elimination entries (Note 8)		E.Sun FHC (Note 9)	Total
						Note	Debit	Note	Credit		Debit	Credit		
OPERATING REVENUE														
Interest	12,114,525	170,427	158,461	0	12,443,413					12,443,413	75,038			12,368,375
Service Fees	902,644	167,181	48,226	0	1,118,051					1,118,051				1,118,051
Gain on sales of securities	1,068,909	820,919	26,119	0	1,915,947					1,915,947				1,915,947
Income(loss) on long-term investments	70,055	0	10,295	0	80,350	7	18,317			62,033			2,206	64,239
Other	159,645	141	7,085	0	166,871					166,871				166,871
Total operating revenue	14,315,778	1,158,668	250,186	0	15,724,632					15,706,315				15,633,483
OPERATING COST														
Interest	(5,580,938)	(123,847)	(76,429)	0	(5,781,214)					(5,781,214)		75,038		(5,706,176)
Service charges	(310,289)	(6,307)	(4,153)	0	(320,749)					(320,749)				(320,749)
Provisions	(9,414,020)	(187,929)	(12,609)	0	(9,614,558)					(9,614,558)				(9,614,558)
Other	(8,209)	0	(1,164)	0	(9,373)					(9,373)				(9,373)
Total operating cost	(15,313,456)	(318,083)	(94,355)	0	(15,725,894)					(15,725,894)				(15,650,856)
GROSS PROFIT (LOSS)	(997,678)	840,585	155,831	0	(1,262)					(19,579)				(17,373)
Operating expense	(3,667,837)	(138,960)	(145,435)	0	(3,952,232)					(3,952,232)	156,457	1,920	(23,848)	(4,130,617)
INCOME (LOSS) FROM OPERATIONS	(4,665,515)	701,625	10,396	0	(3,953,494)					(3,971,811)				(4,147,990)
NON-OPERATING INCOME	26,107	0	17,933	0	44,040					44,040	1,920			42,120
NON-OPERATING EXPENSE	(100,648)	0	0	0	(100,648)					(100,648)			(13,234)	(113,882)
INCOME (LOSS) BEFORE INCOME TAX	(4,740,056)	701,625	28,329	0	(4,010,102)					(4,028,419)				(4,219,752)
INCOME TAX BENEFIT (EXPENSE)	1,229,249	(130,684)	(15,804)	0	1,082,761					1,082,761				1,082,761
NET INCOME (LOSS)	(3,510,807)	570,941	12,525	0	(2,927,341)					(2,945,658)				(3,136,991)

E.SUN FINANCIAL HOLDING CO., LTD
Notes to Unaudited Pro Forma Financial Statements

Notes:

1. To record the cash dividend paid by E.Sun Bills as received in full by the E.Sun Financial. Under the assumptions of the pro forma financial statements, E.Sun Financial would have owned 100% of the outstanding shares of E.Sun Bills in 2001, and would have received the cash dividend from E.Sun Bills.

2. To reverse the cash dividend actually received by E.Sun Bank from E.Sun Bank's equity accounted investee E.Sun Bills, in 2001 at the actual cash balance received (E.Sun Bank did not hold 100% of the shares of E.Sun Bills) as related to Note 1 above. Under the assumptions of the pro forma financial statements, E.Sun Financial would have owned 100% of the outstanding shares of E.Sun Bills in 2001 and E.Sun Bank and other shareholders would not have received the cash dividend in 2001.

3. In 2001, E.Sun Bank redeemed 40,000 thousand shares of its outstanding capital stock in the market, for reissuance to employees. Under the assumption of pro forma financial statements, E.Sun Financial was assumed to be incorporated, and its shares traded on the Taiwan stock exchange on January 1, 2001. At the same time, public trading of E.Sun Bank's stock would have been terminated. Therefore, the stock reissued to employees is assumed to be E.Sun Financial shares, and E.Sun Financial would have had to borrow the funds to redeem the shares.

4. To record an amount for operating expenses of E.Sun Financial for 2001 which was assumed to be incorporated on January 1, 2001.

5. To reverse the amount of current income recognized by E.Sun Bank's proportionate share in the net income of E.Sun Bills and E.Sun Securities in 2001 of $244,943 and $28,876, respectively. Under the assumption of the pro forma financial statements, E.Sun Financial has recognized that amount through the consolidation of these entities as wholly owned subsidiaries for 2001.

6. Reclassification of the E.Sun Financial's shares held by E.Sun Bank to treasury stock.

7. To reverse the amount of current income recognized by E.Sun Bank's proportionate share in the net income of E.Sun Bills and E.Sun Securities for the period from January 1 to January 27, 2002 of $14,576 and $3,741, respectively. Under the assumption of the pro forma financial statements, E.Sun Financial has recognized that amount through the consolidation of these entities as wholly owned subsidiaries for 2002.

8. To eliminate the inter-company transactions among E.Sun Bank, E.Sun Bills and E.Sun Securities in 2001 and 2002, as if E.Sun Financial was assumed to be incorporated on January 1, 2001 and these entities were wholly owned subsidiaries.

9. To include the separate assets, liabilities, and operating results of E.Sun Financial from its incorporation on January 28, 2002. (Excluding investment in E.Sun Bank, E.Sun Bills and E.Sun Securities and the income which were recognized from them.)

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

January 28, 2004 except for translations into U.S. dollars at the exchange rate
as of June 30, 2004, stated in Note 2

The Board of Directors and Stockholders
E.Sun Commercial Bank, Ltd.

We have audited the accompanying balance sheets of E.Sun Commercial Bank, Ltd. (the "Bank") as of December 31, 2001, 2002 and 2003 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 responsibility of the Bank's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with the Regulations for Audits of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 E.Sun Commercial Bank, Ltd. as of December 31, 2001, 2002 and 2003 and the results of its operations, changes in stockholders' equity and cash flows for the years then ended in conformity with Criteria Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also reviewed the translation of the New Taiwan dollar financial statements as of and for the year ended December 31, 2003 into U.S. dollars, which have been included solely for the reader's convenience, against the exchange rate stated in Note 2 to the financial statements and, in our opinion, the U.S. dollar amounts have been properly translated at that rate. The convenience translations should not be construed as representations 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.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Balance Sheets
December 31, 2001, 2002 and 2003
(In Thousands of Dollars, Except Par Value)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
ASSETS				
CASH *(Note 3)*	$ 7,672,482	$ 14,883,265	$ 11,143,454	$ 331,059
DUE FROM BANKS *(Notes 4 and 22)*	10,917,831	5,759,946	4,658,909	138,411
DUE FROM THE CENTRAL BANK OF CHINA *(Note 5)*	8,068,770	12,117,374	13,560,837	402,877
SECURITIES PURCHASED *(Notes 2, 6, 22 and 23)*	36,751,847	38,885,871	36,262,455	1,077,316
RECEIVABLES — Net *(Notes 2, 7 and 22)*	12,331,437	18,096,974	24,915,454	740,210
PREPAID EXPENSES	54,652	42,264	45,269	1,345
LOANS, BILLS AND DISCOUNTS — Net *(Notes 2, 8 and 22)*	179,345,170	170,775,271	199,070,296	5,914,150
LONG-TERM INVESTMENTS — Net *(Notes 2 and 9)*				
Long-term equity investments — equity method	4,033,957	339,083	165,762	4,924
Long-term equity investments — cost method	630,741	4,416,122	4,572,311	135,838
Bonds	—	—	5,774,733	171,561
	4,664,698	4,755,205	10,512,806	312,323
PROPERTIES *(Notes 2 and 10)*				
Cost				
Land	2,804,945	2,818,737	2,818,737	83,741
Buildings	1,362,755	1,554,335	1,560,939	46,374
Computers	1,099,271	1,216,840	1,483,532	44,074
Transportation equipment	146,210	163,506	175,744	5,221
Miscellaneous equipment	562,733	587,990	654,269	19,438
Total cost	5,975,914	6,341,408	6,693,221	198,848
Accumulated depreciation	1,321,316	1,480,561	1,605,761	47,705
	4,654,598	4,860,847	5,087,460	151,143
Prepayments	133,257	157,377	4,307,756	127,978
Net properties	4,787,855	5,018,224	9,395,216	279,121
OTHER ASSETS — Net *(Notes 2, 11, 17 and 24)*				
Deferred income tax assets — net	—	1,269,546	368,111	10,936
Refundable deposits	835,412	793,511	851,341	25,293
Others	443,680	246,029	213,684	6,348
Total other assets — net	1,279,092	2,309,086	1,433,136	42,577
TOTAL ASSETS	$265,873,834	$272,643,480	$310,997,832	$9,239,389

E.SUN COMMERCIAL BANK, LTD.
Balance Sheets — Continued
December 31, 2001, 2002 and 2003
(In Thousands of Dollars, Except Par Value)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Due to banks *(Note 12)*	$ 6,535,224	$ 13,620,380	$ 21,664,199	$ 643,619
Payables *(Note 13)*	5,925,374	5,045,561	5,287,111	157,074
Advances	28,879	34,238	175,034	5,200
Deposits and remittances *(Notes 14 and 22)*	225,029,161	225,739,600	247,016,471	7,338,576
Bonds *(Notes 15 and 22)*	5,000,000	10,000,000	15,000,000	445,633
Other *(Notes 2 and 17)*	551,684	290,310	545,647	16,210
Total liabilities	243,070,322	254,730,089	289,688,462	8,606,312
STOCKHOLDERS' EQUITY				
Capital stock — NT$10 par value authorized and issued 1,817,500 thousand shares	18,175,000	18,175,000	18,175,000	539,958
Capital surplus:				
Paid-in capital in excess of par value	303,140	303,140	233,502	6,937
Gain on sale of properties	7,641	7,641	—	—
From treasury stock	15,452	15,452	—	—
Total capital surplus	326,233	326,233	233,502	6,937
Retained earnings (deficit)				
Legal reserve	2,534,534	3,112,924	—	—
Special reserve	108,619	31,391	—	—
Unappropriated earnings (deficit)	2,188,534	(3,237,046)	3,396,261	100,899
Total retained earnings (deficit)	4,831,687	(92,731)	3,396,261	100,899
Cumulative translation adjustments	4,404	2,906	2,624	78
Unrealized loss on long-term equity investments	(35,795)	—	—	—
Treasury stock — 40,000 thousand shares	(498,017)	(498,017)	(498,017)	(14,795)
Total stockholders' equity	22,803,512	17,913,391	21,309,370	633,077
CONTINGENCIES AND COMMITMENTS *(Notes 2 and 24)*				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$265,873,834	$272,643,480	$310,997,832	$9,239,389

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Income
For the Years Ended December 31, 2001, 2002 and 2003
(In Thousands of Dollars, Except Per Share Amounts)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
OPERATING REVENUES AND GAINS				
Interest *(Notes 2 and 22)*	$14,418,749	$12,114,525	$11,057,534	$328,507
Service fees *(Notes 2 and 22)*	679,808	902,644	1,579,533	46,926
Gain on sale of securities — net *(Notes 2 and 22)*	1,456,199	1,068,909	590,601	17,546
Income from long-term equity investments under the equity method — net *(Notes 2 and 9)*	256,166	55,728	24,305	722
Foreign exchange gain — net *(Note 2)*	172,528	118,585	307,062	9,122
Other	3,328	55,387	339,397	10,083
Total operating revenues and gains	16,986,778	14,315,778	13,898,432	412,906
OPERATING COSTS				
Interest *(Notes 2 and 22)*	9,139,018	5,580,938	3,851,147	114,413
Service charges	202,033	310,289	632,749	18,798
Provisions *(Note 2)*	2,092,606	9,414,020	845,567	25,121
Other	7,722	8,209	5,522	164
Total operating costs	11,441,379	15,313,456	5,334,985	158,496
GROSS PROFIT (LOSS)	5,545,399	(997,678)	8,563,447	254,410
OPERATING EXPENSES *(Note 16)*				
Business	2,634,563	3,334,566	3,977,917	118,179
General and administrative	315,404	308,073	343,290	10,199
Other	13,301	25,198	33,636	999
Total operating expenses	2,963,268	3,667,837	4,354,843	129,377
OPERATING INCOME (LOSS)	2,582,131	(4,665,515)	4,208,604	125,033
NONOPERATING INCOME AND GAINS	27,339	26,107	29,134	865
NONOPERATING EXPENSES AND LOSS	23,214	100,648	47,059	1,398
INCOME (LOSS) BEFORE INCOME TAX	2,586,256	(4,740,056)	4,190,679	124,500
INCOME TAX EXPENSE (BENEFIT) *(Notes 2 and 17)*	658,291	(1,229,249)	794,418	23,601
NET INCOME (LOSS)	$ 1,927,965	($ 3,510,807)	$ 3,396,261	$100,899

	2001		2002		2003		2003	
	PreTax	After Tax	PreTax	After Tax	PreTax	After Tax	PreTax	After Tax
	New Taiwan Dollars						U.S. Dollars (Note 2)	
EARNINGS (LOSS) PER SHARE *(Note 20)*								
Basic earnings (loss) per share	$1.44	$1.08	($2.61)	($1.93)	$2.31	$1.87	$0.07	$0.06

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2001, 2002 and 2003
(In Thousands of New Taiwan Dollars, Except Par Value)

	Capital Stock Authorized and Issued ($10 Par Value)		Capital Surplus (Notes 2 and 18)				Retained Earnings (Deficit) (Notes 2 and 18)							
	Shares (Thousands)	Amount	Paid-in capital in excess of par value	Gain on sale of properties	From treasury stock	Total	Legal reserve	Special reserve	Unappropriated earnings (deficit)	Total	Cumulative Translation Adjustments (Note 2)	Unrealized Loss on Long-term Equity Investments (Note 2)	Treasury stock (Notes 2 and 19)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2001	1,693,300	$16,933,000	$637,800	$7,641	$ —	$645,441	$2,108,687	$ 505	$1,724,141	$3,833,333	$ —	($108,619)	($283,648)	$21,019,507
Appropriation of prior year's earnings:														
Legal reserve	—	—	—	—	—	—	425,847	—	(425,847)	—	—	—	—	—
Special reserve	—	—	—	—	—	—	—	108,619	(108,619)	—	—	—	—	—
Stock dividends — 5%	83,665	836,650	—	—	—	—	—	—	(836,650)	(836,650)	—	—	—	—
Bonus to directors and supervisors	—	—	—	—	—	—	—	—	(18,592)	(18,592)	—	—	—	(18,592)
Bonus to employees — 7,069 thousand shares and $3,679 in cash	7,069	70,690	—	—	—	—	—	—	(74,369)	(74,369)	—	—	—	(3,679)
Transferred to capital stock — 2%	33,466	334,660	(334,660)	—	—	(334,660)	—	—	—	—	—	—	—	—
Reversal of special reserve	—	—	—	—	—	—	—	(505)	505	—	—	—	—	—
Net income in 2001	—	—	—	—	—	—	—	—	1,927,965	1,927,965	—	—	—	1,927,965
Reversal of unrealized loss on long-term equity investment	—	—	—	—	—	—	—	—	—	—	—	72,824	—	72,824
Treasury stock purchased — 40,000 thousand shares	—	—	—	—	—	—	—	—	—	—	—	—	(498,017)	(498,017)
Reissuance of treasury stock to employees — 30,000 thousand shares	—	—	—	—	15,452	15,452	—	—	—	—	—	—	283,648	299,100
Translation adjustments	—	—	—	—	—	—	—	—	—	—	4,404	—	—	4,404
BALANCE, DECEMBER 31, 2001	1,817,500	18,175,000	303,140	7,641	15,452	326,233	2,534,534	108,619	2,188,534	4,831,687	4,404	(35,795)	(498,017)	22,803,512
Appropriation of prior year's earnings:														
Legal reserve	—	—	—	—	—	—	578,390	—	(578,390)	—	—	—	—	—
Cash dividends — 7%	—	—	—	—	—	—	—	—	(1,272,250)	(1,272,250)	—	—	—	(1,272,250)
Bonus to directors and supervisors	—	—	—	—	—	—	—	—	(28,272)	(28,272)	—	—	—	(28,272)
Bonus to employees	—	—	—	—	—	—	—	—	(113,089)	(113,089)	—	—	—	(113,089)
Reversal of special reserve	—	—	—	—	—	—	—	(77,228)	77,228	—	—	—	—	—
Reversal of unrealized loss on long-term equity investments	—	—	—	—	—	—	—	—	—	—	—	35,795	—	35,795
Net loss in 2002	—	—	—	—	—	—	—	—	(3,510,807)	(3,510,807)	—	—	—	(3,510,807)
Translation adjustments	—	—	—	—	—	—	—	—	—	—	(1,498)	—	—	(1,498)
BALANCE, DECEMBER 31, 2002	1,817,500	18,175,000	303,140	7,641	15,452	326,233	3,112,924	31,391	(3,237,046)	(92,731)	2,906	—	(498,017)	17,913,391
Offset of deficit	—	—	(69,638)	(7,641)	(15,452)	(92,731)	(3,112,924)	(31,391)	3,237,046	92,731	—	—	—	—
Net income in 2003	—	—	—	—	—	—	—	—	3,396,261	3,396,261	—	—	—	3,396,261
Translation adjustments	—	—	—	—	—	—	—	—	—	—	(282)	—	—	(282)
BALANCE, DECEMBER 31, 2003	1,817,500	$18,175,000	$233,502	$ —	$ —	$233,502	$ —	$ —	$3,396,261	$3,396,261	$2,624	$ —	($498,017)	$21,309,370

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Changes in Stockholders' Equity
For the Year Ended December 31, 2003
(In Thousands of U.S. Dollars — Note 2)

	Capital Stock Authorized and Issued		Capital Surplus (Notes 2 and 18)				Retained Earnings (Deficit) (Notes 2 and 18)							
	Shares (Thousands)	Amount	Paid-in capital in excess of par value	Gain on sale of properties	From treasury stock	Total	Legal reserve	Special reserve	Unappropriated earnings (deficit)	Total	Cumulative Translation Adjustments (Note 2)	Unrealized Loss on Long-term Equity Investments (Note 2)	Treasury Stock (Notes 2 and 19)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2003	1,817,500	$539,958	$9,006	$227	$459	$9,692	$92,481	$933	($ 96,169)	($ 2,755)	$86	$—	($14,795)	$532,186
Offset of deficit	—	—	(2,069)	(227)	(459)	(2,755)	(92,481)	(933)	96,169	2,755	—	—	—	—
Net income in 2003	—	—	—	—	—	—	—	—	100,899	100,899	—	—	—	100,899
Translation adjustments	—	—	—	—	—	—	—	—	—	—	(8)	—	—	(8)
BALANCE, DECEMBER 31, 2003	1,817,500	$539,958	$6,937	$ —	$ —	$6,937	$ —	$ —	$100,899	$100,899	$78	$—	($14,795)	$633,077

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Cash Flows
For the Years Ended December 31, 2001, 2002 and 2003
(In Thousands of Dollars)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	$1,927,965	($3,510,807)	$3,396,261	$100,899
Reversal of allowance for losses of securities purchased	(289,568)	(36,049)	(85,919)	(2,553)
Provisions	2,092,606	9,414,020	845,567	25,121
Recovery of written-off credit	40,897	157,903	1,822,389	54,141
Depreciation and amortization	271,287	298,618	354,646	10,536
Equity in net income of investees, net of cash dividends received	(176,916)	(54,711)	8,532	253
Amortization of premium on long-term bond investments	—	—	36,061	1,071
Loss on long-term equity investment reclassified as securities purchased	20,381	—	—	—
Loss on sale of long-term equity investments	8,825	—	—	—
Loss on sale of property and foreclosed collaterals	16,259	4,649	18,651	554
Loss on market value decline of foreclosed collaterals	—	75,500	—	—
Deferred income tax	18,258	(1,337,795)	901,435	26,781
Others	—	—	18,304	544
Net changes in operating assets and liabilities:				
Securities purchased for trading purposes	(10,739,000)	5,178,047	8,793,327	261,240
Receivables	(3,397,459)	(6,380,215)	(8,054,486)	(239,289)
Prepaid expenses	(17,070)	12,388	(3,005)	(89)
Payables	(1,199,724)	(879,813)	242,698	7,210
Advances	(3,848)	5,359	140,796	4,183
Net cash (used in) provided by operating activities	(11,427,107)	2,947,094	8,435,257	250,602
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in securities purchased for investing purposes	(2,277,794)	(7,276,022)	(6,083,992)	(180,748)
Decrease (increase) in due from banks	(6,711,917)	5,157,885	1,101,037	32,711
Decrease (increase) in due from the Central Bank of China	1,116,082	(4,048,604)	(1,443,463)	(42,883)
Proceeds from sale of:				
Long-term investments	21,259	—	—	—
Properties	3,072	443	989	29
Foreclosed collaterals	195,124	363,194	258,406	7,677
Acquisition of:				
Long-term investments	(317,325)	—	(5,810,794)	(172,632)
Properties	(546,101)	(522,367)	(4,707,069)	(139,842)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Cash Flows — Continued
For the Years Ended December 31, 2001, 2002 and 2003
(In Thousands of Dollars)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
Increase in:				
Loans, bills and discounts	($9,499,575)	($ 608,851)	($29,932,004)	($889,246)
Other assets	(51,533)	(3,399)	(106,120)	(3,153)
Net cash used in investing activities	(18,068,708)	(6,937,721)	(46,723,010)	(1,388,087)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in due to banks	1,961,169	7,085,156	8,043,819	238,973
Increase in deposits and remittances	21,695,107	710,439	21,276,871	632,111
Proceeds from issuance of bonds	5,000,000	5,000,000	5,000,000	148,544
Payment of bonus to directors, supervisors and employees	(22,271)	(141,361)	—	—
Increase (decrease) in other liabilities	179,968	(179,524)	229,734	6,825
Acquisition of treasury stock	(498,017)	—	—	—
Proceeds from reissuance of treasury stock to employees	299,100	—	—	—
Cash dividends paid	—	(1,272,250)	—	—
Net cash provided by financing activities	28,615,056	11,202,460	34,550,424	1,026,453
EFFECTS OF EXCHANGE RATE CHANGES	12,390	(1,050)	(2,482)	(74)
NET INCREASE (DECREASE) IN CASH	(868,369)	7,210,783	(3,739,811)	(111,106)
CASH, BEGINNING OF YEAR	8,540,851	7,672,482	14,883,265	442,165
CASH, END OF YEAR	$7,672,482	$14,883,265	$11,143,454	$331,059
SUPPLEMENTARY INFORMATION				
Interest paid	$9,276,003	$ 6,425,365	$ 3,989,874	$118,535
Income tax paid	$ 399,867	$ 286,190	$ 146,336	$ 4,347

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

(With Deloitte & Touche auditors' report dated January 28, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Notes to Financial Statements
For the Years Ended December 31, 2001, 2002 and 2003
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. Organization and Operations

E.Sun Commercial Bank, Ltd. (the "Bank") engages in commercial and savings banking permitted under the Banking Law and relevant regulations of the Republic of China (the "ROC").

As of December 31, 2003, the Bank had a business department, international banking department, trust department, an offshore banking unit (OBU), 2 overseas branches (Los Angeles and Hong Kong) and 51 domestic branches.

The operations of the Bank's Trust Department consist of planning, managing and operating a trust business. These operations are regulated under the Banking Law and Trust Law of the ROC.

On December 10, 2001, the Bank's stockholders approved the establishment of E.Sun Financial Holding Company, Ltd. (ESFHC) to hold the shares of the Bank, E.Sun Bills Finance Corporation and E.Sun Securities Corp. The holding company structure was achieved through a share swap: 1.0 share of ESFHC for 1.0 share of the Bank, 1.10 shares of E.Sun Bills Finance Corp, and 1.25 shares of E.Sun Securities Corp. The board of directors designated January 28, 2002 as the effective date of the share swap. After the shares transfer, the Bank became a 100% subsidiary of ESFHC. Also on January 28, 2002, the trading of the Bank's stock on the Taiwan Stock Exchange (TSE) was stopped, and ESFHC's stock began to be traded on the TSE.

As of December 31, 2002 and 2003, the Bank had 1,631 and 1,816 employees, respectively.

2. Summary of Significant Accounting Policies

The Bank's financial statements were prepared in conformity with Criteria Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

The estimates of significant accounts — allowances for possible losses, reserve for losses on guarantees, depreciation, pension, on a suspended lawsuit, etc. — do not include any adjustments that might be required if related contingent liabilities arise.

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the Bank's financial statements were not classified as current or noncurrent. Nevertheless, these accounts were properly categorized according to the nature of each account and sequenced by liquidity. Please refer to Note 27 for the maturity analysis of assets and liabilities.

The Bank's significant accounting policies are summarized below.

Basis of Financial Statement Preparation

The accompanying financial statements include the accounts of the Head Office, OBU, and all branches. All interoffice transactions and balances have been eliminated.

Securities Purchased

Securities purchased are carried at aggregate cost less allowance for decline in value. Costs of securities sold are determined by the following methods: Stock, mutual funds and government bonds — moving average; and others — specific identification.

Under a directive of the Ministry of Finance, sales of bonds and other short-term securities under agreements to repurchase are treated as outright sales while purchases of bonds and other short-term securities under agreements to resell are recorded as assets. But from 2004, the Bank will treat these transactions as financing, according to the Criteria Governing the Preparation of Financial Reports by Public Banks.

Overdue Loans

Under a Ministry of Finance guideline, loans and other credits (including accrued interest) outstanding for at least six months are classified as overdue loans.

Allowances for Possible Losses and Reserve for Losses on Guarantees

The Bank makes provisions for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for their specific or general risks.

Debts and guarantees with specific risks are evaluated internally for their collaterals, collectibility and customers' overall credit. Under a Ministry of Finance (MOF) guideline, the Bank makes full provisions for credits deemed uncollectible and makes provisions of at least 50% for credits with high uncollectibility.

Under MOF guidelines, credits deemed uncollectible may be written off if the write-off is approved under a resolution issued by the Board of Directors.

Long-term Investments

Investments in shares of stock of companies on which the Bank exercises significant influence on their operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investments are carried at cost on the acquisition date and subsequently adjusted for the Bank's proportionate share in the investee's net income or loss. The proportionate share in the net income or loss is recognized as current income or loss, and any cash dividends received are reflected as a reduction of the carrying values of the investments. The difference, on the acquisition date, between the acquisition cost and the Bank's proportionate equity in the net asset of the investee companies is amortized over five years. Capital increase of investees that results in the increase in the Bank's equity in the investees' net assets is credited to capital surplus, and any decrease is charged to capital surplus to the extent of the available balance, with any difference charged to unappropriated earnings.

Other long-term stock investments are accounted for by cost method. Investments in stocks with no quoted market prices are accounted for at cost. The carrying amount of the investment is reduced to reflect an other than temporary decline in the value of the investments, with the related loss charged to current income. Investment in stock with quoted market price is stated at the lower of aggregate cost or market. The reduction of an investment to reflect a lower market value and its write-up due to the subsequent recovery in market value are charged or credited to stockholders' equity, respectively. Cash dividends received from a year after the acquisition date are recorded as investment income. Foreign-currency investments are recorded in New Taiwan dollars at the rate of exchange in effect when the transactions occur. At year-end, the balances of these investments are restated at the year-end exchange rates. If the restated amounts are lower than cost, the differences are recognized as translation adjustment under stockholders' equity; otherwise, no adjustment is made.

For both equity-method and cost-method investments, stock dividends received are recognized only as increases in the number of shares held, and not as income. Cost of long-term equity investments sold is determined by the weighted-average method.

Long-term bond investments are stated at cost. Premium or discount is amortized (as a charge or credit to interest income) over the remaining term of each bond. Costs of bonds sold are determined by the specific identification method.

Properties

Properties are carried at cost less accumulated depreciation. The cost of betterments and major renewals that extend the useful life of an item of property and equipment is also capitalized. The cost of repairs and maintenance is charged to expense as incurred.

Depreciation is calculated by the straight-line method over service lives estimated as follows: buildings, 5 to 50 years; computers, 3 to 5 years; transportation equipment, 5 to 8 years; and miscellaneous equipment, 3 to 10 years. If an asset reaches its residual value but is still in use, it is further depreciated over its newly estimated service life.

The cost and accumulated depreciation are removed from the accounts when an item of property is disposed of or retired, and any gain or loss is credited or charged to nonoperating income or expenses.

Foreclosed Collaterals

Foreclosed collaterals (part of other assets) are recorded at the lower of cost or net realizable value on balance sheet dates.

Treasury Stock

The reacquisition of issued capital stock is carried at cost and presented as a deduction to arrive at stockholders' equity.

The reissuance of the treasury stocks is accounted for as follows: (a) reissue price higher than the acquisition cost — the excess is credited to paid-in capital on treasury stock; and (b) reissue price less than the acquisition cost — initially charged to paid-in capital on treasury stock, with any remaining deficiency charged to unappropriated earnings.

Under a directive issued by the Securities and Futures Commission, if a financial institution (FI) repurchases its own capital stock pursuant to the Securities and Exchange Law and becomes a wholly owned subsidiary of a financial holding company (FHC), resulting in the conversion of the FI's treasury stocks to the FHC's stocks, the FHC's shares held by the FI should be treated as treasury stock. The FHC should also present the shares it issued in exchange for FI's capital stock as treasury stock. If shares of FIs under the same FHC were held among each other before the share swap, these shares will be stated as equity investments after the share swap.

Pension Costs

The Bank recognizes pension costs on the basis of actuarial calculations. Unrecognized net transition asset is amortized over 29 years.

Recognition of Interest Revenue and Service Fees

Interest revenue on loans is recorded on the accrual basis. Under the regulations of the Ministry of Finance, no interest revenue is recognized on loans and other credits extended by the Bank that are classified as overdue loans. The interest revenue on those loans is recognized upon collection on these loans and credits. The unpaid interest on rescheduled loans should be recorded as deferred revenue, and the paid interest is recognized as interest revenue.

Service fee is recorded when a major part of the earnings process is completed and revenue is realized.

Income Tax

Provision for income tax is based on inter-period tax allocation. The tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred tax liabilities. Valuation allowance is provided for deferred tax assets that are not probable to be realized.

Tax credits for certain technology or equipment purchases, expenditures for research and development, employee training and stock investments are recognized in the current period.

Income tax on interest on short-term negotiable instruments, which is levied separately, and any adjustment of income taxes of prior years are added to or deducted from the current year's tax expense.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders resolve to retain the earnings.

Contingencies

A loss is recognized if it is probable that an asset is impaired or a liability has been incurred and the amount of loss can be reasonably estimated. A footnote disclosure is made of the situation that might result in a loss if loss is possible but the amount of loss cannot be reasonably estimated.

Foreign-Currency Transactions

Foreign-currency transactions (except forward transactions) are included in the financial statements at their equivalent amounts in New Taiwan dollars based on the following rates: Assets and liabilities — current exchange rates; and income and expenses — rates prevailing on the date of each transaction. Exchange gains or loss are credited or charged to income.

Forward Contracts

For forward contracts, which are used for trading purposes, assets and liabilities are recorded at the contracted forward rate. Gains or losses resulting from the difference between the spot rate and the contracted forward rate on the settlement date are credited or charged to income.

For contracts outstanding as of the balance sheet date, the gains or losses resulting from the difference between the contracted forward rates and the forward rates available for the remaining periods of the contracts are credited or charged to income. In addition, the receivables and payables on the forward contracts are netted out, and the resulting amount is presented as an asset or liability.

Foreign-Currency Swap Contracts

Foreign-currency spot-position assets or liabilities arising from foreign currency swap contracts, which are entered into for trading purposes, are recorded at spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates.

The related differences between spot rates and contracted forward rates are amortized and recorded as interest revenue or interest expense over the contract period on the straight-line basis. The receivables and payables related to the foreign currency swap contracts are netted out, and the resulting amount is presented as an asset or liability as of the balance sheet date.

Asset Swaps

The Bank agrees to swap the fixed interest and redemption premium or conversion right on its investment in bonds for the floating interest on these bonds. There is no exchange of contract (notional) principals (equal to the aggregate face values of the bonds). For swaps entered into for nontrading purposes, the net interest upon each settlement is recorded as an adjustment to interest revenue or expense associated with the items being hedged.

Cross-currency Swap

Cross-currency swap contracts, which are intended for nontrading purposes, are recorded at their forward rates on the contract dates. The interest received or paid under the contract is recorded as an adjustment to the revenue or expense of the items being hedged.

Interest Rate Swaps

Interest rate swap (IRS) contracts are recorded through memorandum entries on the contract dates since there is no exchange of notional principals. For IRS contracts used for nontrading purposes, interest received or paid upon each settlement is recorded as adjustment to interest income or expense of the hedged item.

For IRS contracts used for trading purposes, net interest received or paid upon each settlement date is recorded as revenue or expense. Loss from the valuation of contracts on the balance sheet date are recorded as expense.

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Foreign-currency Options

The Bank enters into foreign-currency option contracts for trading purposes. Premiums received or paid are recorded as liability or assets and amortized on the straight-line method over the contract period. Gains or losses from the exercise of options are credited or charged to current income.

Currency Translation

The Bank maintains its accounts and expresses its financial statements in New Taiwan (NT) dollars. The NT dollar amounts in the financial statements as of and for the year ended December 31, 2003 were translated into U.S. dollars is solely for the readers' convenience. The translation was made at NT$33.66=US$1.00, the noon buying rate of the U.S. Federal Reserve Bank of New York as of June 30, 2004. This convenience translation should not be construed as a representation that the NT 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.

Reclassifications

Certain accounts for 2001 and 2002 had been reclassified to conform the 2003 financial statement presentation.

3. Cash

	December 31		
	2001	2002	2003
Cash on hand	$1,963,659	$ 2,113,599	$ 2,049,766
Negotiable certificates of deposit	3,349,047	10,369,560	6,607,996
Checks for clearing	2,359,776	2,400,106	2,485,692
	$7,672,482	$14,883,265	$11,143,454

4. Due from Banks

	December 31		
	2001	2002	2003
Due from banks	$ 834,155	$ 693,476	$2,351,376
Call loans to banks	10,083,676	5,066,470	2,307,533
	$10,917,831	$5,759,946	$4,658,909

E.SUN COMMERCIAL BANK, LTD.
Notes to Financial Statements — Continued
For the Years Ended December 31, 2001, 2002 and 2003
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

5. Due from the Central Bank of China

	December 31		
	2001	2002	2003
Reserves for deposits	$5,458,166	$ 9,742,971	$11,171,225
Deposit	2,610,604	2,374,403	2,389,612
	$8,068,770	$12,117,374	$13,560,837

As required by law, the reserves for deposits are calculated by applying the prescribed rates to the average monthly balances of various types of deposit accounts. As of December 31, 2001, 2002 and 2003, deposit reserve portions of $5,147,918, $5,268,678 and $5,873,524, respectively, were restricted from bank use, as required by certain regulations.

6. Securities Purchased

	December 31		
	2001	2002	2003
Overseas securities	$ 9,300,084	$11,999,757	$20,953,245
Government bonds	12,894,083	6,525,929	5,877,087
Certificates of deposit	—	6,950,000	5,000,000
Stocks and mutual funds	3,460,493	3,715,258	3,007,121
Commercial paper	7,419,702	8,355,044	918,696
Corporate bonds and bank debentures	3,799,453	1,425,802	506,306
	36,873,815	38,971,790	36,262,455
Less — allowance for decline in value	121,968	85,919	—
	$36,751,847	$38,885,871	$36,262,455

7. Receivables — Net

	December 31		
	2001	2002	2003
Credit cards	$ 9,116,704	$16,171,931	$22,215,161
Acceptances	509,164	340,429	942,906
Accrued interest	1,413,106	782,373	822,070
Accrued income	582,421	266,736	307,337
Other	924,424	885,104	1,012,701
	12,545,819	18,446,573	25,300,175
Less — allowance for possible losses	214,382	349,599	384,721
	$12,331,437	$18,096,974	$24,915,454

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8. Loans, Bills and Discounts — Net

	December 31		
	2001	2002	2003
Loans:			
Long-term	$ 58,953,842	$ 60,830,353	$ 92,234,971
Medium-term	60,049,629	59,607,025	60,402,800
Short-term	56,199,224	48,612,524	44,916,198
Bills and discounts	598,857	1,128,439	2,008,897
Overdue loans	5,057,616	2,137,685	1,677,190
	180,859,168	172,316,026	201,240,056
Less — allowance for possible losses	1,513,998	1,540,755	2,169,760
	$179,345,170	$170,775,271	$199,070,296

As of December 31, 2001, 2002 and 2003, the loan and credit balances for which accrual of interest revenues was discontinued, amounted to $5,057,616, $2,137,685 and $1,677,190, respectively. The unrecognized interest revenues on these loans and credits amounted to $350,663 in 2001; $315,806 in 2002; and $60,994 in 2003.

In 2001, 2002 and 2003, the Bank carried out legal procedures required before it wrote off certain credits.

The details of and changes in the allowance for credit losses on loans, bills and discounts are summarized below:

	2001			2002			2003		
	Specific Risk	General Risk	Total	Specific Risk	General Risk	Total	Specific Risk	General Risk	Total
Balance, beginning of year	$ 714,245	$895,770	$1,610,015	$1,075,932	$ 438,066	$1,513,998	$ 104,593	$1,436,162	$1,540,755
Provisions (reversal)	2,402,390	(457,704)	1,944,686	7,820,012	998,096	8,818,108	(900,880)	508,721	(392,159)
Write-offs	(2,081,600)	—	(2,081,600)	(8,949,253)	—	(8,949,253)	(784,233)	—	(784,233)
Recovery of written-off credits	40,897	—	40,897	157,902	—	157,902	1,808,204	—	1,808,204
Effects of exchange rate changes	—	—	—	—	—	—	—	(2,807)	(2,807)
Balance, end of year	$1,075,932	$438,066	$1,513,998	$ 104,593	$1,436,162	$1,540,755	$ 227,684	$1,942,076	$2,169,760

9. Long-term Investments

	December 31		
	2001	2002	2003
Long-term equity investments	$4,664,698	$4,755,205	$ 4,738,073
Long-term bond investments — government bonds	—	—	5,774,733
	$4,664,698	$4,755,205	$10,512,806

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Long-term equity investments are summarized as follows:

	December 31					
	2001		2002		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity method:						
With no quoted market prices						
E.Sun Finance & Leasing Co., Ltd.	$ 154,553	99.0	$ 151,769	99.0	$ 131,993	99.0
E.Sun Securities Investment Trust Corp.	133,045	45.0	154,570	45.0	—	—
E.Sun Insurance Agent Co., Ltd.	15,090	79.0	32,744	79.0	33,769	79.0
E.Sun Bills Finance Corp.	3,222,992	64.2	—	—	—	—
E.Sun Securities Corp.	508,277	45.0	—	—	—	—
	4,033,957		339,083		165,762	
Cost method:						
With quoted market prices						
E.Sun Financial Holding Co., Ltd.	—	—	3,749,586	12.5	3,914,375	13.0
United Micro Electronics	200,451	—	200,451	—	200,451	—
With no quoted market prices						
Fu Bon Securities Finance Co.	155,857	2.6	155,857	2.6	155,857	2.6
Taiwan Asset Management Corporation	100,000	0.6	100,000	0.6	100,000	0.6
Other	210,228	—	210,228	—	201,628	—
	666,536		4,416,122		4,572,311	
Less — allowance for possible losses	35,795		—		—	
	630,741		4,416,122		4,572,311	
	$4,664,698		$4,755,205		$4,738,073	
Market values of stock with quoted market prices	$ 164,656		$4,144,174		$6,786,103	

On December 1, 2003, the Bank's Board of Directors resolved to issue bonds for exchange with the underlying shares of E.Sun Financial Holding Company, Ltd. (ESFHC) within the limit of 150,000 thousand shares, based on Article 31 of the Financial Holding Company Law. On January 23, 2004, the Bank issued three-year debenture exchangeable bonds amounting to $2,696,100 at 0% interest.

The equity-method investees' financial statements on which the calculation of investment carrying value and the related income was based, had all been audited, except those of E.Sun Insurance Agent Co., Ltd. The Bank's management believes that, had this investee's accounts been audited, the effect of any adjustments on the Bank's financial statements would not have been significant.

Neither the total assets nor total operating income of the subsidiaries individually reached 10% or collectively reached 30% of those of the Bank. Thus, there was no need for the Bank to prepare consolidated financial statements.

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10. Accumulated Depreciation

	December 31		
	2001	2002	2003
Buildings	$ 256,001	$ 299,590	$ 340,533
Computers	665,754	733,847	734,047
Transportation equipment	87,115	100,850	113,116
Miscellaneous equipment	312,446	346,274	418,065
	$1,321,316	$1,480,561	$1,605,761

11. Other Assets — Net

	December 31		
	2001	2002	2003
Refundable deposits	$ 835,412	$ 793,511	$ 851,341
Deferred income tax assets — net	—	1,269,546	368,111
Foreclosed collaterals	414,683	181,364	130,418
Deferred charges — net of amortization	28,997	64,665	83,266
	$1,279,092	$2,309,086	$1,433,136

12. Due to Banks

	December 31		
	2001	2002	2003
Call loans from banks	$4,725,945	$12,440,831	$20,270,309
Bank overdraft	134,397	94,571	736,281
Due to banks	1,674,882	1,084,978	657,609
	$6,535,224	$13,620,380	$21,664,199

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13. Payables

	December 31		
	2001	2002	2003
Checks for clearing	$2,359,776	$2,400,106	$2,485,407
Accrued interest	1,997,100	1,153,709	1,013,766
Acceptances	516,009	350,661	963,726
Accrued expenses	209,389	271,816	217,728
Tax	372,584	254,228	88,112
Other	470,516	615,041	518,372
	$5,925,374	$5,045,561	$5,287,111

14. Deposits and Remittances

	December 31		
	2001	2002	2003
Deposits:			
Savings — time	$ 78,463,633	$ 76,890,277	$ 76,988,620
Time	82,239,741	73,609,037	67,797,115
Savings — demand	39,256,283	47,282,144	59,528,129
Demand	18,188,448	24,044,297	30,472,991
Negotiable certificates of deposit	4,529,650	1,254,600	9,145,000
Checking	2,308,028	2,608,613	3,050,276
Remittances	43,378	50,632	34,340
	$225,029,161	$225,739,600	$247,016,471

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15. Bonds

	December 31		
	2001	2002	2003
Bonds issued on August 6, 2001; 3.76% interest, payable annually; principal due on maturity date (5 years after the issue date)..	$3,000,000	$3,000,000	$3,000,000
Subordinated bonds issued on August 6, 2001; 4.2% interest, payable annually; principal repayable in five installments from the third year from the issue date and final installment due at the end of the seventh year.	2,000,000	2,000,000	2,000,000
Four types of subordinated bonds issued on June 13, 2002; 5%–8.6% interest rate minus the 90 days' interest rate of commercial paper (stated below), payable quarterly; principal due on the maturity date (5 years after the issue date).	—	1,700,000	1,700,000
Four types of subordinated bonds issued on August 16, 2002; 5.94% interest rate minus a floating interest rate (stated below), payable semiannually; principal due on the maturity date (5 years after the issue date).	—	1,300,000	1,300,000
Five types of bonds issued on August 23, 2002; 6% interest rate minus a floating interest rate (stated below), payable semiannually; principal due on the maturity date (5.5 years after the issue date).	—	2,000,000	2,000,000
Eight types of bonds issued on October 9, 2003; interest rate at (a) 3.8% for the first year and 5.0% minus 6M LIBOR for the second to fifth year for types A and B bonds; (b) 5.15% minus 6M LIBOR for types C to E bonds; and (c) 4.22% minus 90 days' interest rate of commercial paper for types F to H bonds, with all interest rates not to fall below 0% and payable semiannually; principal due on the maturity date (5 years after the issue date).	—	—	2,000,000

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	December 31		
	2001	2002	2003
Seven types of bonds issued on October 16, 2003; interest rate at (a) twice the five years' NT$ interest rate swap (IRS) minus the two years' NT$ IRS for types A to D bonds; (b) twice the five years' NT$ IRS minus the two years' NT$ IRS plus 0.75% for types E and F bonds; and (c) 3% for the first year and twice the five years' NT$ IRS minus the two years' NT$ IRS plus 0.4% for the second to the fifth year for the type G bond, with all interest rates not to fall below 0% and payable semiannually; principal due on the maturity date (5 years after the issue date).	—	—	1,800,000
Five types of bonds issued on October 29, 2003; interest rates at (a) 3M LIBOR plus 1.2% if 3M LIBOR is less than 1% or 4.7% minus 3M LIBOR if 3M LIBOR is more than or equal to 1% for type A bonds; (b) 2.5 times of the five years' NT$ IRS minus the two years' NT$ IRS plus 0.45%, with limit of 3.75%, for types B and C bonds; and (c) 2.5 times of the five years' NT$ IRS minus the two years' NT$ IRS plus 0.4%, with limit of 3.7%, for types D and E bonds, with all interests rates not to fall below 0% and payable semiannually for type A bond and quarterly for other bond types; principal due on the maturity date (5 years after the issue date).	—	—	1,200,000
	$5,000,000	$10,000,000	$15,000,000

The above 90 days' interest rate for commercial paper and floating interest rate were based on the average interest rate quoted by Hong Kong's Moneyline Telerate.

16. Personnel, Depreciation and Amortization Expenses

	2002			2003		
	Business Expense	Administrative Expense	Total	Business Expense	Administrative Expense	Total
Personnel expenses						
Salaries	$1,146,157	$137,127	$1,283,284	$1,320,917	$133,634	$1,454,551
Insurance	74,893	6,334	81,227	90,076	9,647	99,723
Pension	55,668	5,124	60,792	59,790	6,632	66,422
Other.	82,456	6,739	89,195	96,482	7,360	103,842
Depreciation expenses . .	191,918	86,023	277,941	220,515	102,401	322,916
Amortization expenses . .	11,595	9,082	20,677	13,197	18,533	31,730

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17. Income Tax

a. Information on income tax expense (benefit) is as follows:

	2001	2002	2003
Income tax expense — current before tax credits	$347,875	$ 85,735	$ 92,944
Net change in deferred income tax:			
Tax credits	—	(10,139)	(540)
Loss carryforwards	—	(1,290,305)	983,404
Allowance for possible losses on loans, receivables	—	(35,365)	(74,587)
Unrealized foreign exchange gain	18,258	(1,986)	(6,842)
Adjustment of prior year's tax	292,158	8,759	(199,961)
Tax on unappropriated earnings (10%)	—	14,052	—
	$658,291	($1,229,249)	$794,418

b. A reconciliation of income tax expense — current before tax credits and income tax expense on income before income tax is shown below:

	2001	2002	2003
Income tax expense (benefit) on income (loss) before income tax at statutory rate (25%)	$ 646,554	($1,185,014)	$1,047,660
Permanent differences:			
Tax-exempt income	(268,780)	(126,152)	(82,123)
Others	(12,268)	59,106	28,842
Temporary differences	(17,631)	1,337,795	(901,435)
Income tax expense — current before tax credits	$ 347,875	$ 85,735	$ 92,944

c. The components of net deferred income tax assets (liabilities) were as follows:

	December 31		
	2001	2002	2003
Deferred income tax assets (liabilities)			
Tax credits	$ —	$ 10,139	$ 10,679
Loss carryforwards	—	1,290,305	306,901
Allowance for possible losses on loans, receivables	—	35,365	109,952
Unrealized foreign exchange gain	(68,249)	(66,263)	(59,421)
Net deferred income taxes assets (liabilities)	($68,249)	$1,269,546	$368,111

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Tax credits as of December 31, 2003 are summarized below:

Regulation	Item	Tax Credits	Expiration
Statute for Upgrading Industries	Employee training expenditures	$10,679	2007

Loss carryforwards as of December 31, 2003 are summarized below:

Expiration	Amounts
2007	$1,227,603

d. Imputed tax credit

	December 31		
	2001	2002	2003
Balance of stockholder's imputed tax credit	$160,128	$43,303	$141,565

The actual creditable tax ratio is 16.10% for the distribution of the 2001 earnings. There was a deficit in 2002; thus, no earnings were distributable. For the distribution of the 2003 earnings, the Bank estimated the creditable tax ratio at 4.89%. The actual creditable tax ratio may differ from the estimated creditable tax ratio since this ratio is computed on the date the dividend is actually paid or distributed.

e. The unappropriated earnings as of December 31, 2003 and 2002 had no earnings generated before January 1, 1998, but the unappropriated earnings as of December 31, 2001 included pre-1998 earnings of $260,568.

f. The effective tax rate for 2001, 2002 and 2003 was about 25%.

g. Income tax returns through 2001 had been examined by the tax authorities. In their assessment of the 1994, 1995, 1997, 1998, 2000 and 2001 tax returns, the tax authorities denied the creditability of 10% withholding tax on interest income on bonds pertaining to periods in which those bonds, totaling $290,044, were held by other investors. In addition, the 1996 and 1999 income tax returns included a reduction of $30,431 in income tax obligations, which the tax authorities had already examined but could still deny. The Bank had accrued liabilities and written off assets that were related to the foregoing withholding taxes as part of income tax expense in 2001. In August 2002, the Supreme Administrative Court decided that the Taipei National Tax Administration should find another disciplinary action to deal with the withholding tax issue.

   In 2003, the Taipei National Tax Administration decided to rebate 65% of the foregoing withholding taxes. The Bank accepted this decision and thus recognized a tax refund receivable of $218,988 for 1994 to 2001 and wrote off the withholding taxes of $10,711 from its 2002 accounts.

18. Stockholders' Equity

The Bank's Articles of Incorporation provide that the following should be appropriated from the annual net income less any accumulated deficit:

a. 30% as legal reserve;

b. Special reserve, if needed; and

c. From any remainder

(1) The appropriations based on the amendment of the Articles of Incorporation on June 20, 2002 are as follows:

(a) 94% as dividends

(b) 1% as bonus to directors and supervisors

(c) 5% as bonus to employees

Under the Bank's policy, cash dividends are the major portion of the declared dividends. However, cash dividends should not be more than 15% of paid-in capital if legal reserve is less than the paid-in capital.

(2) Before the amendment of the articles of Incorporation on June 20, 2002, some of the appropriations were as follows:

(a) 90% as dividends

(b) 2% as bonus to directors and supervisors

(c) 8% as bonus to employees

The dividend policy of the Bank is that the issuance of stock dividends should have priority over the payment of cash dividends in order to strengthen its financial structure. This policy is also intended to improve the capital adequacy ratio of the Bank and keep this ratio higher than the ratio set under government regulations. However, when dividends are declared, cash dividends must be at least 10% of total dividends declared, except when the resulting cash dividend per share falls below NT$0.10.

The stockholders may decide not to declare any dividends or decide to distribute only a portion of the distributable earnings. The appropriation of earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

On May 15, 2003, the stockholders resolved to offset deficits of $3,112,924 against legal reserve; $31,391 against special reserve; and $92,731 against capital surplus.

On June 20, 2002, the stockholders resolved the following appropriation of the 2001 earnings:

a.	Legal reserve	$ 578,390
b.	Cash dividend	1,272,250
c.	Bonus to directors and supervisors	28,272
d.	Bonus to employees	113,089

The above appropriation was the same as that resolved in the Board of Directors' meeting on February 27, 2002.

As of January 28, 2004, the date of the accompanying auditors' report, the Board of Directors had not resolved the appropriation of the 2003 earnings.

Information on the appropriation of earnings or deficit offsetting can be accessed through the Web site of the Taiwan Stock Exchange (http://mops.tse.com.tw).

Under the Company Law, legal reserve should be appropriated until the reserve equals the Bank's paid-in capital. This reserve should only be used to reduce or offset a deficit. When the reserve reaches 50% of the Bank's paid-in capital, up to 50% thereof may be declared as stock dividend. In addition, the Banking Law limits the appropriation of cash dividends and any bonuses to stockholders to 15% of the Bank's paid-in capital. But when the legal reserve equals the Bank's paid-in capital, this 15% limit may be exceeded.

Under a directive of the Securities and Futures Commission, the Bank has to appropriate from the current year's earnings and the unappropriated earnings generated in prior years a special reserve that is equal to the total debit balance of any stockholders' equity account such as the "unrealized loss on investments in shares of stock" and "cumulative translation adjustment" accounts, but excluding deficit. The special reserve should be adjusted on the basis of the debit balance of the foregoing stockholders' equity account as of year-end.

Under the Integrated Income Tax System, which took effect on January 1, 1998, ROC resident stockholders are allowed a tax credit for the income tax paid by the Bank on earnings generated since 1998.

19. Treasury Stock

Reason for Redemption	Beginning of the Year	Increase	Decrease	End of the Year
Year 2001				
Reissuance to employees *(Note)*	30,000	40,000	30,000	40,000
Year 2002				
Reissuance to employees *(Note)*	40,000	—	—	40,000
Year 2003				
Reissuance to employees *(Note)*	40,000	—	—	40,000

Note: Shares in thousands.

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The Securities and Exchange Law provides for the following:

a. The total number of shares that can be held in treasury is limited to 10% of the number of total outstanding shares.

b. The maximum cost of reacquiring treasury shares is limited to the sum of the balances of the retained earnings and all realized capital surplus.

c. Using treasury shares to secure any obligations or commitment of the Bank is prohibited; and

d. The Bank is prohibited from exercising the stockholder's rights on the treasury shares.

Under a directive issued by the Securities and Futures Commission, the Bank repurchased its issued stock pursuant to the Securities and Exchange Law of the ROC. The Bank also became a wholly owned subsidiary of E.Sun Financial Holding Company Ltd. (ESFHC) through a share swap (Note 1). Thus, the Bank's treasury stocks were converted into ESFHC's stocks. The stocks acquired by the Bank were also treated as treasury stock. The Bank should reissue the treasury stock by December 2004.

20. Earnings (Loss) Per Share

The numerators and denominators used in earnings (loss) per share calculation were as follows:

	Amount (Numerator)		Shares (Denominator)	Earnings (Loss) Per Share (Dollars)	
	PreTax	After Tax	(Thousands)	PreTax	After Tax
Basic earnings (loss) per share					
2001	$2,586,256	$1,927,965	1,793,179	$1.44	$1.08
2002	($4,740,056)	($3,510,807)	1,814,541	($2.61)	($1.93)
2003	$4,190,679	$3,396,261	1,817,500	$2.31	$1.87

The number of shares outstanding should be retroactively adjusted to reflect the effects of the stock dividends distributed subsequently. But since no stock dividends were distributed for the latest three years, the earnings (loss) per share in 2001, 2002 and 2003 need not be retroactively adjusted.

21. Pension Plan

The Bank has a pension plan for all regular employees. Upon retirement, an employee will receive (a) the Bank's contributions before May 1, 1997, which were credited to his/her account, plus earnings thereof, and (b) an amount calculated on the basis of the length of service after May 1, 1997 and monthly average basic pay of the six months before retirement.

The Bank makes monthly contributions, equal to 5.54% of salaries, to a pension fund. The fund is deposited the Central Trust of China in the name of the workers' fund administrative committee, which manages the fund. The difference between the Bank's contributions and the pension costs based on actuarial calculations is deposited in the Bank in the name of the employees' pension fund administrative committee.

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Pension information for 2001, 2002 and 2003 is as follows:

a. Net pension cost

	2001	2002	2003
Service cost	$52,142	$64,783	$ 69,429
Interest cost	13,196	12,243	12,642
Actual return on plan assets	(73,043)	(7,166)	(199,363)
Amortization	55,959	(9,068)	183,714
Net pension cost	$48,254	$60,792	$ 66,422

b. Reconciliation of the plan funded status to balance sheet amounts:

	December 31		
	2001	2002	2003
Benefit obligation:			
Vested benefit obligation	($ 16,381)	($ 16,646)	($ 13,983)
Non-vested benefit obligation	(178,792)	(210,087)	(278,234)
Accumulated benefit obligation	(195,173)	(226,733)	(292,217)
Additional benefits based on future salaries	(110,912)	(134,471)	(196,354)
Projected benefit obligation	(306,085)	(361,204)	(488,571)
Fair value of plan assets	348,357	382,179	627,216
Funded status	42,272	20,975	138,645
Unrecognized net transitional asset	(26,604)	(25,504)	(24,404)
Unrecognized net gains or loss	(16,101)	3,792	(115,941)
Accrued pension cost (included in payables)	($ 433)	($ 737)	($ 1,700)

c. Vested benefits

	2001	2002	2003
Vested benefits	($ 16,381)	($ 16,646)	($ 13,989)

d. Actuarial assumptions

	2001	2002	2003
Discount rate	4.0%	3.5%	3.0%
Rate of increase in compensation	3.0%	3.0%	3.0%
Expected long-term rate of return on plan assets	4.0%	3.5%	3.0%

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e. Summary of contributions and payment of benefits

	2001	2002	2003
Contributions	$47,853	$60,488	$65,459
Payment of benefits	$16,654	$33,832	$19,785

22. Related-Party Transactions

The Bank's related parties and the summary of significant transactions with these related parties are as follows:

a. *Related parties*

Related Party	Relationship with the Bank
E.Sun Financial Holding Company, Ltd. (ESFHC)	Parent company
E.Sun Bills Finance Corporation (ESBF), E.Sun Securities Corporation (ESSC), E.Sun Venture Capital Co., Ltd., E.Sun Securities Investment Trust Corp. and E.Sun Insurance Broker Co., Ltd.	Subsidiaries of ESFHC
E.Sun Foundation	The funds are donated by the Bank
E.Sun Finance & Leasing Co., Ltd. and E.Sun Insurance Agent Co., Ltd.	Subsidiaries
Fu Bon Securities Finance Co. and Bank-Pro E-Service Technology Co., Ltd.	The Bank is a director of the Company
Other	The Bank's chairman, president, directors, supervisors, managers and their relatives

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b. ***Significant transactions between the Bank and related parties***

	December 31, 2001		2001	
	Amount	% to Total	Interest Rate (%)	Revenue (Expense)
Call loans to bank — ESBF	$ —	—	2.42–4.9	$ 4,154
Loans	$ 808,573	—	2.45–9.85	$ 31,356
Deposits	$8,157,595	4	0–13	($ 400,127)
Guarantees	$ 39,000	1	0.4	$ 219
Securities sold under agreement to repurchase				
ESBF	$ 149,000	—	2–4.7	($ 3,420)
ESSC	$1,526,275	—	2–4.95	($ 34,517)
Securities purchased under agreements to resell	$ 199,464	4	2.25–4.8	$ 24,078
Securities purchased	$ 299,424	1		
Bonds	$ 360,000	7	4.2	($ 40,431)

	December 31, 2002		2002	
	Amount	% to Total	Interest Rate (%)	Revenue (Expense)
Call loans to bank — ESBF	$ —	—	1.575–2.3	$ 1,056
Loans	$ 792,490	—	1.5–9.85	$ 21,992
Deposits	$4,410,205	2	0–13	($ 75,276)
Securities sold under agreements to repurchase				
ESBF	$ 420,000	—	1.225–1.8	($ 608)
ESSC	$1,270,789	—	1.15–2.5	($ 18,758)
Securities purchased under agreements to resell — ESBF	$ 582,689	—	1.15–2.285	$ 2,199
Bonds	$ 360,000	4	4.2	($ 14,456)
Securities purchased	$1,304,524	3		

E.SUN COMMERCIAL BANK, LTD.
Notes to Financial Statements — Continued
For the Years Ended December 31, 2001, 2002 and 2003
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	December 31, 2003		2003	
	Amount	% to Total	Interest Rate (%)	Revenue (Expense)
Call loans to bank — ESBF	$ —	—	0.865–1	$ 13
Loans	$ 514,181	—	1.10–7.02	$ 10,308
Deposits	$5,999,963	2	0–13	($ 59,360)
Securities sold under agreements to repurchase				
ESBF	$ 30,000	—	0.7–0.835	($ 1,387)
ESSC	$ 687,303	—	0.7–1.25	($ 10,517)
Securities purchased under agreements to resell				
ESBF	$ —	—	1	$ 4
ESSC	$ —	—	0.7–1.2	$ 151
Bonds	$ 260,000	2	4.2	($ 10,800)
Other receivables (under receivables)				
ESFHC	$ 80,131	—		

The Bank's parent company, ESFHC, will file consolidated corporate tax returns in 2003, i.e., including the Bank's income tax return.

The interest rates shown above are similar to, or approximate, those offered to third parties. However, the interest rates on deposits given to managers of the Bank are the same as the interest rates on a certain amount of savings deposits of employees.

Under the Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party should be 100% secured, and the terms of credits extended to related parties should be similar to those for third parties.

23. Pledged Assets

As of December 31, 2001, 2002 and 2003, certain investments in securities with an aggregate face value of $779,300, $676,900 and $712,200, respectively, were (a) deposited in the Central Bank of China to secure the Bank's potential obligations on its trust activities, (b) placed with courts of justice pursuant to various collection cases on overdue loans, and (c) placed with the National Credit Card Center to secure its potential obligations on its credit card activities, (d) placed with other parties as refundable deposits.

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

As of December 31, 2002 and 2003, certain negotiable certificates of deposit aggregating $5,000,000, respectively, which were included in the securities purchased account, had been provided as collateral for day-term overdraft to comply with the Central Bank's clearing system requirement for Real-time Gross Settlement (RTGS). The unused overdraft amount at the end of a day may also be treated as the Bank's liquidity reserve.

24. Contingencies and Commitments

In addition to those mentioned in Note 28, the commitments as of December 31, 2003 were as follows:

a. Sale up to January 7, 2004 of short-term negotiable instruments for $467,878, which had been acquired for $467,672 under agreements to resell; and purchase for $14,045,896 by June 14, 2004 of short-term negotiable instruments sold for $14,037,871 under agreements to repurchase;

b. Renewable operating lease agreements on premises occupied by the Bank's branches, which will expire on various dates by 2013. Rentals are calculated on the basis of the leased area and are paid monthly, quarterly or semiannually. As of December 31, 2003, refundable deposits on these leases totaled $693,486 (shown as "refundable deposits"). Minimum annual rentals for the next five years are as follows:

Year	Amount
2004	$265,489
2005	196,930
2006	162,549
2007	125,427
2008	83,566

Total rentals for 2009 to 2013 will aggregate $314,500. The present value of these rentals is $290,464 based on 1% annual interest.

c. Contracts to acquire land and building, decorate a building and make various purchases for the improvement of various branch premises. Total contract amount is approximately $4,866,556. As of December 31, 2003, the unpaid balance on these contracts was approximately $577,540.

d. Trust-related items, as shown in the following balance sheet and property list of trust items:

Balance Sheet of Trust
December 31, 2002 and 2003

Trust Assets	2002	2003	Trust Assets	2002	2003
Bank deposits	$ 1,702	$ 409	Trust capital		
Short-term investments	$12,465,802	$19,744,466	Trust by cash	$12,467,504	$19,744,875
Total assets	$12,467,504	$19,744,875	Total liabilities	$12,467,504	$19,744,875

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Property List of Trust December 31, 2002 and 2003

Investment Items	2002	2003
Employee deposit trust	$ 1,702	$ 409
Security investment trust fund	10,735,390	19,526,856
Bonds	1,533,806	—
Stocks	196,606	217,610
	$12,467,504	$19,744,875

25. Capital Adequacy Ratio

The Banking Law and related regulations require that the Bank maintain its stand-alone and consolidated capital adequacy ratios (CARs) at a minimum of 8% each. Should the Bank's CAR fall below the required minimum, it could be subjected to actions of the Ministry of Finance as allowed under current regulations, including restrictions on the amount of cash dividends that the Bank may declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

As of December 31, 2001, 2002 and 2003, the stand-alone CARs of the Bank were 11.01%, 10.38% and 9.97%, respectively. The consolidated CARs as of December 31, 2002 and 2003 were 10.51% and 9.99%, respectively.

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

26. Average Amount and Average Interest Rate of Interest-Earnings Assets and Interest-Bearing Liabilities

Average balance is calculated at the daily average balance of interest-earning assets and interest-bearing liabilities.

	2001		2002		2003	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-earning assets						
Cash — negotiable certificates of deposit	$ 3,258,705	3.74	$ 10,221,460	1.25	$ 8,415,190	1.73
Due from banks	10,080,892	3.76	5,836,637	1.63	12,633,361	1.18
Due from the Central Bank of China	6,356,207	3.69	7,455,678	2.41	7,713,786	1.74
Securities purchased	28,250,964	6.85	32,947,556	4.14	41,010,919	2.59
Receivables of credit cards	8,591,097	16.07	12,459,733	17.57	19,356,279	14.87
Loans, bills and discounts	166,169,420	6.89	165,292,897	4.98	180,280,515	3.96
Long-term bond investments	—	—	—	—	1,646,479	3.11
Interest-bearing liabilities						
Due to banks	2,760,183	4.59	5,950,803	1.84	28,357,388	1.16
Demand	14,321,967	1.50	18,282,262	0.74	23,076,362	0.26
Savings — demand	32,535,313	3.43	44,742,793	1.73	52,851,142	0.69
Time	81,668,250	4.38	74,309,578	2.45	68,817,865	1.53
Savings — time	78,028,540	4.57	75,850,097	2.92	78,478,447	1.87
Negotiable certificates of deposit	6,282,434	4.65	2,600,000	2.26	3,077,525	1.13
Bonds	2,027,397	3.91	7,700,733	3.34	11,045,479	3.21

27. Maturity Analysis of Assets and Liabilities

The maturity of the Bank's assets and liabilities is based on the remaining period from the balance sheet dates. The remaining period to maturity is based on maturity dates specified under agreements and, if there are no specified maturity dates, on the expected dates of collection.

	December 31, 2001			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash	$ 7,672,482	$ —	$ —	$ 7,672,482
Due from banks	10,917,831	—	—	10,917,831
Due from the Central Bank of China	8,068,770	—	—	8,068,770
Securities purchased	36,873,815	—	—	36,873,815
Receivables	12,545,819	—	—	12,545,819
Loans, discounts and bills	74,820,715	48,369,393	57,669,060	180,859,168
	$150,899,432	$48,369,393	$57,669,060	$256,937,885

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(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	December 31, 2001			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Liabilities				
Due to banks	$ 6,535,224	$ —	$—	$ 6,535,224
Payables	5,925,374	—	—	5,925,374
Deposits and remittances	216,179,916	8,849,245	—	225,029,161
Bonds	—	5,000,000	—	5,000,000
	$228,640,514	$13,849,245	$—	$242,489,759

	December 31, 2002			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash	$ 14,883,265	$ —	$ —	$ 14,883,265
Due from banks	5,759,946	—	—	5,759,946
Due from the Central Bank of China	12,117,374	—	—	12,117,374
Securities purchased	38,971,790	—	—	38,971,790
Receivables	18,446,573	—	—	18,446,573
Loans, bills and discounts	67,867,168	45,651,540	58,797,318	172,316,026
	$158,046,116	$45,651,540	$58,797,318	$262,494,974
Liabilities				
Due to banks	$ 13,620,380	$ —	$—	$ 13,620,380
Payables	5,045,561	—	—	5,045,561
Deposits and remittances	215,841,215	9,898,385	—	225,739,600
Bonds	—	10,000,000	—	10,000,000
	$234,507,156	$19,898,385	$—	$254,405,541

	December 31, 2003			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash	$ 11,143,454	$ —	$ —	$ 11,143,454
Due from banks	4,658,909	—	—	4,658,909
Due from the Central Bank of China	13,560,837	—	—	13,560,837
Securities purchased	36,262,455	—	—	36,262,455
Receivables	25,300,175	—	—	25,300,175
Loans, bills and discounts	63,956,107	47,204,336	90,079,613	201,240,056
Long-term bond investments	—	—	5,774,733	5,774,733
	$154,881,937	$47,204,336	$95,854,346	$297,940,619

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	December 31, 2003			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Liabilities				
Due to banks	$ 21,664,199	$ —	$—	$ 21,664,199
Payables	5,287,111	—	—	5,287,111
Deposits and remittances	233,749,660	13,266,811	—	247,016,471
Bonds	—	15,000,000	—	15,000,000
	$260,700,970	$28,266,811	$—	$288,967,781

28. Financial Instruments

a. *Derivative financial instruments*

The Bank uses forward exchange, swap contracts and foreign-currency options as hedge instruments for foreign-currency exposures primarily related to its clients' import obligations and export receipts and remittances. It also uses these contracts to cover its own exposures. It also uses cross-currency swap contracts, interest rate swap and asset swap contracts to hedge its exchange rate and interest rate exposures, respectively.

Credit risk is the exposure of the Bank to potential losses due to defaults by counter-parties. To manage this risk, the Bank reviews the credit history and credit rating of individual customers before entering into any derivative contracts with these customers. The general terms of the contracts (including maximum limits on contractual amounts and, if necessary, required guarantees) are approved by Bank based on the results of the reviews. The transactions are carried out within the approved terms and limits. The acceptability of doing business with another bank is evaluated on the basis of its world ranking and credit rating. The evaluation also covers determining the limits on the amounts of contracts with the bank counter-parties, and the transactions are made within these limits.

E.SUN COMMERCIAL BANK, LTD.
Notes to Financial Statements — Continued
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The contract (notional) amounts, credit risks, and fair values of derivative transactions as of December 31, 2001, 2002 and 2003 were as follows:

	December 31, 2001			December 31, 2002			December 31, 2003		
	Contract (Nominal) Amount	Credit Risk	Fair Value	Contract (Nominal) Amount	Credit Risk	Fair Value	Contract (Nominal) Amount	Credit Risk	Fair Value
Trading purposes									
Forward exchange contracts	$ 822,602	$299	$(3,203)	$ 406,098	$4,715	$ 1,363	$ 1,583,647	$ 6,647	$ 261
Foreign-currency swap contracts	5,109,436	22,196	(19,649)	8,628,331	28,623	(46,417)	14,319,423	8,776	150
Interest rate swap contracts	—	—	—	—	—	—	10,000,000	169,735	(9,704)
Foreign-currency option contracts									
Buy	—	—	—	—	—	—	1,533,956	58,228	58,745
Sell	—	—	—	—	—	—	1,533,956	—	(58,745)
Nontrading purposes									
Asset swap contracts	2,316,063	24,549	(9,542)	5,140,871	3,258	(167,563)	7,653,800	20,547	(113,269)
Cross-currency swap contracts	690,000	—	(16,294)	3,300,000	—	(187,326)	5,500,044	52,705	31,109
Interest rate swap contracts	—	—	—	—	—	—	5,000,000	151,337	151,337

The Bank calculates the fair value of each forward contract at the forward rate for the remaining term on the basis of quotations from Reuters or the Telerate Information System.

The contract (notional) amount is used to calculate the amounts for settlement with the counter-parties, so it is neither the actual amount delivered nor the cash requirement for the Bank. Also, the Bank can enter into derivative financial transactions at reasonable market terms. In addition, the Bank does not expect significant cash flow requirements to settle these transactions.

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

The gains and loss on the derivative transactions were as follows:

	2001	2002	2003
Forward contracts (under "foreign exchange gain — net")	$ 3,595	$ 3,836	$ 3,254
Foreign currency swap contracts			
Interest revenue	$ 23,900	$ 30,088	$ 46,476
Interest expense	(20,394)	(14,767)	(13,195)
	$ 3,506	$ 15,321	$ 33,281
Asset swap contracts (under "interest revenue")	$ 52,815	$ 17,342	$ 3,609
Cross-currency swap contracts			
Gains from derivatives (part of other operating revenues and gains)	$ —	$ —	$ 92,905
Interest revenue	9,554	45,424	92,747
Interest expense	(9,116)	(33,088)	(76,571)
	$ 438	$12,336	$109,081
Interest rate swap contracts			
Gains from derivatives (part of other operating revenues and gains)	$ —	$ —	$217,396
Interest expense reduction	—	—	102,688
	$ —	$ —	$320,084
Foreign-currency option contracts			
Premium revenue	$ —	$ —	$ 38,961
Premium expense	—	—	(36,906)
Gains from derivatives	—	—	2,249
	$ —	$ —	$ 4,304

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. *Fair value of nonderivative financial instruments*

	December 31, 2001		December 31, 2002		December 31, 2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets						
Asset fair value the same as the carrying value	$219,171,102	$219,171,102	$222,310,572	$222,310,572	$253,950,754	$253,950,754
Securities purchased	36,751,847	36,751,847	38,885,871	38,885,871	36,262,455	36,358,830
Long-term investments	4,664,698	4,550,339	4,755,205	4,949,343	10,512,806	12,768,155
Liabilities						
Liability fair value the same as the carrying value	242,553,744	242,553,744	254,403,406	254,403,406	289,318,805	289,318,805

Methods and assumptions used in estimating the fair value of nonderivative financial instruments were as follows:

(1) The carrying values of cash, due from banks, due from the Central Bank of China, receivables, due to banks, payables and remittances approximate fair values because of the short maturity of these instruments. The carrying values of other assets and other liabilities also approximate the expected cash inflows or outflows on settlement dates; thus, their carrying values also approximate fair values.

(2) If market prices for securities purchased and long-term investments are available, the fair value of these financial instruments should be based on the market price. Otherwise, their carrying value has been determined by the management as the best representation of their fair value.

(3) Loans, bills and discounts, deposits and bonds are either short-term, interest-bearing financial assets and liabilities or the majority of these instruments bear interest at adjustable rates. Thus, their carrying value is deemed to represent fair value.

Only the fair values of financial instruments were listed above, thus, the total of fair values listed above does not represent the fair value of the Bank.

c. *Financial instruments with off-balance-sheet credit risks*

Under normal business operations, the Bank is a party to transactions involving financial services with off-balance-sheet risks, such as issuing credit cards, extending credit facilities and providing financial guarantee and obligations under letters of credit issued. Generally, the related transactions are for one year.

The interest rates for loans ranged from 2.50% to 18.25% in 2001, 1.50% to 18.25% in 2002 and 1.00% to 18.25% in 2003. The highest interest rate for credit cards was 19.71% in 2001, 2002 and 2003.

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

There was no concentration of maturity dates in one particular period that would potentially result in liquidity problems to the Bank.

The amounts of financial contracts with off-balance-sheet credit risks as of December 31, 2001, 2002 and 2003 were as follows:

	December 31		
	2001	2002	2003
Credit card commitments	$71,185,958	$138,459,413	$190,074,198
Guarantees and issuance of letters of credit	7,711,371	7,267,006	10,328,590

Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The total potential loss (without considering the value of any collateral) in case of default by counter-parties is equal to the above contract amounts, if completely drawn upon.

The Bank evaluates the creditworthiness of credit applications case by case, taking into account the applicant's credit history, credit rating and financial condition. Collateral, mostly in the form of real estate, cash, inventories and marketable securities, may be required depending on the evaluation result. As of December 31, 2001, 2002 and 2003, about 61%, 55% and 58% of total loans granted and about 31%, 31% and 25% of the aggregate guarantees and letters of credit issued, respectively, were secured. No collateral is required for credit card facilities but the credit status of each credit card holder is closely monitored. Depending on the results of credit status monitoring, appropriate measures are adopted, including amending the credit limit and, if necessary, canceling the facility.

d. ***Concentrations of credit risks***

The concentration of credit risk exists when counter-parties to financial transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. For the Bank, concentrations of credit risk do not involve individuals but industry groups, as follows:

	December 31					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Loans — by industries						
Manufacturing	$21,872,962	13	$21,028,849	14	$25,461,903	14

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The net position on foreign-currency denominated assets and liabilities is shown below:

	December 31		
Currency	**2001**	**2002**	**2003**
U.S. Dollars	$268,504	$249,929	($1,190,032)
H.K. Dollars	($ 59,011)	($ 73,386)	$ 495,793

29. Additional Disclosures

Following are the additional disclosures required by the Securities and Futures Commission:

a. Significant transactions and investees: Tables 1 to 5.

b. Investment in mainland China: None.

30. Segment Information

The Bank's operations all belong to one business segment, namely, banking. All overseas units individually represent less than 10% of the Bank's operating revenues and less than 10% of it total assets. Thus, no segment and geographic information is required to be disclosed.

TABLE 1

E.SUN COMMERCIAL BANK, LTD.
Endorsement/Guarantee Provided for the Year Ended December 31, 2003
(Amounts in Thousands of U.S. Dollars)

No.	Endorsement/Guarantee Provider	Counter-party		Limits on Individual Collateral or Guarantee Amounts	Maximum Balance for the Year	Ending Balance	Carrying Value (As of Balance Sheet Date) of Properties Guaranteed by Collateral	Ratio of Accumulated Amount of Guarantee to Net Asset Value of the Latest Financial Statement	Maximum Collateral/ Guarantee Amounts Allowable
		Name	Nature of Relationship						
1. . .	E.Sun Finance & Leasing Co., Ltd.	E.Sun International Co.	Affiliate	$2,000	$1,234	$—	None	—	$2,000

TABLE 2

E.SUN COMMERCIAL BANK, LTD.
Marketable Securities Held
December 31, 2003
(In Thousands of New Taiwan Dollars)

				December 31, 2003				
Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
E.Sun Commercial Bank, Ltd. . . .	**Stock**							
	E.Sun Financial Holding Co., Ltd.	Parent company	Long-term investments	325,779	$3,914,375	13.00	$6,665,442	1
	Fu Bon Securities Finance Co.	Director	Long-term investments	16,148	155,857	2.56	192,812	2
	Taipei Forex Inc.	—	Long-term investments	80	800	0.40	1,215	3
	Apex Venture Capital Corp.	—	Long-term investments	5,000	50,000	4.67	47,622	2
	Taiwan Futures Exchange Co., Ltd.	—	Long-term investments	900	9,000	0.45	14,918	2
	E.Sun Finance & Leasing Co., Ltd.	Equity-method investee	Long-term investments	19,600	131,993	98.99	131,993	3
	Gapura Incorporated	—	Long-term investments	750	14,828	4.90	14,828	2
	Financial Information Service Co., Ltd.	—	Long-term investments	4,550	45,500	1.14	67,229	2
	National Venture Capital Corp.	—	Long-term investments	2,700	27,000	4.99	22,780	2
	E.Sun Insurance Agent Co., Ltd.	Equity-method investee	Long-term investments	1,280	33,769	79.00	33,769	2
	Bank-Pro E-Service Technology Co, Ltd.	Director	Long-term investments	450	4,500	3.33	3,377	2
	United Micro Electronics	—	Long-term investments	4,115	200,451	0.03	120,661	1
	Taiwan Asset Management Corporation	—	Long-term investments	10,000	100,000	0.57	107,286	2
	Taiwan Financial Asset Service Corporation	—	Long-term investments	5,000	50,000	2.94	50,788	2
	Government bonds							
	A9007	—	Long-term investments	—	1,959,412	—	1,753,833	
	A9104	—	Long-term investments	—	3,815,321	—	3,604,972	
E.Sun Finance & Leasing Co., Ltd.	**Stock**							
	Gapura Incorporated	—	Long-term investment	950	18,757	6.20	18,757	2
	Government bonds							
	Central Government Bonds — 832	—	Long-term investment	—	3,000	—	3,000	Bonds of which $7,588 were placed with courts of justice for the collection case on overdue loans
	Central Government Bonds — 854	—	Long-term investment	—	1,000	—	1,000	
	Central Government Bonds — A8602	—	Long-term investment	—	4,588	—	4,537	

Note 1 : Market value of the listed stocks was based on the average closing price in December 2003.

Note 2 : The amounts are based on the latest unaudited financial statements.

Note 3 : The amounts are based on the latest audited financial statements.

TABLE 3

E.SUN COMMERCIAL BANK, LTD.
Marketable Securities Acquired and Disposed of at Costs or Prices of at Least NT$100 Million or 20% of the Paid-in Capital
For the Year Ended December 31, 2003
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount
E.Sun Commercial Bank, Ltd.	Central government bond 9007	Long-term investments in bonds	—	—	—	$—	—	$1,973,048	—	$ —	$13,636 *(Note 1)*	$ —	—	$1,959,412
	Central government bond 9104	Long-term investments in bonds	—	—	—	—	—	3,837,746	—	—	22,425 *(Note 1)*	—	—	3,815,321
E.Sun Securities Investment Trust Corp. *(Note 2)*	Bank debentures (issued by Fubon Commercial Bank)	Long-term investments	IBT Securities Co., Ltd.	—	—	—	—	200,000	—	—	—	—	—	—
	Bank debentures (issued by Fubon Commercial Bank)	Long-term investments	ABN-AMRO Asset Management Taiwan Ltd.	—	—	—	—	—	—	205,700	200,000	5,700	—	—
	Bank debentures (issued by Fubon Commercial Bank)	Long-term investments	IBT Securities Co., Ltd.	—	—	—	—	200,000	—	—	—	—	—	200,000

Note 1: The amount is the premium amortized.

Note 2: This company became the subsidiary of E.Sun Financial Holding Co., Ltd. on September 16, 2003.

TABLE 4

E.SUN COMMERCIAL BANK, LTD.
Acquisition of Individual Real Estates at Costs of at Least NT$100 Million or 20% of the Paid-in Capital
For the Year Ended December 31, 2003
(Amounts in Thousand New Taiwan Dollars)

Company Name	Property	Transaction Date	Transaction Amount	Payment Amount	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
E.Sun Commercial Bank, Ltd.	No. 115 and 117, Minsheng E. Rd., Songshan District, Sec. 3, Taipei City 105, Taiwan (R.O.C.)	2003.12.11	$4,280,000	$3,870,949	Walsin Lihwa Corp.	—	—	—	—	$—	Appraisal of DTZ and Honda Appraisers Firm	For use by the head office and business unit	

TABLE 5

E.SUN COMMERCIAL BANK, LTD.
Names, Locations, and Other Information of Investees on which the Company Exercises Significant Influence
For the Year Ended December 31, 2003
(Amounts in Thousands of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2003			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2003	Dec. 31, 2002	Shares (Thousands)	Percentage of Ownership	Carrying Value			
E.Sun Commercial Bank, Ltd.	E.Sun Finance & Leasing Co., Ltd.	Taipei	Leasing and sale of machinery and equipment	$196,000	$196,000	19,600	98.99	$131,993	($19,978)	($19,776)	
	E.Sun Insurance Agent Co., Ltd.	Taipei	Life insurance agent	3,950	3,950	1,280	79.00	33,769	22,598	17,662	
E.Sun Finance & Leasing Co., Ltd. . .	E.Sun Insurance Agent Co., Ltd.	Taipei	Life insurance agent	—	1,800	—	—	—	22,598	4,521	

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

January 12, 2004, except for translations into U.S. dollars at the exchange rate as of June 30, 2004, stated in Note 2

The Board of Directors and Stockholders
E.Sun Bills Finance Corporation

We have audited the accompanying balance sheets of E.Sun Bills Finance Corporation as of December 31, 2001, 2002 and 2003 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 Corporation'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 Audits of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 E.Sun Bills Finance Corporation as of December 31, 2001, 2002 and 2003 and the results of its operations, changes in stockholders' equity and its cash flows for the years then ended, in conformity with Criteria Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also reviewed the translation of the New Taiwan dollar financial statements as of and for the year ended December 31, 2003 into U.S. dollars, which have been included solely for the reader's convenience, against the exchange rate stated in Note 2 to the financial statements and, in our opinion, the U.S. dollar amounts have been properly translated at that rate. The convenience translations should not be construed as representations 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.

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Taipei, Taiwan
Republic of China

<u>Notice to Readers</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Balance Sheets
December 31, 2001, 2002 and 2003
(In Thousands of Dollars)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
ASSETS				
CASH *(Notes 3 and 20)*	$4,775,828	$ 4,124,620	$ 3,869,343	$114,954
CALL LOANS TO BANKS *(Note 20)*	200,000	200,000	200,000	5,942
SHORT-TERM NEGOTIABLE INSTRUMENTS *(Notes 2, 4, 20 and 21)*	2,865,830	3,790,635	9,940,333	295,316
PLEDGED TIME DEPOSITS *(Notes 20 and 21)*	100,000	—	—	—
OTHER SHORT-TERM INVESTMENTS *(Notes 2 and 5)*	—	—	290,000	8,615
RECEIVABLES *(Note 6)*	112,713	151,402	561,532	16,682
PREPAID EXPENSES	6,297	2,842	3,704	110
LONG-TERM BOND INVESTMENTS *(Notes 2, 7, 20 and 21)*	574,241	1,259,973	2,685,499	79,783
PROPERTIES *(Notes 2 and 8)*				
Cost				
Land	50,156	50,156	50,156	1,490
Buildings	32,585	32,585	32,585	968
Computers	21,603	22,652	20,222	601
Transportation equipment	11,421	12,071	11,464	341
Miscellaneous equipment	37,789	37,801	37,769	1,122
Total cost	153,554	155,265	152,196	4,522
Accumulated depreciation	45,024	51,413	55,438	1,647
Net properties	108,530	103,852	96,758	2,875
OTHER ASSETS *(Notes 9, 15, 20 and 22)*				
Operating deposits	279,454	296,345	307,197	9,126
Refundable deposits	63,628	62,918	62,918	1,869
Deferred income tax assets	74,075	66,195	51,220	1,522
Other	4,909	6,332	5,918	176
Total other assets	422,066	431,790	427,253	12,693
TOTAL ASSETS	$9,165,505	$10,065,114	$18,074,422	$536,970

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Balance Sheets — Continued
December 31, 2001, 2002 and 2003
(In Thousands of Dollars)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Commercial paper issued *(Note 10)*	$ —	$ —	$ 798,837	$ 23,733
Bank loans *(Notes 11 and 20)*	3,330,000	3,920,000	7,620,000	226,381
Payables *(Note 12)*	189,634	122,377	129,132	3,836
Corporate bonds payable *(Notes 13 and 23)*	—	—	3,000,000	89,127
Reserve for loss on guarantees *(Note 2)*	391,846	406,551	431,123	12,808
Reserve for loss on sale of bonds *(Note 2)*	126,160	185,670	96,476	2,866
Total liabilities	4,037,640	4,634,598	12,075,568	358,751
STOCKHOLDERS' EQUITY				
Capital stock	4,265,000	4,265,000	4,265,000	126,708
Capital surplus	87,500	87,500	87,500	2,600
Retained earnings				
Legal reserve	241,993	352,620	523,902	15,564
Unappropriated earnings	533,372	725,396	1,122,452	33,347
Total retained earnings	775,365	1,078,016	1,646,354	48,911
Total stockholders' equity	5,127,865	5,430,516	5,998,854	178,219
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,165,505	$10,065,114	$18,074,422	$536,970

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

(With Deloitte & Touche auditors' report dated January 12, 2004)

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Income
For the Years Ended December 31, 2001, 2002 and 2003
(In Thousands of Dollars, Except Per Share Amounts)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
REVENUES				
Interest *(Note 20)*	$ 282,913	$ 170,427	$ 178,017	$ 5,288
Service fees	158,992	167,181	163,106	4,846
Gain on sale of short-term negotiable instruments *(Note 2)*	1,002,372	820,919	800,373	23,778
Recovered reserves	—	—	10,634	316
Other	4,430	141	—	—
Total revenues	1,448,707	1,158,668	1,152,130	34,228
EXPENSES				
Interest *(Note 20)*	157,518	123,847	111,117	3,301
Service charges	8,666	6,307	8,489	252
Provisions *(Note 2)*	405,160	187,929	—	—
Administrative and other operating expenses *(Notes 2 and 19)*	153,876	138,960	160,823	4,778
Total expenses	725,220	457,043	280,429	8,331
INCOME BEFORE INCOME TAX	723,487	701,625	871,701	25,897
INCOME TAX EXPENSES (BENEFITS) *(Notes 2 and 15)*	354,731	130,684	(94,476)	(2,807)
NET INCOME	$ 368,756	$ 570,941	$ 966,177	$28,704

	2001		2002		2003		2003	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
	New Taiwan Dollars						U.S. Dollars (Note 2)	
EARNINGS PER SHARE *(Note 18)*								
Basic	$1.70	$0.86	$1.65	$1.34	$2.04	$2.27	$0.06	$0.07

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

(With Deloitte & Touche auditors' report dated January 12, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2001, 2002 and 2003
(In Thousands of New Taiwan Dollars, Except Par Value)

	Capital Stock Authorized and Issued ($10 PAR VALUE)		Capital Surplus — Paid-in Capital in Excess of Par Value (Note 17)	Retained Earnings (Note 17)			Total Stockholders' Equity
	Shares (Thousands)	Amount		Legal Reserve	Unappropriated Earnings	Total	
BALANCE, JANUARY 1, 2001	413,900	$4,139,000	$87,500	$113,752	$ 551,670	$ 665,422	$4,891,922
Appropriation of prior year's earnings							
Legal reserve	—	—	—	128,241	(128,241)	—	—
Stock dividends. . .	12,417	124,170	—	—	(124,170)	(124,170)	—
Cash dividends . . .	—	—	—	—	(124,170)	(124,170)	(124,170)
Bonus to directors and supervisors .	—	—	—	—	(2,992)	(2,992)	(2,992)
Bonus to employees — in stocks and $5,651 cash. . . .	183	1,830	—	—	(7,481)	(7,481)	(5,651)
Net income in 2001. .	—	—	—	—	368,756	368,756	368,756
BALANCE, DECEMBER 31, 2001.	426,500	4,265,000	87,500	241,993	533,372	775,365	5,127,865
Appropriation of prior year's earnings							
Legal reserve	—	—	—	110,627	(110,627)	—	—
Cash dividends . . .	—	—	—	—	(255,900)	(255,900)	(255,900)
Bonus to directors and supervisors .	—	—	—	—	(2,581)	(2,581)	(2,581)
Bonus to employees	—	—	—	—	(9,809)	(9,809)	(9,809)
Net income in 2002. .	—	—	—	—	570,941	570,941	570,941
BALANCE, DECEMBER 31, 2002.	426,500	4,265,000	87,500	352,620	725,396	1,078,016	5,430,516
Appropriation of prior year's earnings							
Legal reserve	—	—	—	171,282	(171,282)	—	—
Cash dividends . . .	—	—	—	—	(383,850)	(383,850)	(383,850)
Bonus to directors and supervisors .	—	—	—	—	(3,997)	(3,997)	(3,997)
Bonus to employees	—	—	—	—	(9,992)	(9,992)	(9,992)
Net income in 2003. .	—	—	—	—	966,177	966,177	966,177
BALANCE, DECEMBER 31, 2003.	426,500	$4,265,000	$87,500	$523,902	$1,122,452	$1,646,354	$5,998,854

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

(With Deloitte & Touche auditors' report dated January 12, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Changes in Stockholders' Equity
For the Year Ended December 31, 2003
(In Thousands of U.S. Dollars — Note 2)

	Capital Stock Authorized and Issued ($0.3 PAR VALUE)		Capital Surplus — Paid-in Capital in Excess of Par Value (Note 17)	Retained Earnings (Note 17)			Total Stockholders' Equity
	Shares (Thousands)	Amount		Legal Reserve	Unappropriated Earnings	Total	
BALANCE, JANUARY 1, 2003	426,500	$126,708	$2,600	$10,476	$ 21,551	$ 32,027	$161,335
Appropriation of prior year's earnings							
Legal reserve	—	—	—	5,088	(5,088)	—	—
Cash dividends . . .	—	—	—	—	(11,404)	(11,404)	(11,404)
Bonus to directors and supervisors .	—	—	—	—	(119)	(119)	(119)
Bonus to employees	—	—	—	—	(297)	(297)	(297)
Net income in 2003 . .	—	—	—	—	28,704	28,704	28,704
BALANCE, DECEMBER 31, 2003.	426,500	$126,708	$2,600	$15,564	$ 33,347	$ 48,911	$178,219

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

(With Deloitte & Touche auditors' report dated January 12, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Cash Flows
For the Years Ended December 31, 2001, 2002 and 2003
(In Thousands of Dollars)

	2001	2002	2003	2003
	New Taiwan Dollars			U.S. Dollars (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 368,756	$ 570,941	$966,177	$ 28,704
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loss on decline in value in investments	—	—	10,879	323
Depreciation and amortization	8,432	9,955	8,968	266
Provision (reversal) of reserve for loss on guarantees and sale of bonds	200,052	43,812	(10,634)	(316)
Recovery from loss on guarantees	—	42,583	64,720	1,923
Gain on sale of long-term bond investments	(12,687)	(5,526)	—	—
Reversal of provision for loss on sale of bonds	—	—	(116,824)	(3,471)
Deferred income taxes	(46,758)	7,880	14,975	445
Others	1,497	910	1,390	41
Decrease (increase) in short-term negotiable instruments	219,952	(812,395)	(6,091,430)	(180,969)
Decrease (increase) in receivables	232,160	(50,868)	(412,014)	(12,240)
Decrease (increase) in prepaid expenses	(4,777)	3,455	(862)	(26)
Increase (decrease) in payables	120,578	(67,257)	6,755	201
Net cash provided by (used in) operating activities	1,087,205	(256,510)	(5,557,900)	(165,119)
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in other short-term investments	—	100,000	(290,000)	(8,615)
Decrease in call loans to banks	851,000	—	—	—
Decrease in pledged time deposits	800,000	—	—	—
Increase in long-term bond investments	(441,441)	(1,500,053)	(1,466,204)	(43,559)
Proceeds from sale of long-term bond investments	319,187	683,371	—	—
Acquisition of properties	(10,563)	(4,078)	(1,206)	(36)
Proceeds from sale of properties	151	85	—	—
Decrease (increase) in other assets	(13,115)	4,267	(40,965)	(1,217)
Net cash provided by (used in) investing activities	1,505,219	(716,408)	(1,798,375)	(53,427)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from commercial paper issued	—	—	798,837	23,733
Proceeds from bonds issued	—	—	3,000,000	89,127
Proceeds from bank loans	1,230,000	590,000	3,700,000	109,922
Dividend paid to stockholders	(124,170)	(255,900)	(383,850)	(11,404)
Bonus paid to directors, supervisors and employees	(8,643)	(12,390)	(13,989)	(416)
Net cash provided by financing activities	1,097,187	321,710	7,100,998	210,962
NET INCREASE (DECREASE) IN CASH	3,689,611	(651,208)	(255,277)	(7,584)
CASH, BEGINNING OF YEAR	1,086,217	4,775,828	4,124,620	122,538
CASH, END OF YEAR	$4,775,828	$4,124,620	$3,869,343	$114,954
SUPPLEMENTAL INFORMATION				
Interest paid	$ 158,076	$ 123,662	$ 107,548	$ 3,195
Income tax paid	$ 150,218	$ 129,795	$ 129,157	$ 3,837

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

(With Deloitte & Touche auditors' report dated January 12, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements
For the Years Ended December 31, 2001, 2002 and 2003
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. Organization and Operations

E.Sun Bills Finance Corporation (the "Corporation") was incorporated on August 12, 1995 and started operations on October 12, 1995. As of December 31, 2003, it had branches in Kaohsiung, Taichung, Taoyuan and Panchiau.

The Corporation's operations are (a) underwriting and acting as registrar of commercial paper and bank acceptances; (b) brokering and dealing in commercial paper and bank acceptances; (c) providing guarantees or endorsements on commercial paper and bank acceptances; (d) brokerage of call loans between financial institutions; (e) consultations on corporate financial matters; (f) brokering and dealing in government bonds; (g) underwriting and acting as registrar of financial institution bonds; (h) brokering and dealing in financial institution bonds; and (i) conducting derivative activities approved by the Ministry of Finance.

On December 10, 2001, the stockholders approved the establishment of E.Sun Financial Holding Company, Ltd. (ESFHC) to hold the shares of the Corporation, E.Sun Commercial Bank Ltd. and E.Sun Securities Corp. The holding company structure was achieved through a share swap: 1 share of ESFHC for 1.10 shares of the Corporation, 1.0 share of E.Sun Commercial Bank Ltd. and 1.25 shares of E.Sun Securities Corp. The board of directors designated January 28, 2002 as the effective date of the share swap. After the shares transfer, the Corporation became a 100% subsidiary of ESFHC.

Before January 28, 2002, the Corporation's stock was traded on the over-the-counter securities exchange. On the effective date of ESFHC's establishment, its stock became listed on the Taiwan Stock Exchange.

The Corporation's parent company, E.Sun Financial Holding Company, Ltd., wholly owned the Corporation's common stocks as of December 31, 2002 and 2003.

As of December 31, 2002 and 2003, the Corporation had 93 and 92 employees, respectively.

2. Significant Accounting Policies

The Corporation's financial statements were issued in conformity with Criteria Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China. Since the operating cycle in the bills finance industry could not be reasonably identified, accounts included in the Corporation's financial statements were not classified as current or noncurrent. Nevertheless, accounts were properly categorized according to the nature of each account and sequenced by their liquidity. The Corporation's significant accounting policies are summarized as follows:

Short-term Negotiable Instruments

Short-term negotiable instruments are stated at aggregate cost less allowance for losses from decline in market value. The allowance is reversed when the market value recovers, with the reversal recognized as income. Costs of instruments sold are determined by the moving-average method.

Short-term Negotiable Instruments and Bonds Sold or Purchased Under Agreements to Repurchase or Resell

Consistent with industry practice, sales of short-term negotiable instruments and bonds under agreements to repurchase ("repo") are recorded at their carrying value, and gains or losses are deferred and recognized until an actual sale is made. Purchases of short-term negotiable instruments and bonds under agreements to resell are recorded at purchase cost, and gains or losses are recognized when the instruments are sold. Under the "Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporations," starting in 2004, sales of short-term negotiable instruments and bonds under agreement to repurchase and purchase of short-term negotiable instruments and bonds under agreements to resell will be treated as financing activities rather than outright sales.

Other Short-term Investments

Other short-term investments are stated at aggregate cost less allowance for losses from decline in market value. The allowance is reversed when the market value recovers, with reversal recognized as income. Costs of other short-term investments sold are determined by the moving-average method.

Long-term Investments in Bonds

These investments are stated at cost less amortized premium or discount.

Properties

Properties are stated at cost less accumulated depreciation. Major renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred.

Depreciation is computed by the straight-line method over service lives estimated as follows: building, 55 years; computers, 5 years; transportation equipment, 5 to 8 years and miscellaneous equipment, 5 to 10 years. If an asset reaches its residual value and is still in use, it is further depreciated over its newly estimated service life.

Upon sale or disposal of an item of property, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income.

Allowance for Possible Losses and Reserve for Losses on Guarantees

The Corporation makes provision for bad debts and reserve for losses on guarantees based on the evaluation of related risks. Reserve for loss on guarantees for commercial paper issued is provided for any defaults by commercial paper issuers. Under the regulations of the Ministry of Finance of the Republic of China (ROC), the balance of this reserve should be at least 1% of the amount guaranteed, full provisions for credits deemed uncollectible and 50% provision for credits with high uncollectibility.

Reserves for Losses on Sale of Bonds

Under the regulations of the Securities and Futures Commission of the ROC, reserves for losses on sale of bonds are computed at 10% of the net gain on sale of bonds until the balance of the reserve reaches $200,000. This reserve should be used only to offset actual losses on sale of the bonds.

Pension Cost

The Corporation recognizes pension cost based on actuarial calculations. Unrecognized net transition assets are amortized over 27 years.

Recognition of Revenues

Revenues are recorded on the basis of rates negotiated with customers, when the earnings process is mostly completed and revenues are realized or realizable.

Interest Rate Swaps

Interest rate swaps are intended for nontrading purposes. In these swaps, there is no exchange of principal amounts. To recognize a swap, the Corporation makes a memo entry when a contract is signed. The interest received or paid under the contract is recognized as interest income or expense.

Income Tax

Provision for income tax represents income tax paid and payable for the current year plus the changes in the deferred income tax assets and liabilities during the year. Deferred income taxes are recognized for tax effects of temporary differences and operating loss carryforwards. Valuation allowance is provided for deferred tax assets that are not certain to be realized.

Tax credits for certain purchases of equipment and technology, research development, training and stock investments are recognized in the current year.

Income tax on interest derived from short-term negotiable instruments, which is levied separately, is included in the income tax expense. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax expense.

Additional income tax of 10% is levied on undistributed earnings generated since 1998 in the year the stockholders resolve to retain the earnings.

Any adjustment of income taxes of prior years are added to or deducted from the current year's tax provision.

Currency Translation

The corporation maintains its accounts and expresses its financial statements in New Taiwan (NT) dollars. The NT dollar amounts in the financial statements as of and for the year ended December 31, 2003 were translated into U.S. dollars solely for the readers' convenience. The translation was made at NT$33.66=US$1.00, the noon buying rate of the U.S. Federal Reserve Bank of New York as of June 30, 2004. This translation should not be construed as representation that the NT 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.

Reclassifications

Certain accounts for 2001 and 2002 had been reclassified to conform the 2003 financial statement presentation.

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

3. Cash

	December 31		
	2001	2002	2003
Time deposits — interest of 2.4%–5.8% in 2001, 1.70%–2.45% in 2002 and 0.9%–2.2% in 2003	$4,500,100	$3,807,300	$3,549,950
Demand deposits	264,546	309,060	309,270
Checking accounts	11,182	8,260	10,123
	$4,775,828	$4,124,620	$3,869,343

4. Short-term Negotiable Instruments

	December 31		
	2001	2002	2003
Negotiable certificates of deposit	$ 401,511	$ 61,115	$6,806,444
Government bonds	8,900	191,486	1,360,324
Commercial paper	2,399,267	2,118,665	1,316,484
Treasury bills	—	1,273,502	—
Corporate and financial institution bonds	19,755	145,867	421,848
Bank acceptances	36,397	—	46,112
	2,865,830	3,790,635	9,951,212
Allowance for decline in value	—	—	(10,879)
	$2,865,830	$3,790,635	$9,940,333

5. Other Short-term Investments

These investments pertain to mutual bond funds with net asset value of $290,369 as of December 31, 2003.

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Years Ended December 31, 2001, 2002 and 2003
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

6. Receivables

	December 31		
	2001	2002	2003
Refundable income tax *(Note 15)*	$ 36,897	$ 39,417	$268,021
Interest	27,831	29,145	91,331
Claims from commercial paper issuers	53,000	—	—
Other	3,985	82,840	202,180
	121,713	151,402	561,532
Less — allowance for losses	9,000	—	—
	$112,713	$151,402	$561,532

7. Long-term Bond Investments

	December 31		
	2001	2002	2003
Government bonds	$ —	$ —	$1,265,522
Bank debentures	410,000	1,059,976	1,019,980
Corporate bonds	164,241	199,997	399,997
	$574,241	$1,259,973	$2,685,499

8. Accumulated Depreciation of Properties

	December 31		
	2001	2002	2003
Building	$ 3,588	$ 4,170	$ 4,752
Computers	10,442	12,850	12,921
Transportation equipment	5,858	6,013	6,787
Miscellaneous equipment	25,136	28,380	30,978
	$45,024	$51,413	$55,438

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

9. Other Assets

	December 31		
	2001	2002	2003
Deposits in the Central Bank (required of dealers of short-term negotiable instruments) — including bonds amounting to $210,700 in 2001, $214,000 in 2002 and $215,000 in 2003	$237,130	$251,836	$255,547
Refundable deposits (including deposits of $60,000 for bond clearance)	63,628	62,918	62,918
Deposits in E.Sun Commercial Bank (required of bond traders) — including government bonds and certificates of deposits of $40,000 in 2001 and 2002, $50,000 in 2003	42,324	44,509	51,650
Deferred income tax assets — net *(Note 15)*	74,075	66,195	51,220
Miscellaneous	4,909	6,332	5,918
	$422,066	$431,790	$427,253

10. Commercial Paper Issued

The face value of commercial paper issued was $800,000 as of December 31, 2003. The maturity date is April 14, 2004 and the discount rate is 0.890% to 0.975%.

11. Bank Loans

These represent call loans with interests ranging from 2.30% to 2.41% in 2001, from 1.5% to 1.6% in 2002 and from 1.025% to 1.075% in 2003, and interest and principal are repayable by January 10, 2002, January 17, 2003 and February 6, 2004, respectively.

As of December 31, 2001, 2002 and 2003, the Corporation had unused credit lines of $26,470,000, $29,480,000 and $29,630,000, respectively.

12. Payables

	December 31		
	2001	2002	2003
Collections on customers' behalf	$ 62,165	$ 89,907	$ 93,366
Accrued expenses	23,555	19,439	23,155
Other	103,914	13,031	12,611
	$189,634	$122,377	$129,132

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

13. Corporate Bonds Payable

On December 22, 2003, the Corporation made a first issue of secured corporate bonds with aggregate face value of $3,000,000. The corporate bonds are categorized from A to J at the stated interest rate. The corporate bonds will mature in five years, and the principal is payable on the maturity date. Interest is payable semiannually, and interest calculation is based on the six months' London Interbank Offered Rate for U.S. dollars (6M LIBOR). If the 6M LIBOR is less than 1.05%, the interest rate will be between 6M LIBOR and 6M LIBOR plus 0.005%. If the 6M LIBOR falls between 1.05% and 2.00%, the interest rate is 3.5%, but if 6M LIBOR is more than 2%, the interest rate is 4.52% minus 6M LIBOR. However, the interest rate should not be zero.

14. Maturity Analysis of Assets and Liabilities

	2002		
	Due in One Year	Due after One Year	Total
Assets			
Cash	$4,124,620	$ —	$ 4,124,620
Call loans to banks	200,000	—	200,000
Short-term negotiable instruments	3,790,635	—	3,790,635
Receivables	151,402	—	151,402
Prepaid expenses	2,842	—	2,842
Long-term bond investments	—	1,259,973	1,259,973
Net properties	—	103,852	103,852
Operating deposits	296,345	—	296,345
Refundable deposits	—	62,918	62,918
Deferred income tax assets	—	66,195	66,195
Other assets	—	6,332	6,332
	$8,565,844	$1,499,270	$10,065,114
Liabilities			
Bank loans	$3,920,000	$ —	$3,920,000
Payables	122,377	—	122,377
Reserve for loss on guarantees	—	406,551	406,551
Reserve for loss on sale of bonds	—	185,670	185,670
	$4,042,377	$592,221	$4,634,598

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	2003		
	Due in One Year	Due after One Year	Total
Assets			
Cash	$ 3,869,343	$ —	$ 3,869,343
Call loans to banks	200,000	—	200,000
Short-term negotiable instruments	9,940,333	—	9,940,333
Other short-term investments	290,000	—	290,000
Receivables	561,532	—	561,532
Prepaid expenses	3,704	—	3,704
Long-term bond investments	—	2,685,499	2,685,499
Net properties	—	96,758	96,758
Operating deposits	267,197	40,000	307,197
Refundable deposits	—	62,918	62,918
Deferred income tax assets	—	51,220	51,220
Other assets	—	5,918	5,918
	$15,132,109	$2,942,313	$18,074,422
Liabilities			
Commercial paper issued	$ 798,837	$ —	$ 798,837
Bank loans	7,620,000	—	7,620,000
Payables	129,132	—	129,132
Corporate bonds payable	—	3,000,000	3,000,000
Reserve for loss on guarantees	—	431,123	431,123
Reserve for loss on sale of bonds	—	96,476	96,476
	$8,547,969	$3,527,599	$12,075,568

15. Income Tax Expenses (Benefits)

a. Income tax expenses (benefits) consisted of:

	2001	2002	2003
Income tax expense — current	$123,974	$ 73,208	$98,308
Deferred income tax			
Pension	—	—	126
Provision for loss on guarantees	(42,502)	11,382	(8,759)
Loss carryforwards	(2,139)	(5,619)	23,733
Allowance for bad debts	(2,117)	2,117	—
Valuation allowance	—	—	(126)
Income tax (10%) on undistributed earnings	—	54,067	—
Adjustment of prior year's tax	277,515	(4,471)	(207,758)
	$354,731	$130,684	$(94,476)

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b. A reconciliation of income tax expense — current and income tax expense on "income before income tax" is shown below:

	2001	2002	2003
Income tax expense on "income before income tax" at statutory rate (25%)	$180,872	$175,406	$220,635
Permanent differences			
Tax-exempt income	(80,171)	(82,396)	(94,527)
Interest income taxed separately at 20%	(16,801)	(11,812)	(10,310)
Temporary differences	40,074	(7,990)	(17,490)
Income tax expense-current	$123,974	$ 73,208	$ 98,308

c. Deferred income taxes (part of other assets — Note 9) as of December 31, 2001, 2002 and 2003 consisted of the income tax effects of the following:

	December 31		
	2001	2002	2003
Provision for losses on guarantees	$53,843	$42,461	$51,220
Loss carryforwards	18,115	23,734	—
Provisions for losses on claims from commercial paper issuers	2,117	—	—
Pension cost	126	126	—
	74,201	66,321	51,220
Less — valuation allowance	126	126	—
	$74,075	$66,195	$51,220

d. Imputed tax credit

	December 31		
	2001	2002	2003
Balance of stockholders' imputed tax credit	$19,655	$69,719	$62,804

The actual ratios of the balance of the imputation credit account (ICA) to the undistributed earnings as of December 31, 2001 and 2002 were 6.60% and 3.49%, respectively. Management estimated that the ratio of the ICA balance to the undistributed 2003 was 6.09%. However, the estimated ratio may change depending on the balance of the ICA on the dividend distribution date.

Income tax returns through 2000 had been examined by the tax authorities. However, the tax authorities challenged the Corporation's income tax refund claim of $277,515 (covering the period 1995 to 2000). The claim pertains to the tax withheld from interest income on bonds for the periods when other investors held those bonds. In light of this tax issue, the Corporation might also face questioning by the tax authorities on the taxes of $56,771 withheld in 2001 and $25,960 withheld in 2002 for bonds held under the same situation.

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In view of the tax authorities' challenge, the Corporation wrote off from its 2001 and 2002 accounts the related income tax refunds of $334,286 for 2001 and $25,960 for 2002, which had been recognized as assets in its accounts. However, in 2003 and 2002, the supreme court decided that the tax refund of $219,305 covering 1996 to 1999 be given to the Corporation.

The tax authorities informed the Bills Finance Trade Association in the Republic of China of their intent to negotiate with each bills finance company for the return of 60% of tax credit from interest income for the periods when other investor held those bonds in 2002 and earlier. In turn, the Corporation will negotiate with the tax authorities the increase in the return rate. Thus, on December 31, 2003, the Corporation reversed the tax refund receivable of $207,758 covering 1995 to 2002.

16. Personnel, Depreciation and Amortization Expenses

	2002	2003
Personnel expenses		
Salaries	$71,507	$77,137
Insurance	4,262	4,618
Pension	3,207	3,606
Other	3,591	3,565
	$82,567	$88,926
Depreciation expenses	$ 8,355	$ 7,588
Amortization expenses	$ 1,600	$ 1,380

17. Stockholders' Equity

Capital surplus may only be used to offset a deficit or distributed as stock dividend. Paid-in capital in excess of par value may be capitalized once a year within a prescribed limit.

The Corporation's Articles of Incorporation provide that the annual net income, less any deficit, should be appropriated as follows:

a. 30% as legal reserve.

b. Special reserve, if needed.

c. The remainder, if any:

(1) Bonus to directors and supervisors, 1%

(2) Bonus to employees, 2% to 5%

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(3) The remainder, to be decided by the board of directors.

The appropriation for cash dividends cannot exceed 15% of aggregate par value of the Corporation's paid-in capital until the legal reserve equals the Corporation's paid-in capital. The Articles also provide that the stockholders can decide that all or part of the net income may be retained. The dividend policy of the Corporation is to have cash dividends as the first priority. However, before the amendment of the Articles on May 17, 2002, the Articles prescribed that the Corporation distribute dividends in the form of shares of stock to keep the cash needed for its capital expenditure requirements.

The appropriation of earnings should be resolved by the stockholders in their meeting in the following year and given effect to in the financial statements of that year.

The Corporation's stockholders meetings in June 2002 and March 2003 resolved the following appropriation of earnings generated in 2001 and 2002, respectively:

	Earnings Appropriation		Dividends Per Share (Dollars)	
	2001	2002	2001	2002
a. Legal reserve	$110,627	$171,282	$—	$—
b. Cash dividends	255,900	383,850	0.6	0.9
c. Remuneration to directors and supervisors	2,581	3,997	—	—
d. Bonus to employees	9,809	9,992	—	—

The amounts of the remunerations to directors and supervisors and bonus to employees for 2001 and 2002, which were paid in cash, were the same as those resolved by the Board of Directors' meeting on January 28, 2002 and February 21, 2003, respectively.

Had the bonuses to employees and remuneration to directors and supervisors for 2001 and 2002 been recognized as expenses, the pro forma basic earnings per share (net income) would have decreased from $0.86 to $0.84 in 2001 and from $1.34 to $1.31 in 2002.

As of January 12, 2004, the date of the accompanying auditors' report, the board of directors had still not decided the appropriation of earnings generated in 2003.

The information on the bonuses to employees and directors and supervisors is available online through the Web site of the Taiwan Stock Exchange (http://mops.tse.com.tw).

The Company Law provides that legal reserve should be appropriated until the reserve equals the Corporation's paid-in capital. This reserve may only be used to offset a deficit, or when the reserve reaches 50% of the Corporation's paid-in capital, up to 50% thereof may be distributed as stock dividend.

Under the Integrated Income Tax System, which took effect on January 1, 1998, stockholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. An imputation credit account is maintained by the Corporation for the income tax and the tax credit allocated to each stockholder.

The unappropriated earnings as of December 31, 2000, 2001 and 2002 included earnings of $91,777 each, which was generated before 1998.

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18. Earnings Per Share

The calculation of earnings per share was based on the weighted-average number of the Corporation's common shares outstanding during the applicable periods. The details are as follows:

	Amount			Earnings Per Share (Dollars)	
	Income Before Income Tax	Net Income	Thousand Shares	Income Before Income Tax	Net Income
2001	$723,487	$368,756	426,500	$1.70	$0.86
2002	$701,625	$570,941	426,500	$1.65	$1.34
2003	$871,971	$966,177	426,500	$2.04	$2.27

19. Pension Plan

Before the Labor Standards Law (LSL) took effect on March 1, 1998, the Corporation had a contributory retirement plan for all its employees. Under this plan, the Corporation and its employees made contributions every month to a fund managed by a pension fund administration committee. Upon retirement, the employees get back their contributions as well as the Corporation's counterpart contributions, including all related earnings.

The LSL mandated the Corporation to establish a pension plan for qualified employees. ("LSL plan"). Under this plan, employees should receive retirement benefits based on the length of service after March 1, 1998 and salary on the final month of employment under the plan. The Corporation also established a pension fund and has made monthly contributions to this fund of amounts at 4% of salaries. The fund is administered by a workers' fund administration committee and deposited in committee's name in the Central Trust of China.

The Corporation also has another pension plan for employees not covered by the LSL ("non-LSL plan"). The benefits under the non-LSL plan are similar to those under the LSL plan. It also has a pension fund ("non-LSL fund") deposited in a financial institution in the name of the employees' pension fund administration committee. Fund contributions are equivalent to 4% of the monthly salary of employees.

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Pension information on the above plans combined is summarized as follows:

	For the Years Ended December 31		
	2001	2002	2003
a. Pension cost			
Net periodic pension cost			
Service cost	$ 3,521	$ 3,733	$ 4,086
Interest cost	770	677	784
Actual return on plan assets	(776)	(799)	(628)
Amortization	(930)	(404)	(636)
	$ 2,585	$ 3,207	$ 3,606
b. Changes in the pension fund			
Balance, beginning of year	$22,133	$23,876	$29,288
Contributions	4,577	4,613	4,558
Payment of benefits	(3,610)	—	—
Interest income	776	799	628
Balance, end of year	$23,876	$29,288	$34,474

Other pension information for 2001, 2002 and 2003 is as follows:

a. Reconciliation of the funded status of the plan and prepaid pension cost

	December 31		
	2001	2002	2003
Vested benefit obligation	$ (3,737)	$ (4,524)	$ (5,312)
Non-vested benefit obligation	(8,135)	(11,263)	(14,884)
Accumulated benefit obligation	(11,872)	(15,787)	(20,196)
Additional benefits based on future salaries	(5,065)	(6,626)	(9,358)
Projected benefit obligation	(16,937)	(22,413)	(29,554)
Fair value of plan assets	23,876	29,288	34,474
Fund status	6,939	6,875	4,920
Unrecognized net transition assets	(3,713)	(3,556)	(3,399)
Unrecognized net gain or loss	(410)	(1,089)	1,661
Prepaid pension cost	$ 2,816	$ 2,230	$ 3,182
b. Vested benefits	$ 3,737	$ 4,524	$ 5,312

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	December 31		
	2001	2002	2003
c. Actuarial assumptions			
Discount rate used to determine present values	4.00%	3.50%	3.00%
Future salary increase rate	3.25%	3.00%	3.00%
Expected rate of return on plan assets	4.00%	3.50%	3.00%

20. Related-Party Transactions

The Corporation's related parties were (a) E.Sun Financial Holding Company, Ltd. — parent company; (b) E.Sun Commercial Bank, Ltd. (common parent company); (c) E.Sun Securities Corp. (common parent company); (d) E.Sun Securities Investment Trust Corp. (common parent company from September 16, 2003 but, before this date, its major stockholders were E.Sun Commercial Bank, Ltd. and E.Sun Securities Corp.); (e) E.Sun Volunteer & Social Welfare Foundation (a third of the Foundation's funds was donated by the Corporation); and (f) E.Sun Finance & Leasing Co., Ltd (subsidiary of the E.Sun Commercial Bank, Ltd.). Related-party transactions are summarized as follows:

2001

	Highest Balance During the Year	Year-End Balance	Range of Interest Rates	Interest Revenue (Expense)
a. Bank loans — E.Sun Commercial Bank, Ltd.	$ 850,000	$ —	2.415%–4.9%	$(4,154)
b. Bank deposits and pledged time deposits — E.Sun Commercial Bank, Ltd.	1,631,374	1,631,374	0%–5.05%	50,268
c. Call loans to bank — E.Sun Commercial Bank, Ltd.	100,000	—	2.4%–2.415%	20

d. Purchase and sales of negotiable instruments and bonds:

Related Party	Purchase		Sales		Sales under Agreements to Repurchase		Purchase under Agreements to Resell	
	Amount	%	Amount	%	Amount	%	Amount	%
E.Sun Commercial Bank, Ltd.	$23,136,027	1	$41,468,800	2	$12,717,030	1	$2,732,122	—

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2002

		Highest Balance During the Year	Year-End Balance	Range of Interest Rates	Interest Revenue (Expense)
a.	Bank loans — E.Sun Commercial Bank, Ltd.	$ 500,000	$ —	1.575%–2.3%	($1,056)
b.	Bank deposits and deposits for bond clearance (paid through time deposits, recorded as refundable deposits) — E.Sun Commercial Bank, Ltd.	2,154,185	2,154,185	0%–5.05%	38,443
c.	Call loans to bank — E.Sun Commercial Bank, Ltd. .	100,000	—	2.275%	6
d.	Long-term bond investments — E.Sun Commercial Bank, Ltd.	360,000	160,000	4.2%	9,240

e. Purchases and sales of negotiable instruments and bonds:

Related Party	Purchase		Sale		Sale under Agreement to Repurchase		Purchase under Agreement to Resell	
	Amount	%	Amount	%	Amount	%	Amount	%
E.Sun Commercial Bank, Ltd.	$30,213,280	0.90	$28,257,490	0.84	$3,667,960	0.03	$1,770,321	0.05
E.Sun Securities Corp.	1,870,546	0.06	2,080,699	0.06	916,970	—	417,000	0.01
E.Sun Securities Investment Trust Corp..	201,683	0.01	207,373	0.01	—	—	—	—

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2003

		Highest Balance During the Year	Year-End Balance	Range of Interest Rates	Interest Revenue (Expense)
a.	Bank loans — E.Sun Commercial Bank, Ltd.	$ 150,000	$ —	0.865%–1%	($13)
b.	Bank deposits and deposits for bond clearance (paid through time deposits, recorded as refundable deposits) — E.Sun Commercial Bank, Ltd..	2,990,517	1,565,917	0–2.4%	33,485
c.	Long-term bond investments — E.Sun Commercial Bank, Ltd.	160,000	160,000	4.2%	6,720

		2003	%
d.	Donation (part of general and administrative expenses) — E.Sun Volunteer & Social Welfare Foundation	$18,000	20
e.	Income tax refund receivable (part of receivables — E.Sun Financial Holding Co., Ltd.)	30,849	5

The abovementioned donation of the Corporation was for the Foundation's social welfare services.

The Corporation's parent company, E.Sun Financial Holding Co., Ltd., will file consolidated corporate tax returns in 2003, i.e., including the Corporation's income tax return.

f. Purchase and sale of negotiable instruments and bonds:

Related Party	Purchase		Sale		Sale under Agreement to Repurchase		Purchase under Agreement to Resell	
	Amount	%	Amount	%	Amount	%	Amount	%
E.Sun Commercial Bank, Ltd.	$20,910,703	0.60	$24,843,391	0.71	$5,794,542	0.17	$1,780,489	0.05
E.Sun Securities Corp.	1,178,421	0.03	1,607,320	0.05	189,162	0.01	991,950	0.03
E.Sun Securities Investment Trust Corp..	—	—	49,888	—	538,159	0.02	—	—
E.Sun Finance & Leasing Co., Ltd	953,581	0.03	—	—	—	—	—	—

The terms of the above transactions were similar to or approximated those made with third parties.

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21. Pledged Assets

	December 31		
	2001	2002	2003
Short-term negotiable instruments	$ 16,000	$1,413,591	$5,552,991
Pledged time deposits	100,000	—	—
Long-term investments in bonds	180,000	199,976	199,980
	$296,000	$1,613,567	$5,752,971

As of December 31, 2002 and 2003, the abovementioned short-term negotiable instruments of $1,297,000 and $2,200,000, respectively, had been provided as collateral for the day-term overdraft in joining the Central Bank's clearing system of Real-time Gross Settlement (RTGS). As of December 31, 2003, a collateral of $3,200,000 had been provided to the International Commercial Bank of China and Chiao Tung Bank for the Corporations issuance of corporate bonds. The remaining pledged assets had been provided as collaterals for bank loans and credit lines.

22. Commitments And Contingent Liabilities as of December 31, 2003

a. Arising in the ordinary course of business

Negotiable instruments and bonds sold under agreements to repurchase	$44,551,324
Negotiable instruments and bonds purchased under agreements to resell	151,102
Guarantees on commercial paper *(Note 25)*	18,366,200
Negotiable instruments underwritten	505,000

b. Leases

The Corporation leases certain properties under agreements expiring on various dates until April 30, 2007. The leases are payable every quarter. Refundable deposits on these leases aggregated $2,551 (included in refundable deposits) as of December 31, 2003. Future minimum annual rentals are as follows:

Year	Amount
2004	$8,099
2005	4,989
2006	2,389
2007	447

23. Subsequent Event

On December 30, 2003, the Corporation applied to the Securities and Futures Commission (SFC) for approval to make a second issue secured corporate bonds with aggregate face value of $2,000,000. On January 9, 2004, the Corporation got the SFC's approval. The Corporation plans to issue these five-year bonds on February 20, 2004.

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24. Financial Instruments

a. *Derivative financial instruments*

The Corporation used interest rate swaps as hedge instruments for interest rates exposures pertaining primarily to the Corporation's first issuance of corporate bonds in 2003.

Credit risk is the exposure to loss on any counter-party's default on contracts. To manage this risk, the Corporation enters into derivative transactions only with known international financial institutions among the top 500 listed in "The Banker" magazine or rated as "A" in the S&P (Standard & Poor) classification or "A3" in Moody's. Thus, the Corporation's credit risk is minimum.

The contract (notional) amounts, credit risks, and fair value of derivative transactions were as follows:

	December 31, 2003		
Nontrading Purposes	**Contract (Notional) Amount**	**Credit Risk**	**Fair Value**
Interest rate swap contracts.	$3,000,000	$28,982	$28,982

The Corporation calculates the fair value of each contract at the interest rate shown on TWD-T6165 from the Telerate information system.

The contract or notional amount is used to calculate the amount of settlement with a counter-party, it is neither the amount to be actually delivered to nor is it the cash required from the Corporation. Also, for corporate bonds issued, the Corporation will hold the contracts to maturity to hedge the related interest rate fluctuations. Thus, the Corporation does not expect significant cash flow requirements to settle these instruments.

The gain and loss on the derivative transactions were as follows:

	For the Year Ended December 31, 2003
Interest rate swap contracts	
Interest income	$2,877
Interest expense	(275)
	$2,602

The Corporation did not have derivative transactions in 2001 and 2002.

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b. ***Fair values of financial instruments***

	December 31					
	2001		2002		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets						
Financial assets — fair value approximate carrying value.	$5,241,361	$5,241,361	$4,538,940	$ 4,538,940	$ 4,693,793	$ 4,693,793
Short-term negotiable instruments.	2,865,830	2,866,180	3,790,635	3,815,311	9,940,333	9,940,333
Other short-term investments	—	—	—	—	290,000	290,369
Long-term bond investments	574,241	572,926	1,259,973	1,260,561	2,685,499	2,694,981
Bonds included in other assets.	279,454	296,405	296,345	325,543	307,197	323,703
Financial liabilities						
Financial liabilities — fair value approximate carrying value	$3,519,634	$3,519,634	$4,042,377	$4,042,377	$11,547,969	$11,547,969

Fair values were determined on the basis of the following:

a. The carrying values of cash, call loans to banks, receivables, commercial paper, payable, bank loans and payables approximate fair values because of the short maturity of these instruments.

b. If market prices of short-term negotiable instruments and long-term bond investments are available, the fair value of these financial instruments should be based on the market prices. Otherwise, their carrying value will represent fair value.

c. For operating deposits that are paid through bonds, the fair value is the bond market price. The rest of the deposits are valued at carrying value because the settlement period is indefinite.

d. Corporate bonds, which are traded on the over-the counter securities exchange, are liabilities bearing interest and have issue dates near the balance sheet date. Thus, their fair value is based on the market price.

Only the fair values of financial instruments are listed above. Thus, the total of fair values listed above is not equal to the Corporation's fair value.

25. Off-Balance-Sheet Credit Risks

The Corporation guarantees commercial paper issued by other entities. The guarantee period is normally one year and the rate for guarantee service fees ranged from 0.1% to 1% in 2001 and 2002 and from 0.1% to 2.0% in 2003 of the amount guaranteed. As of December 31, 2001, 2002 and 2003, the total amounts guaranteed were $17,647,500, $19,412,600 and $18,366,200, respectively.

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Most of the guarantee contracts are expected to expire without any payment by the Corporation. Thus, the total amount guaranteed does not necessarily represent future cash payments. In addition, the potential total loss on each guarantee is equal to the amount guaranteed, without considering the value of any collateral.

The Corporation approves the arrangements involving guarantees on commercial paper (including the maximum amount to be guaranteed) after reviewing a customer's credit history and credit rating. An appropriate collateral is required, and the transaction should be made within the approved maximum amount. As of December 31, 2001, 2002 and 2003, about 33.14%, 25.61% and 29.74%, respectively, of total amounts guaranteed were covered by securities or other properties. If a customer defaults, the Corporation can freely sell the related collateral.

26. Credit Risk Concentrations

Credit risk concentrations exist when the counter-parties to financial-instrument transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Corporation's credit risk concentration is not in its customer-financing activities with individuals but in the following industries:

	December 31		
	2001	2002	2003
Guarantees on commercial paper — by industry:			
Financial	$6,705,000	$6,594,000	$7,138,000
Electronic and mechanical equipment	2,440,000	2,705,000	2,078,000
Real estate	1,527,000	1,401,000	807,000

The collateral policy is mentioned in Note 25. The Corporation's maximum exposure to losses associated with credit guarantees, regardless of collateral involved, equals the total contract amount.

27. Additional Disclosures

The Securities and Futures Commission requires the following additional disclosures:

a. Significant transactions and investees: Tables 1 and 2 (attached) and Note 24

b. Investment in Mainland China: None.

28. Segment and Geographic Information

The Corporation is involved in only one business segment: Bills financing.

It operates entirely in the Republic of China.

TABLE 1

E.SUN BILLS FINANCE CORPORATION
Marketable Securities Held
December 31, 2003
(Amounts in Thousands of New Taiwan Dollars)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousand)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
E.Sun Bills Finance Corp.	**Corporate and financial institution bonds**							
	E.Sun Commercial Bank	Common parent company	Long-term bond investments	—	$ 160,000	—	$ 160,000	
	Taishin Bank	—	Long-term bond investments	—	199,980	—	199,980	
	Chang Hwa Bank	—	Long-term bond investments	—	100,000	—	100,501	
	Hua Nan Commercial Bank	—	Long-term bond investments	—	100,000	—	100,000	
	The Farmers Bank of China	—	Long-term bond investments and other assets	—	200,000	—	200,000	
	Sunny Bank	—	Long-term bond investments	—	200,000	—	200,000	
	Union Bank	—	Long-term bond investments	—	100,000	—	102,165	
	Hua Nan Financial Holding Company	—	Long-term bond investments	—	199,997	—	199,992	
	China Development Financial Holding Corporation	—	Long-term bond investments	—	200,000	—	200,000	
	Government bonds							
	A91104	—	Long-term bond investments	—	1,265,522	—	1,272,343	
	A87103	—	Other assets	—	215,547	—	230,784	
	A86310	—	Other assets	—	11,650	—	12,919	

TABLE 2

E.SUN BILLS FINANCE CORPORATION
Marketable Securities Acquired and Disposed at Cost or Prices at least NT$100 million or 20% of the Paid-in Capital
For the Year Ended December 31, 2003
(Amounts in Thousands of New Taiwan Dollars)

					Beginning Balance		Acquisition		Disposal				Ending Balance	
Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-Party	Nature of Relationship	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
E.Sun Bills Finance Corp.	Corporate bonds issued by China Development Financial Holding Corporation	Long-term bond investments	China Development Financial Holding Corporation	—	—	$—	—	$ 200,000	—	$—	$ —	$—	—	$ 200,000
	Government bonds	Long-term bond investments	Market acquisition	—	—	—	—	1,266,204	—	—	682 *(Note)*	—	—	1,265,522

Note: Discount amortization $682.

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

July 21, 2004

The Board of Directors and Stockholders
E.Sun Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of E.Sun Financial Holding Co., Ltd. and its subsidiaries (the "Company") as of June 30, 2003 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended, all expressed in New Taiwan Dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of E.Sun Financial Holding Co., Ltd.'s subsidiaries, E.Sun Securities Corp. ("E.Sun Securities") and E.Sun Securities Investment Trust Corp. ("ESSIT"), had been audited by other auditors, whose report were furnished to us, and our opinion expressed herein, insofar as it relates to the accounts of E.Sun Securities, which are included in these consolidated financial statements, and the long-term equity investments in ESSIT, are based solely on the reports of such other auditors. The total assets of E.Sun Securities were 3% (NT$8,989,611 thousand) and 2% (NT$8,197,078 thousand) as of June 30, 2003 and 2004, respectively, of the Company's consolidated total assets. The balances of E.Sun Securities' net operating income were 3% (NT$244,298 thousand) and 4% (NT$331,783 thousand) for the six months ended June 30, 2003 and 2004, respectively, of the Company's consolidated net operating income. The balance of the long-term equity investment in ESSIT was NT$361,822 thousand as of June 30, 2004. The Company's equity in ESSIT's net income for the six months ended June 30, 2004 was NT$45,692 thousand.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of E.Sun Financial Holding Co., Ltd. and its subsidiaries as of June 30, 2003 and 2004 and the results of its consolidated operations and its cash flows for the six months then ended, in conformity with the Criteria Governing the Preparation of Financial Reports by Financial Holding Companies, Criteria Governing the Preparation of Financial Reports by Public Banks (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporations (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Securities Issuers, Criteria Governing the Preparation of Financial Reports by Securities Firms and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the consolidated financial statements, sales and purchases of bonds and short-term bills under agreements to repurchase or to resell were treated as outright sales or purchases for E.Sun Commercial Bank Ltd. and E.Sun Bills Finance Corp. However, pursuant to Criteria Governing the Preparation of Financial Reports by Public Banks and Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporations effective January 1, 2004, the repurchase/resell transactions are treated as financing.

We have also reviewed the translations of the New Taiwan dollar financial statements as of and for the six months ended June 30, 2004 into U.S. dollars, which have been included solely for the reader's convenience, against the exchange rate stated in Note 2 to the financial statements and, in our opinion, the U.S. dollar amounts have been properly translated at that rate. The convenience translations should not be construed as representations 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.

Deloitte & Touche
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2003 and 2004
(In Thousands of Dollars, Except Par Value)

	2003	2004	
	NT$	NT$	US$ (Note 2)
ASSETS			
CASH AND CASH EQUIVALENTS *(Notes 2 and 5)*	$ 11,798,669	$ 9,309,132	$ 276,564
DUE FROM THE CENTRAL BANK OF CHINA AND BANKS *(Note 6)*	15,249,495	15,168,811	450,648
SECURITIES PURCHASED — Net *(Notes 2, 3, 7, 29 and 30)*	64,528,327	112,022,395	3,328,057
RECEIVABLES — Net *(Notes 2, 8 and 29)*	22,580,140	31,628,274	939,640
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL *(Notes 2, 3 and 9)*	982,748	3,659,461	108,718
PREPAID EXPENSES	62,103	93,313	2,772
BILLS, DISCOUNTS AND LOANS — Net *(Notes 2, 10 and 29)*	178,728,001	239,780,874	7,123,615
LONG-TERM INVESTMENTS — Net *(Notes 2, 11 and 30)*			
Long-term equity investments — equity method	1,460,132	1,576,726	46,843
Long-term equity investments — cost method	622,401	604,558	17,960
Bonds	1,259,975	7,879,120	234,080
Other	10,000	2,260,508	67,157
Total long-term investments — net	3,352,508	12,320,912	366,040
PROPERTIES *(Notes 2 and 12)*			
Cost			
Land	2,868,893	6,420,381	190,742
Buildings	1,589,230	2,613,983	77,658
Computers	1,433,041	1,633,303	48,523
Transportation equipment	186,584	198,948	5,911
Miscellaneous equipment	689,054	790,463	23,484
Total cost	6,766,802	11,657,078	346,318
Accumulated depreciation	1,628,329	1,843,777	54,776
	5,138,473	9,813,301	291,542
Prepayments	400,907	494,076	14,678
Net properties	5,539,380	10,307,377	306,220
OTHER ASSETS — Net *(Notes 2, 13 and 25)*			
Refundable deposits	932,237	964,516	28,655
Operating deposits	303,171	307,612	9,139
Settlement funds	64,770	68,706	2,041
Others	362,724	349,506	10,383
Deferred income tax assets — net	826,204	—	—
Total other assets — net	2,489,106	1,690,340	50,218
TOTAL ASSETS	$305,310,477	$435,980,889	$12,952,492

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Balance Sheets — Continued
June 30, 2003 and 2004
(In Thousands of Dollars, Except Par Value)

	2003	2004	
	NT$	NT$	US$ (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Short-term debts *(Note 14)*	$ —	$ 600,000	$ 17,825
Commercial paper issued *(Note 15)*	—	679,463	20,186
Securities sold under agreements to repurchase *(Notes 2, 3, 16 and 29)*	4,662,186	58,160,128	1,727,871
Current portion of long-term liabilities *(Notes 2 and 17)*	291,000	4,419,363	131,294
Due to banks *(Note 18)*	29,336,537	32,476,966	964,854
Payables *(Notes 2 and 19)*	6,477,927	8,079,139	240,022
Advances	88,745	191,182	5,680
Deposits and remittances *(Notes 20 and 29)*	221,895,913	267,490,479	7,946,835
Bonds *(Notes 21 and 29)*	9,840,000	25,000,000	742,721
Corporate bonds payable *(Notes 2 and 22)*	6,233,676	5,000,000	148,544
Long-term debts *(Note 23)*	838,000	1,050,000	31,194
Other *(Notes 2 and 25)*	1,093,649	1,055,063	31,345
Total liabilities	280,757,633	404,201,783	12,008,371
STOCKHOLDERS' EQUITY			
Capital stock — NT$10 par value, authorized 5,000,000 thousand shares, issued 2,470,000 thousand shares in 2003 and 2,596,377 thousand shares in 2004	24,700,000	25,963,771	771,354
Reserve for capitalization	—	933,331	27,728
Capital surplus			
Paid-in capital in excess of par value	1,748,216	2,569,561	76,338
From treasury stock	—	1,366,983	40,612
Total capital surplus	1,748,216	3,936,544	116,950
Retained earnings			
Legal reserve	—	452,903	13,455
Special reserve	—	53,767	1,597
Unappropriated earnings	2,432,090	3,306,910	98,245
Total retained earnings	2,432,090	3,813,580	113,297

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Balance Sheets — Continued
June 30, 2003 and 2004
(In Thousands of Dollars, Except Par Value)

	2003	2004	
	NT$	NT$	US$ (Note 2)
Unrealized loss on long-term equity investments	($ 82,527)	($ 74,869)	($ 2,224)
Cumulative translation adjustments	2,668	3,301	98
Treasury stock — 349,849 thousand shares in 2003 and 231,729 thousand shares in 2004	(4,247,603)	(2,796,552)	(83,082)
Total stockholders' equity	24,552,844	31,779,106	944,121
CONTINGENCIES AND COMMITMENTS *(Notes 2 and 31)*			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$305,310,477	$435,980,889	$12,952,492

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Income
for the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars, Except Per Share Amounts)

	2003	2004	
	NT$	NT$	US$ (Note 2)
OPERATING REVENUES AND GAINS *(Note 2)*			
Interest *(Note 29)*	$5,555,077	$7,183,573	$213,416
Service fees *(Note 29)*	727,019	1,265,116	37,585
Gain on sale of securities — net	1,107,061	269,860	8,017
Income from long-term equity investments under the equity method — net *(Note 11)*	48,941	65,734	1,953
Reversal of allowance for bad debts	75,127	—	—
Foreign exchange gain — net	161,834	190,091	5,647
Other	191,390	497,040	14,767
Total operating revenues and gains	7,866,449	9,471,414	281,385
OPERATING COSTS			
Interest *(Notes 2 and 29)*	2,140,215	1,988,455	59,075
Service charges	281,429	365,667	10,864
Provisions *(Note 2)*	—	122,426	3,637
Operating expense *(Note 32)*	2,221,725	2,832,764	84,158
Other	32,628	102,362	3,041
Total operating costs	4,675,997	5,411,674	160,775
OPERATING INCOME	3,190,452	4,059,740	120,610
NONOPERATING INCOME AND GAINS	19,766	15,950	474
NONOPERATING EXPENSES AND LOSS	24,847	36,304	1,078
INCOME BEFORE INCOME TAX	3,185,371	4,039,386	120,006
INCOME TAX EXPENSE *(Notes 2 and 25)*	753,281	937,875	27,863
CONSOLIDATED NET INCOME	$2,432,090	$3,101,511	$92,143

	2003		2004			
	Pre tax	After Tax	Pre tax	After Tax	Pre tax	After Tax
	NT$		NT$		US$ (Note 2)	
EARNINGS PER SHARE *(Note 27)*						
Basic earnings per share	$1.50	$1.15	$1.83	$1.40	$0.054	$0.042
Diluted earnings per share	$1.50	$1.15	$1.62	$1.24	$0.049	$0.037

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars)

	Capital Stock			Capital Surplus (Notes 2 and 24)			Retained Earnings (Deficit) (Note 24)							
	Shares (thousands)	Amount	Reserve for Capital-ization (Note 24)	Paid-in capital in excess of par value	From treasury stock	Total	Legal reserve	Special reserve	Unappropriated earnings (deficit)	Total	Unrealized Loss on Long-term Equity Investments (Note 2)	Cumulative Translation Adjustments (Note 2)	Treasury Stock (Notes 2 and 26)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2003	2,470,000	$24,700,000	$ —	$4,839,667	$ —	$4,839,667	$ —	$ —	($3,091,451)	($3,091,451)	($82,606)	$2,906	($4,247,603)	$22,120,913
Offset of deficit against capital surplus	—	—	—	(3,091,451)	—	(3,091,451)	—	—	3,091,451	3,091,451	—	—	—	—
Consolidated net income for the six months ended June 30, 2003	—	—	—	—	—	—	—	—	2,432,090	2,432,090	—	—	—	2,432,090
Translation adjustments	—	—	—	—	—	—	—	—	—	—	—	(238)	—	(238)
Reversal of unrealized loss on long-term equity investments	—	—	—	—	—	—	—	—	—	—	79	—	—	79
BALANCE, JUNE 30, 2003	2,470,000	$24,700,000	$ —	$1,748,216	$ —	$1,748,216	$ —	$ —	$ 2,432,090	$ 2,432,090	($82,527)	$2,668	($4,247,603)	$24,552,844
BALANCE, JANUARY 1, 2004	2,506,367	$25,063,669	$ —	$1,769,432	$ —	$1,769,432	$ —	$ —	$ 4,529,029	$ 4,529,029	($56,391)	$2,624	($4,503,276)	$26,805,087
Appropriation of prior year's earnings														
Legal reserve	—	—	—	—	—	—	452,903	—	(452,903)	—	—	—	—	—
Special reserve	—	—	—	—	—	—	—	53,767	(53,767)	—	—	—	—	—
Dividend														
Cash	—	—	—	—	—	—	—	—	(2,818,678)	(2,818,678)	—	—	—	(2,818,678)
Stock	—	—	845,603	—	—	—	—	—	(845,603)	(845,603)	—	—	—	—
Bonus to directors and supervisors	—	—	—	—	—	—	—	—	(38,170)	(38,170)	—	—	—	(38,170)
Bonus to employees — issued 8,773 thousand shares and $26,781 in cash	—	—	87,728	—	—	—	—	—	(114,509)	(114,509)	—	—	—	(26,781)
Balance after appropriation	2,506,367	25,063,669	933,331	1,769,432	—	1,769,432	452,903	53,767	205,399	712,069	(56,391)	2,624	(4,503,276)	23,921,458
Conversion of corporate bonds payable to capital stock	90,010	900,102	—	800,129	—	800,129	—	—	—	—	—	—	—	1,700,231
Treasury stock transaction recognized from subsidiaries	—	—	—	—	1,366,983	1,366,983	—	—	—	—	—	—	1,706,724	3,073,707
Consolidated net income for the six months ended June 30, 2004	—	—	—	—	—	—	—	—	3,101,511	3,101,511	—	—	—	3,101,511
Translation adjustments	—	—	—	—	—	—	—	—	—	—	—	677	—	677
Unrealized loss on long-term equity investments	—	—	—	—	—	—	—	—	—	—	(18,478)	—	—	(18,478)
BALANCE, JUNE 30, 2004	2,596,377	$25,963,771	$933,331	$2,569,561	$1,366,983	$3,936,544	$452,903	$53,767	$ 3,306,910	$ 3,813,580	($74,869)	$3,301	($2,796,552)	$31,779,106

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of U.S. Dollars — Note 2)

	Capital Stock			Capital Surplus (Notes 2 and 24)			Retained Earnings (Deficit) (Note 24)							
	Shares (thousands)	Amount	Reserve for Capital-ization (Note 24)	Paid-in capital in excess of par value	From treasury stock	Total	Legal reserve	Special reserve	Unappropriated earnings (deficit)	Total	Unrealized Loss on Long-term Equity Investments (Note 2)	Cumulative Translation Adjustments (Note 2)	Treasury Stock (Notes 2 and 26)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2004	2,506,367	$744,613	$ —	$52,567	$ —	$ 52,567	$ —	$ —	$134,552	$134,552	($1,675)	$78	($133,787)	$796,348
Appropriation of prior year's earnings														
Legal reserve	—	—	—	—	—	—	13,455	—	(13,455)	—	—	—	—	—
Special reserve	—	—	—	—	—	—	—	1,597	(1,597)	—	—	—	—	—
Dividend														
Cash	—	—	—	—	—	—	—	—	(83,740)	(83,740)	—	—	—	(83,740)
Stock	—	—	25,122	—	—	—	—	—	(25,122)	(25,122)	—	—	—	—
Bonus to directors and supervisors	—	—	—	—	—	—	—	—	(1,134)	(1,134)	—	—	—	(1,134)
Bonus to employees — issued 8,773 thousand shares and $796 in cash	—	—	2,606	—	—	—	—	—	(3,402)	(3,402)	—	—	—	(796)
Balance after appropriation	2,506,367	744,613	27,728	52,567	—	52,567	13,455	1,597	6,102	21,154	(1,675)	78	(133,787)	710,678
Conversion of corporate bonds payable to capital stock	90,010	26,741	—	23,771	—	23,771	—	—	—	—	—	—	—	50,512
Treasury stock transaction recognized from subsidiaries	—	—	—	—	40,612	40,612	—	—	—	—	—	—	50,705	91,317
Consolidated net income for the six months ended June 30, 2004	—	—	—	—	—	—	—	—	92,143	92,143	—	—	—	92,143
Translation adjustments	—	—	—	—	—	—	—	—	—	—	—	20	—	20
Unrealized loss on long-term equity investments	—	—	—	—	—	—	—	—	—	—	(549)	—	—	(549)
BALANCE, JUNE 30, 2004	2,596,377	$771,354	$27,728	$76,338	$40,612	$116,950	$13,455	$1,597	$ 98,245	$113,297	($2,224)	$98	($83,082)	$944,121

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars)

	2003	2004	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Consolidated net income	$2,432,090	$ 3,101,511	$ 92,143
Depreciation and amortization	182,718	245,177	7,284
Provisions (reversal)	(75,127)	122,426	3,637
Reversal of allowance for losses on securities purchased	(92,910)	(8,461)	(252)
Reversal of reserve for losses on sale of bonds	(10,154)	(14,348)	(426)
Recovery of written-off credits and guarantees	1,064,322	743,425	22,086
Equity in net income of equity-method investees, net of cash dividends received	(23,740)	(65,734)	(1,953)
Amortization of premium or discount on long-term bond investments	(2)	40,708	1,209
Loss on sale of properties and foreclosed collaterals	4,030	11,728	348
Amortization of bond issuance expense	—	23,693	704
Amortization of premium on corporate bonds payable	—	(16,777)	(498)
Deferred income tax	530,890	438,487	13,027
Pension liability	2,308	1,881	56
Others	(287)	(19,286)	(573)
Net changes in operating assets and liabilities:			
Securities purchased for trading purposes	(5,856,689)	(51,090,264)	(1,517,834)
Securities purchased under agreements to resell	1,205,637	(628,107)	(18,660)
Receivables	(4,675,068)	(1,977,571)	(58,751)
Prepaid expenses	(14,074)	(20,812)	(618)
Securities sold under agreements to repurchase	(464,528)	43,507,085	1,292,546
Payables	1,270,377	(3,298,578)	(97,997)
Advances	54,021	16,060	477
Net cash used in operating activities	(4,466,186)	(8,887,757)	(264,045)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in due from the Central Bank of China and banks	1,621,137	859,559	25,537
Increase in securities purchased for investing purposes	(1,271,514)	(2,361,572)	(70,160)
Increase in securities purchased under agreements to resell	—	(2,244,007)	(66,667)
Proceeds from sales of:			
Properties	319	544	16
Foreclosed collaterals	142,906	128,550	3,819
Acquisition of:			
Long-term investments	(221,789)	(3,559,576)	(105,751)
Properties	(531,329)	(684,334)	(20,331)
Increase in:			
Bills, discounts and loans	(8,579,443)	(41,233,014)	(1,224,985)
Other assets	(346,256)	(43,871)	(1,303)
Return of principal on long-term investments	—	478,444	14,214
Net cash used in investing activities	(9,185,969)	(48,659,277)	(1,445,611)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows — (Continued)
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars)

	2003	2004	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in short-term debts	$ —	$ 500,000	$ 14,854
Decrease in commercial paper issued	—	(788,493)	(23,425)
Increase in securities sold under agreements to repurchase	—	11,538,241	342,788
Increase in due to banks	11,796,157	3,192,767	94,853
Increase in deposits and remittances	162,873	25,774,473	765,730
Proceeds from issuance of bonds	—	12,856,100	381,940
Increase in corporate bonds payable	6,233,676	2,000,000	59,418
Redemption of corporate bonds payable	—	(50,565)	(1,502)
Increase in long-term debts	—	350,000	10,398
Repayment of long-term debts	(351,000)	(291,000)	(8,645)
Increase (decrease) in other liabilities	80,996	(69,138)	(2,053)
Proceeds from treasury stock	—	377,607	11,218
Payment of bonus to directors, supervisors and employees	—	(26,781)	(796)
Net cash provided by financing activities	17,922,702	55,363,211	1,644,778
EFFECTS OF EXCHANGE RATE CHANGES	(104)	(67,071)	(1,993)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,270,443	(2,250,894)	(66,871)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,528,226	11,560,026	343,435
CASH AND CASH EQUIVALENTS, END OF PERIOD	$11,798,669	$ 9,309,132	$ 276,564
SUPPLEMENTARY INFORMATION			
Interest paid	$ 2,126,801	$ 1,960,795	$ 58,253
Tax paid	$ 112,011	$ 151,043	$ 4,487
NON CASH INVESTING AND FINANCING ACTIVITIES			
Proceeds from exchangeable bonds issued by subsidiary for exchange parent's shares	$ —	$ 2,696,100	$ 80,098
Costs of treasury stock and expense	—	1,514,142	44,983
Capital surplus form treasury stock	$ —	$ 1,181,958	$ 35,115
Conversion of corporate bonds payable to capital stock	$ —	$ 1,700,231	$ 50,512
Current portion of long-term debts	$ —	$ 188,000	$ 5,585

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. Organization and Operations

E.Sun Financial Holding Company, Ltd. ("ESFHC") was established by E.Sun Commercial Bank Ltd. ("E.Sun Bank"), E.Sun Bills Finance Corp. ("E.Sun Bills") and E.Sun Securities Corp. ("E.Sun Securities") through a share swap on January 28, 2002 based on the Financial Holding Companies Law and related regulations in the Republic of China (the "ROC"). The swap ratio was 1 share of ESFHC stock for 1.0 share of E.Sun Bank, 1.10 shares of E.Sun Bills and 1.25 shares of E.Sun Securities. After the swap, E.Sun Bank, E.Sun Bills and E.Sun Securities became 100% subsidiaries of ESFHC.

E.Sun Securities Investment Trust Corp. ("ESSIT") became a 100% subsidiary of ESFHC through a share swap on September 16, 2003. The swap ratio was 1.18 shares of ESFHC for 1.0 share of ESSIT.

ESFHC invests in and manages business related to financial institutions.

The ESFHC's shares have been listed on the Taiwan Stock Exchange ("TSE") since January 28, 2002.

E.Sun Bank engages in commercial banking permitted under the Banking Laws and regulations of the ROC. The operations of the Bank's Trust Department consist of planning, managing and operating a trust business. These operations are regulated under the Banking Law and Trust Law of the ROC. As of June 30, 2004, the Bank had a business department, a international banking department, trust department, an offshore banking unit (OBU), 2 overseas branches (Los Angeles and Hong Kong) and 53 domestic branches.

The operations of E.Sun Bills are: (a) underwriting and acting as registrar of commercial paper and bank acceptances; (b) brokering and dealing in commercial paper and bank acceptances; (c) providing guarantees on or endorsements of commercial paper and bank acceptances; (d) brokerage of call loans between financial institutions; (e) providing consulting services on corporate financial matters; (f) brokering and dealing in government bonds; (g) underwriting and acting as registrar of financial institution bonds; (h) brokering and dealing in financial institution bonds; and (i) conducting derivative activities approved by the Ministry of Finance and (j) dealing in corporate bonds. As of June 30, 2004, it had branches in Kaohsiung, Taichung, Taoyuan and Panchiau.

E.Sun Securities engages in underwriting, dealing and brokerage of securities.

E.Sun Insurance Broker Co., Ltd. ("ESIB") brokers life and property insurance.

As of June 30, 2003 and 2004, ESFHC and its subsidiaries had 1,947 and 2,319 employees, respectively.

2. Summary of Significant Accounting Policies

The consolidated financial statements were issued in conformity with the Criteria Governing the preparation of Financial Reports by Financial Holding Companies, Criteria Governing the Preparation of Financial Reports by Public Banks (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporations (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Securities Issuers, Criteria Governing the Preparation of Financial Reports by Securities Firms and accounting principles generally accepted in ROC.

The estimates of significant accounts — allowances for possible losses, reserve for losses on guarantees, depreciation, pension, losses on a suspended lawsuit, etc. — do not include any adjustments that might be required if related contingent liabilities arise.

Significant accounting policies are summarized below.

Consolidation

The consolidated financial statements include the accounts of ESFHC, E.Sun Bank, E.Sun Bills, E.Sun Securities and ESIB (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated for consolidation purposes.

Neither the operating revenues not total assets of ESFHC's other subsidiaries — E.Sun Venture Capital Co., Ltd. ("ESVC"), E.Sun Finance & Leasing Co., Ltd., E.Sun Insurance Agent Co., Ltd., ESSIT and E.Sun Securities Investment Consulting Co., Ltd. ("ESSIC") — individually reached 10%, or collectively reached 30% of those of the Company. Thus, their accounts were not included in these consolidated financial statements.

Current and Noncurrent Assets and Liabilities

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the financial statements of E.Sun Bank were not classified as current or noncurrent. Nevertheless, these accounts were properly categorized according to the nature of each account and sequenced by their liquidity.

Except for the matter stated in the preceding paragraph, assets to be converted or consumed within one year are classified as current. Obligations to be liquidated or settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

The consolidated financial statements, however, did not show a classification of current or noncurrent assets/liabilities because the banking industry accounted for a major part of the consolidated accounts. Thus, accounts in the consolidated financial statements were instead categorized by nature and sequenced by their liquidity. Please refer to Note 35 for the maturity analysis of assets and liabilities.

Currency Translation

The Company maintains its accounts and expresses its financial statements in New Taiwan (NT) dollars. The NT dollar amounts in the financial statements as of and for the six months ended June 30, 2004 were translated into U.S. dollars solely for the readers' convenience. The translation was made at NT$33.66 = US$1.00, the noon buying rate of the U.S. Federal Reserve Bank of New York as of June 30, 2004. This convenience translation should not be construed as a representation that the NT 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.

Cash Equivalents

Cash equivalents are highly liquid investments with maturities of up to three months.

Securities Purchased

Securities purchased are carried at aggregate cost less any allowance for decline in value. Except that the operating securities held by E.Sun Securities, which traded in OTC-Emerging stock are carried at cost and the other are carried at aggregate cost less any allowance for decline in value by dealing department and underwriting department, respectively. The allowance is reversed when the market value recovers and recognized as income.

Costs of securities sold are determined by the following methods: Stocks, mutual funds and government bonds — moving average; and others — specific identification. For E.Sun Bills, cost of short-term negotiable instruments sold are determined by the moving-average method.

Securities Purchased/Sold under Agreements to Resell/Repurchase

Sales or purchases of bonds and short-term bills under agreements to repurchase or resell for the Company are stated at cost. The difference between the original purchase cost (or sale price) and the contracted resale (or repurchase) amount is recognized as interest income (or interest expense).

Overdue Loans

Under a Ministry of Finance guideline, E.Sun Bank classifies loans and other credits (including accrued interest) outstanding for at least six months as overdue loans.

Allowances for Possible Losses and Reserve for Losses on Guarantees

The Company makes provisions for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for their specific risks or general risks. E.Sun Bills should provide a reserve of at least equal to 1% of the amount guaranteed, full provisions for credits deemed uncollectible and 50% provision for credits with high uncollectibilty.

Debts and guarantees with specific risks are evaluated internally for their collaterals, collectibility and customers' overall credit. Under Ministry of Finance (MOF) guidelines, E.Sun Bank makes full provisions for credits deemed uncollectible and makes at least 50% provisions for credits with high uncollectibility.

Under the regulation of (88) Tai-Tsai-Tseng (2) No. 82416 published by the Securities and Futures Commission (SFC), E.Sun Securities should provide 3% of annual non-primary business transactions, from July 1, 1999, to write off bad debt expenses or to use as allowance for bad debts. However, under regulation of (92) Tai-Tsai Tseng (4) No. 03199 published by the SFC, this allowance requirement was terminated on July 1, 2003.

Under MOF guidelines, credits deemed uncollectible may be written off if the write-off is approved under a resolution issued by E.Sun Bank's Board of Directors.

Purchase on Margin and Short Sale

E.Sun Securities recognizes the margin loans as loans to customers for purchases on margin while providing financing to investors who buy stocks. Margin loans made by E.Sun Securities are generally collateralized by securities in the client's account. These collateralized securities are not entered in E.Sun Securities' book, but recorded using memorandum entries. After security investors settle the margin loan, these pledged securities are returned to investors.

E.Sun Securities requires a deposit from security investors for short sale services while providing short sale to investors. This deposit is recorded as deposit in for short sale transactions. The amount collected from selling of short sales securities (net of securities transaction tax, brokerage fee and handling fee) is kept by E.Sun Securities as collateral and recorded as payable for short sales transactions. The securities lent to clients as short sale are recorded using memorandum entries. The deposit in for short sales transactions and payable for short sales are returned to security investors after investors settle the short sales transactions.

Long-term Investments

Under a directive of the Accounting Research and Development Foundation of the ROC, a financial holding company should treat the investees' net worth as paid-in capital if the holding company is incorporated or the affiliated company becomes the subsidiary of the holding company through stock conversion. The stock issued by the holding company is accounted for as capital stock, and the amount in excess of the par value of the issued stock is accounted for as capital surplus.

Investments in shares of stock of companies in which the Company exercises significant influence on their operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investments are carried at cost on the acquisition date and subsequently adjusted for the Company's proportionate share in the net income or loss of the investees. The proportionate share in the net income or loss is recognized as current income or loss, and any cash dividends received are reflected as a reduction of the carrying values of the investments. A capital increase of investees that results in the increase in the Company's equity in the investees' net assets is credited to capital surplus, and any decrease is charged to such capital surplus to the extent of the available balance, with the difference charged to unappropriated earnings. The Company recognizes the investees' cumulative translation adjustments and unrealized losses on long-term equity investments proportionately. The difference, on the acquisition date, between the acquisition cost and the Company's proportionate equity in the investees' net assets is amortized over five years.

Other long-term equity investments are accounted for by the cost method and are stated at cost. Investments in stocks with no quoted market price are accounted for at cost. The carrying amount of the investment is reduced to reflect an other than temporary decline in the value of the investments, with the related losses charged to current income. Investments in stock with a quoted market price is stated at the lower of aggregate cost or market. The reduction of an investment cost to reflect a lower market value and its write-up due to the subsequent recovery in market value are charged or credited to stockholders' equity. Cash dividends received from a year after the acquisition date are recorded as investment income. Foreign-currency investments are recorded in New Taiwan dollars at the rate of exchange in effect when the transactions occur. At year-end, the balances of these investments are restated at the year-end exchange rates. If the restated balances are lower than cost, the differences are recognized as translation adjustment under stockholders' equity, otherwise, no adjustment is made.

For both equity-method and cost-method investments, stock dividends received are recognized only as increases in the number of shares held, and not as income.

The cost of long-term equity investments sold is determined by the weighted-average method.

Long-term bond investments are stated at cost. Premium or discount is amortized (as a charge or credit to interest income, respectively) over the remaining term of each bond. Cost of bonds sold are determined by the specific identification method.

The special-purpose trust beneficiary certificates are stated at cost. The costs of the special-purpose trust beneficiary certificates are determined by the moving-average method.

Properties

Properties are carried at cost less accumulated depreciation. The cost of betterments and major renewals that extend the useful life of an item of property and equipment is also capitalized. The cost of repairs and maintenance is charged to expense as incurred.

Depreciation is calculated by the straight-line method over service lives estimated as follows: buildings, 5 to 55 years; computers, 3 to 6 years; transportation equipment, 5 to 8 years; and miscellaneous equipment, 3 to 10 years. If an asset reaches its residual value but is till in use, it is further depreciated over its newly estimated service life.

The cost and accumulated depreciation are removed from the accounts when an item of property is disposed of or retired, and any gain or loss is credited or charged to nonoperating income or expenses.

Brokerage Account — Net

Under the Principles of Preparing Financial Reports of Securities Firms, the brokerage accounts — net are recorded as brokerage accounts — debit (Including bank deposits — settlement account, brokerage securities receivable, exchange clearance, credit transactions and settlement receivable) and brokerage account — credit (including brokerage securities payable, exchange clearances, credit transactions and settlements payable). As a result, brokerage accounts — debits are offset against brokerage accounts — credit and record as brokerage accounts — net.

Foreclosed Collaterals

Foreclosed collaterals (part of other assets) are recorded at the lower of cost or net realizable value on the balance sheet dates.

Amortization of Corporate Bond Issuance Expenses

The direct and necessary costs related to the issuing of Euro-convertible bonds are recognized as other assets — other and amortized by the straight-line method over the period from the issuance date to the expiration date of the put option.

Corporate Bonds Payable

The net carrying amount of the Euro-convertible bonds (the face amount adjusted unamortized premium and bond issuance expenses at the date of conversion) is credited to the appropriate capital accounts (capital stock equal to par value, with the balance credited to capital surplus) upon bond conversion.

Reserve for Loss on Breach of Purchase Commitment

Security firms engaged in brokerage trading of marketable securities are required to provide 0.0028% of monthly transaction volume as the default loss provision until the balance of this provision reaches $200,000. This provision may only be used to offset default losses or other losses approved by the Securities and Futures Bureau.

Reserves for Losses on Sale of Bonds

Under the regulations of the Securities and Futures Bureau of the ROC, reserves for losses on sale of bonds (part of other liabilities) are computed at 10% of net gain on sale of bonds until the balance of the reserve reaches the required amounts set under relevant regulations. This reserve should be used only to offset actual losses on sale of the bonds.

Treasury Stock

The reacquisition if issued capital stock is carried at cost and presented as a deduction to arrive at stockholders' equity.

The reissuance of treasury stocks is accounted for as follows: (a) reissue price higher than the acquisition cost — the excess is credited to capital surplus on treasury stock; and (b) reissue price less than the acquisition cost — initially charged to capital surplus on treasury stock, with any remaining deficiency charged to unappropriated earnings.

Under to a directive issued by the Securities and Futures Bureau (SFB), if a financial institution ("FI") repurchases its own capital stock pursuant to the Securities and Exchange Law and becomes a wholly owned subsidiary of a financial holding company ("FHC"), resulting in the conversion of the FI's treasury stocks to the FHC's stock, the FHC's shares held by the FI should be treated as treasury stock. The FHC should also present the shares it issued in exchange for FI's capital stock as treasury stock. If shares of the FIs under the same FHC were held among each other before the share swap, these shares will be stated as equity investments after the swap. However, the FHC should state these shares as treasury stock starting with its 2002 financial statements.

Pension Costs

E.Sun Bank, E.Sun Bills and E.Sun Securities recognize pension costs on the basis of actuarial calculations, and unrecognized net transition asset or obligation is amortized over 29, 27 and 15 years, respectively.

Recognition of Revenue

Interest revenue is recorded on an accrual basis. Under the regulations of the Ministry of Finance, no interest revenue is recognized on loans and other credits extended by the Company that are classified as overdue loans. The interest revenue on those loans is recognized upon collection on these loans and credits.

The unpaid interest on rescheduled loans should be recorded as deferred revenue, and the paid interest is recognized as interest revenue.

Service fees are recorded when a major part of the earnings process is completed and revenue is realized.

Other operating revenue is recorded on an accrual basis when a major part of the earnings process is completed.

Income Tax

The provision for income tax is based on inter-period tax allocation. The tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred tax liabilities. Valuation allowance is provided for deferred tax assets that are not probable to be realized.

ESFHC and its subsidiaries elected to file a consolidated tax return for 2003. If the sum of the amounts allocated to the individual group members does not equal the total current and deferred income tax expense or benefit of the consolidated group, the difference is considered as a consolidation entry. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

Income tax on interest in short-term negotiable instruments, which is levied separately, and any adjustment of income taxes of prior years are added to or deducted from the current year's tax expense.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders resolve to retain the earnings.

Contingencies

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. A footnote disclosure is made of the situation that might result in a loss if loss is possible but the amount of loss cannot be reasonably estimated.

Foreign Currency Transactions

Foreign-currency transactions (except forward transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or loss resulting from the application of prevailing exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the period of settlement. The year-end balances of foreign-currency assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as credits or charges to income.

E.Sun Bank's foreign-currency transactions are included in the financial statements at their equivalent New Taiwan dollar amounts at the following rates: Assets and liabilities — current exchange rates; and income and expenses-rates prevailing on the date of each transaction. Exchange gains or loss are credited or charged to income.

Forward Contracts

For forward contracts, which are used for trading purposes, assets and liabilities are recorded at the contracted forward rate. Gains or loss resulting from the difference between the spot rate and the contracted forward rate on the settlement date are credited or charged to income.

For contracts outstanding as of the balance sheet date, the gains or loss resulting from the difference between the contracted forward rates and the forward rates available for the remaining periods of the contracts are credited or charged to income. In addition, the receivables and payables related to the forward contracts are netted out, and the resulting amount is presented as an asset or liability.

Foreign-currency Swap Contracts

Foreign-currency spot-position assets or liabilities arising from foreign currency swap contracts, which are entered into for trading purposes, are recorded at spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates.

The related differences between spot rates and contracted forward rates are amortized and recorded as interest revenue or interest expense over the contract period on the straight-line basis. The receivables and payables related to the foreign currency swap contracts are netted out, and the resulting amount is presented as an asset or liability as of the balance sheet date.

Asset Swaps

The Company agrees to swap the fixed interest and redemption premium or conversion right on its investments in bonds for the floating interest rates. There is no exchange of contract (notional) principals (equal to the aggregate face values of the bonds). For swaps entered into for nontrading purposes, the net interest upon each settlement is recorded as an adjustment to interest revenue or expense associated with the items being hedged.

Cross-currency Swap

Cross-currency swap contracts, which are intended for nontrading purposes, are recorded at their forward rates on the contract dates. The interest received or paid under the contract is recorded as an adjustment to the revenue or expense of the items being hedged.

Interest Rate Swaps

Interest rate swap (IRS) contracts are recorded through memorandum entries on the contract dates since there is no exchange of notional principals. For IRS contracts used for nontrading purposes, interest received or paid upon each settlement is recorded as adjustment to interest income or expense of the hedged item.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

For IRS contracts used for trading purposes, net interest received or paid upon each settlement date is recorded as revenue or expense. Loss from the valuation of contracts on the balance sheet date are recorded as expense.

Foreign-currency Options

The Company enters into foreign-currency option contracts for trading purposes. Premiums received or paid are recorded as liability or assets and amortized on the straight-line method over the contract period. Gains or losses from the exercise of options are credited or charged to current income.

Reclassifications

Certain accounts for 2003 had been reclassified to conform to the 2004 presentation.

3. Accounting Changes

Under a directive issued by the Ministry of Finance, sales and purchases of bonds and short-term bills under agreements to repurchase or to resell were treated as outright sales or purchases. However, under the Criteria Governing the Preparation of Financial Reports by Public Banks and Criteria Governing the Preparation of Financial Reports by Public Bills Corporations, both effective January 1, 2004, the repurchase/resell transactions will be treated as financing. The effect of this accounting change for the six months ended June 30, 2004 increased E.Sun Bank's net income by $43,544 and decreased E.Sun Bills' net income by $23,167.

Since the volume of the E.Sun Bank and E.Sun Bills repurchase/resell transactions is huge and the accounting systems had been revised for several times such that historical trading data are hard to trace, calculating the cumulative effect of changes in accounting principles is difficult. Thus, E.Sun Bank and E.Sun Bills cannot calculate the cumulative effect of change in accounting principles, and the pro forma information cannot be disclosed either.

4. Eliminated Significant Intercompany Transactions

Transacting Party	Eliminated Account	Amount	Transaction Counter-party
For the six months ended June 30, 2003			
E.Sun Financial Holding Company, Ltd. (ESFHC) . . .	Cash and cash equivalents	$3,475,885	E.Sun Bank
E.Sun Commercial Bank ("E.Sun Bank")	Bonds	160,000	E.Sun Bills
	Deposits and remittances	6,679,963	ESFHC, E.Sun Bills and E.Sun Securities
	Interest expense	29,518	E.Sun Bills and E.Sun Securities
	Interest payable	2,566	E.Sun Bills and E.Sun Securities
E.Sun Bills Finance Corp. ("E.Sun Bills").	Cash and cash equivalents	2,179,353	E.Sun Bank
	Pledge time deposits	50,000	E.Sun Bank
	Long-term bond investments	160,000	E.Sun Bank
	Interest receivable	1,656	E.Sun Bank
	Interest revenue	21,538	E.Sun Bank

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Transacting Party	Eliminated Account	Amount	Transaction Counter-party
E.Sun Securities Corp. ("E.Sun Securities")	Cash and cash equivalents	184,725	E.Sun Bank
	Pledge time deposits	510,000	E.Sun Bank
	Interest receivable	910	E.Sun Bank
	Operating deposits	280,000	E.Sun Bank
	Interest revenue	7,980	E.Sun Bank
For the six months ended June 30, 2004			
ESFHC	Cash and cash equivalents	6,006,037	E.Sun Bank
	Interest receivable	11,307	E.Sun Bank
	Dividend receivable	2,884,485	E.Sun Bank, E.Sun Bills and E.Sun Securities
	Other receivable	469,791	E.Sun Bank and E.Sun Bills
	Other payable	129,684	E.Sun Bank, E.Sun Bills and E.Sun Securities
	Interest revenue	41,322	E.Sun Bank
E.Sun Bank	Other receivable	83,339	ESFHC and ESIB
	Interest payable	11,668	ESFHC and E.Sun Securities
	Dividend payable	2,204,202	ESFHC
	Other payable	429,770	ESFHC
	Deposits and remittances	7,338,232	ESFHC, E.Sun Bills, E.Sun Securities and ESIB
	Securities sold under agreements to repurchase	447,145	E.Sun Securities
	Interest revenue	153	E.Sun Bills and E.Sun Securities
	Service fees	5,357	ESIB
	Interest expense	52,751	ESFHC, E.Sun Bills, E.Sun Securities and ESIB
	Service charges	2,578	E.Sun Securities
	Rent revenue	1,119	E.Sun Securities
	Rent expense	1,500	E.Sun Securities
	Nonoperating income	14,270	E.Sun Securities
E.Sun Bills.	Cash and cash equivalents	$1,015,858	E.Sun Bank
	Other receivable	30,849	ESFHC
	Dividend payable	618,425	ESFHC
	Other payable	40,021	ESFHC
	Interest revenue	7,604	E.Sun Bank and E.Sun Securities
	Interest expense	115	E.Sun Bank
	Service charges	32	E.Sun Securities

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Transacting Party	Eliminated Account	Amount	Transaction Counter-party
E.Sun Securities	Cash and cash equivalents	5,941	E.Sun Bank
	Pledge time deposits	10,000	E.Sun Bank
	Securities purchase under agreements to resell	447,145	E.Sun Bank
	Interest receivable	361	E.Sun Bank
	Other receivable	18,704	ESFHC
	Operating deposits	295,000	E.Sun Bank
	Dividend payable	61,858	ESFHC
	Interest revenue	3,819	E.Sun Bank
	Service fees	2,610	E.Sun Bank and E.Sun Bills
	Rent revenue	1,500	E.Sun Bank
	Service charges	14,270	E.Sun Bank
	Rent expense	1,119	E.Sun Bank
	Interest expense	40	E.Sun Bank and E.Sun Bills
E.Sun Insurance Broker (“ESIB”)	Cash and cash equivalents	5,396	E.Sun Bank
	Other payable	3,208	E.Sun Bank
	Interest revenue	8	E.Sun Bank
	Operating expense	5,357	E.Sun Bank

5. Cash and Cash Equivalents

	June 30	
	2003	2004
Cash on hand	$ 2,014,330	$2,272,154
Checks for clearing	2,177,894	2,018,488
Due from banks	4,882,122	4,532,883
Cash equivalent — earnings ratio is 0.75%–1.31% in 2003 and 1.000%–1.025% in 2004	2,724,323	485,607
	$11,798,669	$9,309,132

6. Due from the Central Bank of China and Banks

	June 30	
	2003	2004
Reserves for deposits	$ 8,590,464	$10,220,694
Deposit	2,375,460	2,520,764
Call loans to banks	4,283,571	2,427,353
	$15,249,495	$15,168,811

As required by law, the reserves for deposits are calculated by applying the prescribed rates to the average monthly balances of various types of deposit accounts held by E.Sun Bank. As of June 30, 2003 and 2004, deposit reserve portions of $5,384,632 and $6,448,378, respectively, were restricted from E.Sun Bank use, as required by certain regulations.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

7. Securities Purchased — Net

	June 30	
	2003	2004
Overseas securities	$15,489,611	$ 22,111,589
Commercial paper	8,548,079	17,035,166
Government bonds and treasury bills	14,649,849	37,519,866
Stocks and mutual funds	4,074,811	4,585,369
Corporate bonds and bank debentures	1,332,329	2,772,799
Certificates of deposit	16,250,626	24,627,132
Operating securities — dealing department	4,139,483	3,271,193
Operating securities — underwriting department	37,806	86,106
Bank acceptances	8,283	99,033
	64,530,877	112,108,253
Less — allowance for decline in value	2,550	85,858
	$64,528,327	$112,022,395

As of June 30, 2004, some of the securities, which amounted to $53,746,351, had been sold under agreements to repurchase.

8. Receivables — Net

	June 30	
	2003	2004
Credit cards	$18,732,590	$25,260,490
Accrued interest	838,809	1,928,702
Margin loans receivable	1,137,130	1,892,827
Accrued income	488,735	126,019
Acceptances	570,212	832,926
Other	500,716	511,413
Forward exchange receivable	154,049	212,896
Tax refundable	342,738	516,734
Dividend receivable	—	81,600
Accounts receivable	168,431	606,905
	22,933,410	31,970,512
Less — allowance for possible losses	353,270	342,238
	$22,580,140	$31,628,274

9. Securities Purchased under Agreements to Resell

Securities acquired for $982,748 and $3,659,461 under agreements to resell will be sold for $982,995 and $3,661,008 as of June 30, 2003 and 2004.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

As of June 30, 2004, some of the securities, which amounted to $1,107,100, had been sold under agreements to repurchase.

10. Bills, Discounts and Loans — Net

	June 30	
	2003	2004
Loans:		
Short-term	$ 47,930,391	$ 52,542,588
Medium-term	57,460,892	66,296,633
Long-term	71,068,025	119,350,220
Overdue loans	2,106,106	1,740,961
Bills and discounts	1,791,885	1,781,435
	180,357,299	241,711,837
Less — allowance for possible losses	1,629,298	1,930,963
	$178,728,001	$239,780,874

As of June 30, 2003 and 2004, the loan and credit balances for which accrual of interest revenues was discontinued, amounted to $2,106,106 and $1,740,961, respectively. The unrecognized interest revenues on these loans and credits amounted to $46,571 and $28,591 for the six months ended June 30, 2003 and 2004.

For the six months ended June 30, 2003 and 2004, the E.Sun Bank carried out legal procedures required before writing off certain credits.

The details of and changes in the allowance for credit losses on bills, discounts and loans are summarized below:

	For the Six Months Ended June 30, 2003		
	Specific Risk	General Risk	Total
Balance, January 1, 2003	$ 104,593	$1,436,162	$1,540,755
Reversal	(255,065)	(301,094)	(556,159)
Write-offs	(369,606)	—	(369,606)
Recovery of written-off credits	1,014,308	—	1,014,308
Balance, June 30, 2003	$ 494,230	$1,135,068	$1,629,298

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	For the Six Months Ended June 30, 2004		
	Specific Risk	General Risk	Total
Balance, January 1, 2004	$ 227,684	$1,942,076	$2,169,760
Reversal	(112,858)	(125,189)	(238,047)
Write-offs	(712,371)	—	(712,371)
Recovery of written-off credits	711,868	—	711,868
Effects of exchange rate changes	—	(247)	(247)
Balance, June 30, 2004	$ 114,323	$1,816,640	$1,930,963

11. Long-term Investments — Net

	June 30	
	2003	2004
Long-term equity investments	$2,082,533	$ 2,181,284
Long-term bond investments	1,259,975	7,879,120
Other long-term investments	10,000	2,260,508
	$3,352,508	$12,320,912

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The detail of long-term equity investment are summarized below:

	June 30			
	2003		2004	
	Amount	% of Ownership	Amount	% of Ownership
Equity method:				
With no quoted market prices				
E.Sun Venture Capital Co., Ltd.	$1,005,465	100.0	$1,012,697	100.0
E.Sun Securities Investment Trust Corp.	242,926	70.0	361,822	100.0
E.Sun Finance & Leasing Co., Ltd.	161,309	99.0	148,343	99.0
E.Sun Insurance Agent Co., Ltd.	40,432	79.0	42,447	99.0
E.Sun Securities Investment Consulting Co., Ltd.	10,000	100.0	11,417	100.0
	1,460,132		1,576,726	
Cost method:				
With quoted market prices				
United Micro Electronics	200,451	—	200,451	—
With no quoted market prices				
Taiwan Asset Management Corporation	100,000	0.6	100,000	0.6
Fu Bon Securities Finance Co.	155,857	2.6	98,957	2.6
Other	272,019	—	303,417	—
	728,327		702,825	
Less — allowance for possible losses	105,926		98,267	
	622,401		604,558	
	$2,082,533		$2,181,284	

The equity-method investees' financial statements on which the calculation of investment carrying value of the investments and the related income was based, had all been audited, except those of E.Sun Insurance Agent Co., Ltd. The Company's management believes that, had investee's accounts been audited, the effect of any adjustments on consolidated financial statements would not have been significant. The income from long-term equity investment under the equity method for the six months ended June 30, 2003 and 2004 were $48,491 and $65,734, respectively.

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Long-term bond investments are summarized below:

	June 30	
	2003	2004
Government bonds	$ —	$7,879,120
Bank debentures	859,978	—
Corporate bonds	399,997	—
	$1,259,975	$7,879,120

The detail of other long-term investments are summarized below:

	June 30	
	2003	2004
Special-purpose trust beneficiary certificates	$ —	$2,260,508
Prepaid investment — ESIB	10,000	—
	$10,000	$2,260,508

12. Accumulated Depreciation

	June 30	
	2003	2004
Buildings	$ 325,388	$ 373,950
Computers	759,144	824,982
Transportation equipment	116,297	130,183
Miscellaneous equipment	427,500	514,662
	$1,628,329	$1,843,777

13. Other Assets — Net

	June 30	
	2003	2004
Foreclosed collaterals	$ 187,093	$ 45,500
Refundable deposits	932,237	964,516
Operating deposits	303,171	307,612
Deferred charges — net of amortization	62,235	168,455
Deferred income tax assets — net	826,204	—
Settlement fund	64,770	68,706
Bond issuance expenses	87,162	20,372
Others	26,234	115,179
	$2,489,106	$1,690,340

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

14. Short-term Debts

	June 30, 2004
Credit loans — annual interest rate at 1.300%–1.335%	$600,000

15. Commercial Paper Issued

The face value of commercial paper issued was $680,000 as of June 30, 2004 and the annual discount rate was 0.862%–1.162%.

16. Bonds sold under Agreements to Repurchase

Purchase for $4,664,938 and $58,210,268 of short-term negotiable instruments sold for $4,662,186 and $58,160,128 under agreements to repurchase as of June 30, 2003 and 2004.

17. Current Portion of Long-term Liabilities

	June 30	
	2003	2004
Current portion of corporate bonds payable *(Note 22)*	$ —	$4,231,363
Current portion of long-term debts *(Note 23)*	291,000	188,000
	$291,000	$4,419,363

18. Due to Banks

	June 30	
	2003	2004
Call loans from banks	$28,076,526	$31,919,231
Due to banks	610,745	161,408
Bank overdraft	649,266	396,327
	$29,336,537	$32,476,966

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19. Payables

	June 30	
	2003	2004
Checks for clearing	$2,177,894	$2,018,081
Accrued interest	1,164,051	1,043,684
Payable for short sales transactions	941,638	69,757
Acceptances	581,264	842,300
Accrued expenses	528,594	106,072
Dividend	—	2,892,033
Tax	618,685	988,775
Other	465,801	118,437
	$6,477,927	$8,079,139

20. Deposits and Remittances

	June 30	
	2003	2004
Deposits:		
Savings — time	$ 80,786,940	$ 72,673,553
Time	62,785,894	80,031,543
Savings — demand	51,436,268	66,123,453
Demand	22,883,735	34,397,542
Negotiable certificates of deposit	1,336,568	10,875,100
Checking	2,544,587	3,356,883
Remittances	121,921	32,405
	$221,895,913	$267,490,479

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21. Bonds

	June 30	
	2003	2004
Bonds issued on August 6, 2001; 3.76% interest, payable annually; principal due on maturity date (5 years after the issue date). . . .	$3,000,000	$3,000,000
Subordinated bonds issued on August 6, 2001; 4.2% interest, payable annually; principal repayable in five installments from the third year from the issue date and final installment due at the end of the seventh year. . . .	1,840,000	2,000,000
Four types of subordinated bonds issued on June 13, 2002; 5%–8.6% interest rate minus the 90 days' interest rate of commercial paper (stated below), payable quarterly; principal due on the maturity date (5 years after the issue date). . . .	1,700,000	1,700,000
Four types of subordinated bonds issued on August 16, 2002; 5.94% interest rate minus a floating interest rate (stated below), payable semiannually; principal due on the maturity date (5 years after the issue date). . . .	1,300,000	1,300,000
Five types of bonds issued on August 23, 2002; 6% interest rate minus a floating interest rate (stated below), payable semiannually; principal due on the maturity date (5.5 years after the issue date) . . .	2,000,000	2,000,000
Eight types of bonds issued on October 9, 2003; interest rate at (a) 3.8% for the first year and 5.0% minus 6M LIBOR for the second to fifth year for types A and B bonds; (b) 5.15% minus 6M LIBOR for types C to E bonds; and (c) 4.22% minus 90 days' interest rate of commercial paper for types F to H bonds, with all interest rates not to fall below 0% and payable semiannually; principal due on the maturity date (5 years after the issue date). . . .	—	2,000,000
Seven types of bonds issued on October 16, 2003; interest rate at (a) twice the five years' NT$ interest rate swap (IRS) minus the two years' NT$ IRS for types A to D bonds; (b) twice the five years' NT$ IRS minus the two years' NT$ IRS plus 0.75% for types E and F bonds; and (c) 3% for the first year and twice the five years' NT$ IRS minus the two years' NT$ IRS plus 0.4% for the second to the fifth year for the type G bond, with all interest rates not to fall below 0% and payable semiannually; principal due on the maturity date (5 years after the issue date). . . .	—	1,800,000

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	June 30	
	2003	2004
Five types of bonds issued on October 29, 2003; interest rates at (a) 3M LIBOR plus 1.2% if 3M LIBOR is less than 1% or 4.7% minus 3M LIBOR if 3M LIBOR is more than or equal to 1% for type A bond; (b) 2.5 times of the five years' NT$ IRS minus two years' NT$ IRS plus 0.45%, with limit of 3.75%, for types B and C bonds; and (c) 2.5 times of the five years' NT$ IRS minus the two years' NT$ IRS plus 0.4%, with limit of 3.7%, for types D and E bonds, with all interests rates not to fall below 0% and payable semiannually for type A bond and quarterly for other bond types; principal due on the maturity date (5 years after the issue date).	$—	$1,200,000
Seven types of bonds issued on February 27, 2004; interest rates at (a) 6M LIBOR if 6M LIBOR is less than 1.05%, or 3.6% if 6M LIBOR is between 1.05% and 2% or 4.52% minus 6M LIBOR if 6M LIBOR is more than 2% for types A to D bonds; (b) 6M LIBOR when 6M LIBOR is less than 1.05%, or 3.50% if 6M LIBOR is between 1.05% and 2% or 4.5% minus 6M LIBOR if 6M LIBOR is more than 2% for types E to G bonds with all interest rates not to fall below 0% and payable quarterly for all bond types; principal repayable on the maturity date (5 years after the issue date).	—	2,000,000
Three types of bonds issued on February 27, 2003; interest rates at 3.03% if 6M LIBOR is less than or equal to 2.5% or 5.2% minus 6M LIBOR if 6M LIBOR is more than 2.5%, with all interest rates not to fall below 0% and payable quarterly for all bond types; principal repayable on the maturity date (7 years after the issue date).	—	1,000,000

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	June 30	
	2003	**2004**
Eight types of bonds issued on March 18, 2004; interest rates at (a) 6M LIBOR if 6M LIBOR is less than or equal to 1.05% or 3.50% if 6M LIBOR is between 1.05% and 2.0% or 4.5% minus 6M LIBOR if 6M LIBOR is more than 2% for A and B bonds; (b) 6M LIBOR if 6M LIBOR is less than 1.05% or 3.40% if 6M LIBOR is between 1.05% and 2% or 4.4% minus 6M LIBOR when 6M LIBOR is more than 2% for types C to E bonds; (c) 2.5 times of the five years' NT$ IRS minus the two years NT$ IRS plus 0.5% if the five years' NT$ IRS minus the two years' NT$ IRS is up to 1.2%, or 2% if the five years' NT$ IRS minus the two years NT$ IRS is more than 1.2% for types F and G bonds; (d) 2 times of the five years' NT$ IRS minus the two years' NT$ IRS plus 1.75% if the five years' NT$ IRS minus the two years' NT$ IRS is up to 1.2% in the first and second year, or 2.65% if the five years' NT$ IRS minus the two years' NT$ IRS is more than 1.2% in the first and second years, and 3 times of the five years' NT$ IRS minus the two years' NT$ IRS if the five years' NT$ IRS minus the two years' NT$ IRS is up to 1.2%, or 2.1% if the five years' NT$ IRS minus the two years' NT$ IRS is more than 1.2% in the third to fifth year for type H bond, with all interest rate not to fall below 0% and payable quarterly for all bond types; principal repayable on the maturity date (5 years after the issue date)	$—	$2,000,000
Five types of bonds issued on May 10, 2004; interest rates at (a) (6M LIBOR plus 0.5001%) x n/N for type A bond (b) (6M LIBOR plus 0.5002%) x n/N for type B bond (c) (6M LIBOR plus 0.5003%) x n/N for type C bond (d) (6M LIBOR plus 0.5004%) x n/N for type D bond, with 6M LIBOR between 1% and 2% in first year, with 6M LIBOR for types A to D bonds between 1% and 2.25% in second year, between 1.05% and 3% in the third year, between 1.05% and 3.5% in the fourth year, between 1.1% and 4% in the fifth year, between 1.1% and 4.25% in the sixth year, between 1.1% and 4.5% in the seventh year, "n" means the total days of 6M LIBOR between the foregoing interest rate range in each interest-bearing period. "N" means total days of each interest bearing period; (e) 1.15 times of the ten years' US$ CMS minus the two years' US$ CMS and with interest rates not to fall below 0% for type E bond; payable quarterly for all bond types; principal repayable on the maturity date (7 years after the issue date). . . .	—	2,300,000

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	June 30	
	2003	2004
Three types of bonds issued on May 19, 2004, interest rates at (a) 3% if 6M LIBOR is less than or equal to 2.5% or (5.3% minus 6M LIBOR) if 6M LIBOR is more than 2.5% for type A bond; (b) 6M LIBOR if 6M LIBOR is less than 1.1% or 3.82% if 6M LIBOR is between 1.1% and 2.5% or (5% minus 6M LIBOR) if 6M LIBOR is more than 2.5% for type B bond (c) 6M LIBOR if 6M LIBOR is less than 1.1% or 4% if 6M LIBOR is between 1.1% and 2% or (5.1% minus 6M LIBOR) if 6M LIBOR is more than 2%; with all interest rates not to fall below 0% and payable semiannually for all bond types; principal repayable on the maturity date (7 years after the issue date).	$ —	$ 900,000
Five types of bonds issued on June 1, 2004, interest rates at (a) 6M LIBOR if 6M LIBOR is less than 1.1% or 3.5% if 6M LIBOR is between 1.1% and 2.5%, or 5.15% minus 6M LIBOR if 6M LIBOR is more than 2.5% for type A bond; (b) 6M LIBOR if 6M LIBOR is less than 1.1%, or 4% if 6M LIBOR is between 1.1% and 3.5%, or 5.5% minus 6M LIBOR if 6M LIBOR is more than 3.5% for types B and C bonds; (c) 6M LIBOR if 6M LIBOR is less than 1.1%, or 4% if 6M LIBOR is between 1.1% and 3.5%, or 0.05% minus 6M LIBOR if 6M LIBOR is more than 3.5%, with all interest rates not to fall below 0% and payable semiannually for all bond types; principal repayable on the maturity date (5 years after the issue date.)	—	1,300,000
Bonds issued on June 1, 2004; interest rate at 6M LIBOR if 6M LIBOR is less than 0.9%, or 4% if 6M LIBOR is between 0.9% and 3.5%, or 5.5% minus 6M LIBOR if 6M LIBOR is more than 3.5%, with all interest rates not be fall below 0% and payable semiannually for all bond types; principal repayable on the maturity date (7 years after the issue date).	$ —	$ 500,000
	$9,840,000	$25,000,000

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The above 90 days' interest rate for commercial paper and floating interest rate were based on the average interest rate quoted by Hong Kong's Moneyline Telerate and Reuter.

22. Corporate Bonds Payable

	June 30	
	2003	2004
Convertible bonds payable	$6,171,957	$4,216,938
Plus: Premium of bonds payable	61,719	14,425
	6,233,676	4,231,363
E.Sun Bills first secured corporate bonds in 2003	—	3,000,000
E.Sun Bills second secured corporate bonds in 2003	—	2,000,000
	6,233,676	9,231,363
Current portion of long-term debts.	—	4,231,363
	$6,233,676	$5,000,000

On June 27, 2003, ESFHC issued US$178,200,000 worth of zero coupon Euro convertible bonds (the "Bonds") with par of US$1,000 in Luxembourg. The terms of the Bonds are as follows:

a. *Redemption method*

ESFHC will redeem the Bonds on the maturity date at a price equal to 100% of the outstanding principal amount unless the Bonds had been previously redeemed, repurchased and canceled or converted.

(1) *Redemption at the option of ESFHC*

(a) At any time on or after June 27, 2004 and prior to November 27, 2004, ESFHC may redeem all the Bonds at one time or make piecemeal redemptions at 100% of the principal amount if the closing price of the shares, translated into U.S. dollars at the prevailing rate on the issue date, for at least 20 out of 30 consecutive trading days immediately preceding the date of such notice of redemption, is at least 115% of the conversion price then in effect, translated into U.S. dollars at the fixed exchange rate.

(b) ESFHC may redeem all the Bonds at one time, i.e., not piecemeal, at 100% of the principal at any time if at least 90% of the principal of the Bonds had already been redeemed, repurchased and canceled or converted.

(c) ESFHC may redeem all the Bonds at one time, i.e., not piecemeal, at 100% of the principal at any time if any changes in ROC taxation would require ESFHC to gross up payment of interest or premium.

(2) *Redemption at the options of holders*

(a) Each holder of the Bonds has the right to require the ESFHC to redeem, all or part of the Bonds only on June 27, 2004 at 100% of the principal unless the Bonds had been previously redeemed, repurchased and canceled or converted.

(b) Each holder has the right to require ESFHS to buy all or a portion of the holder's Bonds at 100% of the principal amount (a) if the shares cease to be listed or admitted for trading on the Taiwan Stock Exchange for at least five consecutive trading days or (b) there is change of control over the ESFHC (e.g., a change of half of the members of the ESFHC's board of directors.)

b. *Maturity date*

The maturity period is one year and six months after the issuance. The Bonds were issued on June 27, 2003; thus, their maturity is on December 27, 2004.

c. *Pledged*

Negative.

d. *Conversion period*

The bondholder can convert the bonds to the ESFHC's stock for the period starting on or after November 24, 2003 up to December 12, 2004. The holders of the Bonds, however, will not be able to effect conversions into shares during any closed period. A closed period means (i) 60 days before the date of any general stockholders' meetings; (ii) 30 days before the date of any special stockholders' meetings; (iii) the period from the date following the third trading day before the date of the ESFHC's, notification to the Taiwan Stock Exchange of the record date for the determination of stockholders entitled to the receipt of dividends, subscription of new shares due to capital increase or appropriation of other benefits and bonuses; and (iv) such other periods during which the ESFHC may be required to close its stock transfer books under ROC laws and regulations.

e. *Conversion price*

(1) The conversion price on issuance is NT$19.716 (US$0.5688) per share. The conversion price in U.S. dollars is based on the exchange rate of US$1 = NT$34.661. The conversion price is subject to adjustment based on certain terms of the related indenture.

(2) If the average closing price of the shares for any of the periods of 5, 10 or 15 consecutive trading days immediately before June 4, 2004 (the 15th trading day before the holder's put date, or the "Standard Reset Date"), converted into U.S. dollars at the prevailing rate on the Standard Reset Date, is less than the conversion price then in effect as converted into U.S. dollars at the fixed exchange rate, the conversion price may be adjusted. The conversion price adjustment should only be downward and should not be less than 80% of the initial conversion price.

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(3) If the average closing prices of the shares for any of the periods of 10, 15 and 20 consecutive trading days immediately before November 15, 2004 (the 30th trading day before the maturity day, or the "Special Reset Date"), converted into U.S. dollars at the prevailing rate on the Special Reset Date, is less than the conversion price then in effect converted into U.S. dollars at the fixed exchange rate, the conversion price may be adjusted.

f. *Cash settlement option*

Instead of delivering to the holders some or all of the shares required for the valid exercise of a conversion right, the ESFHC may elect to make a cash payment for all or any portion of a holder's Bonds deposited for conversion.

As of June 30, 2004, some of the convertible bonds, which amounted to US$53,250 thousand had been converted and redeemed.

On December 22, 2003, E.Sun Bills made a first issue of its secured corporate bonds with aggregate face value of $3,000,000. The corporate bonds are categorized from A to J at the stated interest rate. The corporate bonds will mature in five years, and the principal is payable on the maturity date. Interest is payable semiannually, and interest calculation is based on the six months' London Interbank Offered Rate for U.S. dollars (6M LIBOR). If the 6M LIBOR is less than 1.05%, the interest rate will be between 6M LIBOR and 6M LIBOR plus 0.005%. If the 6M LIBOR falls between 1.05% and 2.00%, the interest rate is 3.5%, but if 6M LIBOR is more than 2%, the interest rate is 4.52% minus 6M LIBOR. However, the interest rate should not be zero.

On February 20, 2004, E.Sun made a second issue of secured corporate bonds with aggregate face value of $2,000,000. The corporate bonds are categorized from A to H at the stated interest rate. The corporate bonds will mature in five years, and the principal is payable on the maturity date. Interest is payable semiannually, and interest calculation is based on the 6M LIBOR. If the 6M LIBOR is less than 1.05%, the interest rate will be between 6M LIBOR and 6M LIBOR plus 0.007%. If the 6M LIBOR falls between 1.05% and 2.00%, the interest rate is 3.8%, but if 6M LIBOR is more than 2%, the interest rate is 5% minus 6M LIBOR. However, the interest rate should not be zero.

23. Long-term Debts

	June 30	
	2003	2004
Secured long-term debts — interest at 1.630%–2.219% in 2003 and 1.5450%–1.6406% in 2004	$1,129,000	$1,238,000
Less: Due in one year	291,000	188,000
	$ 838,000	$1,050,000

The term of the debts is three years through April 2007. Of these debts, $850,000 is repayable on maturity date. The other debts will be repaid as follow: 30% after one year, 30% after two years, and 40% on maturity. ESFHC has provided E.Sun Bank's 494,000 thousand stock as collaterals for the long-term debts as of June 30, 2003 and 2004.

24. Stockholders' Equity

a. *Capital stock*

In 2003, the stockholders resolved to have ESSIT become a 100% subsidiary of ESFHC through a share swap. The swap ratio was 1.18 shares of ESFHC for 1.0 share of ESSIT. The swap date was September 16, 2003, and the capital increased to $25,054,000 on that date.

The number of shares converted from Euro convertible bonds issued by ESFHC were 967 thousand for the year ended December 31, 2003 and 90,010 thousand for the six months ended June 30, 2004. As of June 30, 2004, the capital stock of ESFHC was $25,963,771.

b. *Capital surplus*

Under related regulations, capital surplus may only be used to offset a deficit. However, capital surplus arising from issuance of shares in excess of par value (issuance in excess of common stock par value, capital surplus from issuance of common stock for combination and treasury stock transactions) and donation may be transferred to common stock on the basis of the percentage of shares held by the stockholders. Any capital surplus transferred to common stock should be within a certain percentage prescribed by law.

Capital surplus from long-term equity investments can not be distributed for any purpose.

Under the Financial Holding Company Law and related directives issued by the SFB, the distribution of the ex-conversion unappropriated earnings that are generated by financial institutions (the subsidiaries) and become part of capital surplus of the financial holding company through stock conversion, is exempted from the appropriation restriction of the Securities and Exchange Law.

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The subsidiaries' unappropriated retained earnings before stock conversion amounted to $2,919,727, which was already stated as ESFHC's capital surplus as of its establishment date. In 2002, the stockholders resolved to increase ESFHC's capital by $1,800,000 through the issuance of stock dividends from capital surplus. The capital surplus as of June 30, 2004 came from treasury stock and the issuance of shares in excess of par value. Capital surplus sources and uses were as follows:

	2004
Sources	
From subsidiaries	
Capital surplus (mainly paid-in capital in excess of par value)	$ 413,733
Legal reserve	2,776,834
Special reserve	109,230
Unappropriated earnings	2,919,727
Proportionate share in the unrealized loss of equity-method investee	(23,399)
	6,196,125
Total capital stock of subsidiaries in excess of ESFHC's issuance	600,000
Balance on January 28, 2002	6,796,125
From ESSIT which became a 100% subsidiary of ESFHC in 2003 through a share swap	
Legal reserve	4,350
Unappropriated earnings	7,861
	6,808,336
Corporate bonds payable converted into capital stock	
In 2003	9,005
For the six months ended June 30, 2004	800,129
Treasury stock	1,366,983
	8,984,453
Uses	
Bonus to directors, supervisors and employees of subsidiaries	(156,458)
Issuance of ESFHC's stock dividends in 2002	(1,800,000)
Offset of deficit in 2003	(3,091,451)
	$3,936,544

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c. *Appropriation of earnings*

When ESFHC appropriates its earnings, legal reserve should be appropriated from the annual net income less any accumulated deficit. A special reserve may then be appropriated. Any remainder should be appropriated as follow:

(1) 96% as dividends

(2) 1% as remuneration to directors and supervisors

(3) 3% as bonus to employees.

Under ESFHC's Articles of Incorporation, the stockholders may decide not to declare any dividends or declare only a portion of distributable earnings as dividends.

Under ESFHC's dividend policy, the issuance of stock dividends takes precedence over the payment of cash dividends to strengthen ESFHC's financial structure. This policy is also intended to improve the ESFHC's capital adequacy ratio and keep it at a level higher than the ratio set under relevant regulations. However, when dividends are declared, cash dividends must at least be 10% of total dividends declared, unless the resulting cash dividend per share falls below NT$0.10.

Under the Company Law, legal reserve should be appropriated until the reserve equals ESFHC's paid-in capital. This reserve is used only to offset a deficit, or, when its balance reaches 50% of the aggregate par value of ESFHC's outstanding capital stock, up to 50% of the reserve may be distributed as stock dividends.

Under an SFB directive, a special reserve is appropriated from the balance of the retained earnings at an amount that is equal to the debit balance of accounts in the stockholders' equity section (except treasury stocks purchased). The balance of the special reserve is adjusted to reflect any changes in the debit balance of the related accounts on the balance sheet dates.

The appropriation of retained earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of the year.

On June 6, 2003, the stockholders of ESFHC resolved to offset a deficit of $3,091,451 against capital surplus.

On June 11, 2004, the stockholders of ESFHC resolved the appropriation of earnings in 2003, which were resolved by the ESFHC's board of directors on February 12, 2004, as follows:

Legal reserve	$ 452,903
Special reserve	53,767
Dividend — cash, $1 per share	2,818,678
— stock, $0.3 per share	845,603
Bonus to directors and supervisors	38,170
Bonus to employees — cash	26,781
— stock	87,728

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The dividend per share amount is calculated by 2,506,367 thousand shares issued by ESFHC and 312,311 thousand shares which were converted from all outstanding Euro convertible bonds as of December 31, 2003. The dividend per share amount will change if the holder of the convertible bonds does not convert the bonds into ESFHC's shares or the treasury stock for reissuance to employees was not transferred before ex-rights or ex-dividend date.

The proposal of dividend and bonus to employees in stock amounting to $933,331, transferring into capital stock should be approved by government.

Information on the appropriation of earnings or deficit offsetting can be accessed through the Web site of the Taiwan Stock Exchange. (http://mops.tse.com.tw)

Under the integrated income tax system, certain stockholders are allowed tax credits for the income tax paid by the Company.

25. Income Tax

Under Article 49 of the Financial Holding Company Law, a financial holding company (FHC) can elect to file income tax returns with a 10% income tax on undistributed earnings for both itself and its domestic subsidiaries since FHC held more than 90% of the subsidiaries' outstanding shares for the entire tax year.

ESFHC and its subsidiaries started to file consolidated tax returns since 2003.

a. Income tax information is as follows:

	For the Six Months Ended June 30	
	2003	2004
Income tax expense — current before tax credits	$ 67,942	$527,740
Net change in deferred income tax:		
Tax credits	—	(2,304)
Loss carryforwards	470,677	309,187
Allowance for possible losses on loans and receivables	43,583	106,102
Unrealized foreign exchange gain	(1,269)	49,480
Reserve for losses on guarantees	(1,411)	(14,231)
Others	(7,972)	1,150
Valuation allowance	18,878	(10,898)
Adjustment of prior year's tax	8,405	(3,442)
Tax effect on consolidated tax returns	—	(136,110)
Tax on unappropriated earnings (10%)	154,448	111,201
	$753,281	$937,875

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. A reconciliation of income tax expense — current before tax credits and income tax expense on income before income tax is shown below:

	For the Six Months Ended June 30	
	2003	2004
Income tax expense on income before income tax at statutory rate (25%)	$803,641	$1,367,579
Permanent differences:		
Tax — exempt income	(160,298)	(448,668)
Others	(37,889)	13,044
Temporary differences	(537,512)	(404,215)
Income tax expense — current before tax credits	$ 67,942	$ 527,740

c. Net deferred income tax assets (liabilities) were as follows:

	For the Six Months Ended June 30	
	2003	2004
Deferred income tax assets (liabilities)		
Tax credits	$ 10,139	$ 12,983
Employees' welfare funds	6,511	4,981
Loss carryforwards	847,561	14,907
Allowance for possible losses on loans and receivables	2,659	4,685
Reserve for losses on guarantees	43,872	65,451
Unrealized foreign exchange gain	(64,994)	(108,901)
Others	10,911	4,676
	856,659	(1,218)
Less: Allowance evaluation	30,455	6,295
Net deferred income taxes assets (liabilities)	$826,204	($ 7,513)

Tax credits as of June 30, 2004 are summarized below:

Rule	Item	Tax Credit	Expiration
Statute for Upgrading Industries	Employee training expenditures	$10,715	2007
Statute for Upgrading Industries	Employee training expenditures	$ 2,268	2008

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Loss carryforwards as of June 30, 2004 are summarized below:

Expiration	Amounts
2006	$ 8,975
2007	50,653

d. Imputed tax credit

	ESFHC	E.Sun Bank	E.Sun Bills	E.Sun Securities	ESIB
Balance of ICA					
June 30, 2003	$80,396	$106,419	$59,845	$12,075	$ —
June 30, 2004	80,396	143,873	64,773	2,708	19,591
Actual tax credit ratio for distributing the 2002 earnings	—	—	3.49%	37.07%	—
Actual or estimated tax credit ratio for distributing the 2003 earnings	5.51% (Estimated)	4.28% (Estimated)	6.28% (Estimated)	16.93% (Actual)	— (Actual)

The estimated creditable ratio may change depending on the balance of the ICA on the dividend distribution date. The estimated creditable tax ratio as of June 30, 2004 may differ from the actual creditable tax ratio applicable on the date of the actual distribution of the dividends.

e. The unappropriated earnings generated before January 1, 1998 were as follows:

	ESFHC	E.Sun Bank	E.Sun Bills	E.Sun Securities	ESIB
June 30, 2003 and 2004	$—	$—	$91,777	$—	$—

f. For E.Sun Bank and E.Sun Securities, income tax returns through 2001, and for E.Sun Bills, E.Sun income tax returns through 2000, had been examined by the tax authorities. For ESFHC and ESIB, the income tax returns have not been examined by the tax authorities.

g. For E.Sun Bank's income tax return of the 1994, 1995, 1997, 1998, 2000 and 2001, the tax authorities denied the creditability of 10% withholding tax on interest income on bonds pertaining to periods in which those bonds, totaling $290,044, were held by other investors. In addition, the 1996 and 1999 income tax return included a reduction of $30,431 in income tax obligations, which the tax authorities had already examined but could still deny. E.Sun Bank had accrued liabilities and written off assets that were related to the foregoing withholding taxes as part of income tax expense in 2001. In August 2002, the Supreme Administrative Court decided that the Taipei National Tax Administration should find another disciplinary action to deal with the withholding tax issue.

In 2003, the Taipei National Tax Administration decided to rebate 65% of the foregoing withholding taxes. E.Sun Bank accepted this decision and thus recognized a tax refund receivable of $218,988 for 1994 to 2001 and wrote off withholding taxes of $10,711 from its 2002 accounts.

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h. The tax authorities challenged E.Sun Bills' income tax refund claim of $277,515 (covering the period 1995 to 2000). The claim pertains to the tax withheld from interest income on bonds for the periods when other investors held those bonds. In light of this tax issue, E.Sun Bills might also face questioning by the tax authorities on the taxes of $56,771 withheld in 2001 and $25,960 withheld in 2002 for bonds held under the same situation.

   In view of the tax authorities' challenge, E.Sun Bills wrote off from its 2001 and 2002 accounts the related income tax refunds of $334,286 for 2001 and $25,960 for 2002, which had been recognized as assets in its accounts. However, in 2002 and 2003, the supreme court decided that the tax refund of $219,305 covering 1996 to 1999 be given to the E.Sun Bills.

   The tax authorities informed the Bills Finance Trade Association in the Republic of China of their intent to negotiate with each bills financing company for the return of 60% of tax credit from interest income for the periods when other investor held those bonds in 2002 and earlier. In turn, E.Sun Bills will negotiate with the tax authorities the increase in the return rate. Thus, on December 31, 2003, the E.Sun Bills reversed the tax refund receivable of $207,758, which referred to the period 1995 to 2002.

i. The effective tax rate for 2003 and 2004 was about 25%.

26. Treasury Stock

(Unit: Thousand Shares)

Reason for Redemption	Shares at Beginning of the Period	Share Decrease During the Period	Shares at End of the Period
2003			
Reissuance to employees — held by E.Sun Bank. .	40,000	—	40,000
Treasury stock previously classified by E.Sun Bank as long-term investments.	309,849	—	309,849
	349,849	—	349,849
2004			
Reissuance to employees — held by E.Sun Bank. .	40,000	—	$40,000
Treasury stock previously classified E.Sun Bank and E.Sun Securities as long-term investments.	334,629	142,900	191,729
	374,629	142,900	231,729

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On June 30, 2003 and 2004, the market values of treasury stock pertaining to shares of ESFHC held by E.Sun Bank and E.Sun Securities as a result of the share swap were as follows:

	June 30	
	2003	2004
Market values	$5,004,064	$3,826,914

Under the Financial Holding Company Law, when a financial institution (a subsidiary) holds the shares of a financial holding company (FHC) as a result of a share swap, those shares should be sold to the FHC or the subsidiary's employees or exchanged for other purposes — e.g., sold on the Taiwan Stock Exchange or over-the-counter exchange — within three years from the swap date. Otherwise, the shares will be regarded as the FHC's unissued capital, and the FHC may change the amount of its registered capital. Thus, E.Sun Bank should sell the 40,000 shares of ESFHC's capital stock (reissuance to employee) by December 2004. On December 1, 2003, the board of directors of E.Sun Bank resolved to issue bonds for exchange with the underlying shares of ESFHC within the limit of 150,000 thousand shares under Article 31 of the Financial Holding Company Law. On January 23, 2004, E.Sun Bank issued three-year debenture exchangeable bonds amounting to $2,696,100 at 0% interest. As of June 30, 2004, all the exchangeable bond holders had exchanged bonds to ESFHC's common stock.

On February 12, 2004, the board of directors of E.Sun Bank resolved to authorized the chairman to dispose the shares of ESFHC with in the limit of 184,449 thousand shares under Article 31 of the Financial Holding Company Law.

On April 27, 2004, the board of directors of E.Sun Bank also resolved the transfer plan for the ESFHC's shares held by the E.Sun Bank to employees. Related terms of the share transfer plan are as follows:

a. Type of shares transfer, the content and the limit of the right:

   Common stock. The rights of shares are same as ESFHC's common stock.

b. Period of transfer:

   The shares should be transferred once or several times before January 27, 2005.

c. Qualification of transferee:

   Full-time employees of the ESFHC and its subsidiaries.

d. Procedures of transfer:

   (1) The board of directors of E.Sun Bank is authorized to determine the term of payment, the contents of rights, and the restricted conditions.

   (2) Registration of transfer shares will be processed after calculating the actual shares subscribed.

e. Transfer price:

The transfer price of each share is based on higher price for the average cost or the market closing price of ESFHC's common stock at transfer date.

f. Rights and obligations after transfer:

Registered transfer shares will bear the same rights and obligations as ESFHC's common stock, except for the prescriptions otherwise stated.

g. Others:

The qualified employees should not transfer or pledge the subscription right to the third party. The subscription right will be extinguished if the qualified employees resign or be disqualified due to other reasons.

On June 23, 2004, the board of directors of E.Sun Securities resolved to authorized the chairman to dispose the ESFHC stock as a result of the share swap within the 8,850 thousand shares limit.

Under the Securities and Exchange Law, ESFHC is not allowed to buy more than 10% of its issued and outstanding capital stock. In addition, ESFHC may not spend more than the sum of retained earnings and all realized capital surplus. Further, ESFHC can not pledge or hypothecate any purchased capital stock and exercise stockholders' rights before reissuance the stocks.

ESFHC's capital stock held by subsidiaries is treated as treasury stock. However, the subsidiaries can not exercise stockholders' rights on the treasury stock if the shares had been bought by subsidiaries before ESFHC's establishment.

Except for the shares which had been bought by subsidiaries before ESFHC's establishment, the subsidiaries can only exercise the earnings distributed, and surplus capitalized right.

Under SFB regulations, to maintain the stability of the Company's financial structure and protect stockholders, ESFHC appropriated a special reserve from retained earnings at an amount equal to the carrying value of the treasury stock held by subsidiaries in excess of the market value at balance sheet date. The special reserve may be reversed if the market value recovers. Since the market value of the treasury stock held by subsidiaries was higher than its carrying value as of December 31, 2002 and 2003, the special reserve was not appropriated.

27. Earnings per Share

The numerators and denominators used in computing earnings per share (EPS) are summarized as follows:

	Amounts (Numerator)		Shares	Earnings Per Share (Dollar)	
	Pretax	After Tax	(Denominator in Thousands)	Pretax	After Tax
For the six months ended June 30, 2003					
Basic EPS	$3,185,371	$2,432,090	2,120,151	$1.50	$1.15
Effect of diluted common shares:					
Convertible bonds	—	—	6,923		
Diluted EPS	$3,185,371	$2,432,090	2,127,074	$1.50	$1.15
For the six months ended June 30, 2004					
Basic EPS	$4,039,386	$3,101,511	2,208,854	$1.83	$1.40
Effect of diluted common shares: Convertible bonds	(61,048)	(61,048)	252,747		
Diluted EPS	$3,978,338	$3,040,463	2,461,601	$1.62	$1.24

The number of shares outstanding should be retroactively adjusted to reflect the effects of the stock dividends distributed subsequently. On June 11, 2004, shareholders resolved to increase 93,333 thousand shares. Because the projected capital increase date will be set after the release date of financial statements, the EPS for the six months ended June 30, 2004 is not retroactively adjusted. If it was retroactively adjusted, pro forma basic pretax and after tax EPS would be $1.75 and $1.35, respectively, for the six months ended June 30, 2004.

28. Pension Plan

The Company has pension plans for all regular employees. Upon retirement, an employee will receive the Company's contributions before Labor Standards Law (LSL) took effect on May 1, 1997 for E.Sun Bank and on March 1, 1998 for E.Sun Bills, which were credited to his/her account, plus earnings thereof and an amount calculated on the basis of length of service after LSL took effect date and monthly average basic pay of the six months before retirement.

E.Sun Bank and E.Sun Bills make monthly contributions, equal to 5.54% and 4.00%, respectively, of salaries, to a pension fund. The fund is deposited in the Central Trust of China in the name of a workers fund administrative committee, which manages the fund. The difference between the contributions and the pension costs based on actuarial calculations for E.Sun Bank is deposited in E.Sun Bank's Business Department in the name of the employees' pension fund administrative committee. E.Sun Bills makes another contributions, equal to 4% of salaries, to a pension fund, which is deposited in a financial institution in the name of the employees' pension fund administrative committee.

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E.Sun Securities make monthly contributions, equal to 4% of salaries, to a pension fund. The fund is managed by a workers fund administrative committee and deposited in its name in the Central Trust of China.

Pension cost information is as follows:

	E.Sun Bank	E.Sun Bills	E.Sun Securities
For six months ended June 30, 2003	$33,115	$2,225	$3,150
For six months ended June 30, 2004	$39,692	$2,180	$4,012

29. Related-Party Transactions

In addition to those mentioned in other notes, the relationship with the Company and significant related party transactions were summarized as follows:

a. *Related parties*

Related Party	Relationship with the Company
E.Sun Foundation and E.Sun Volunteer & Social Welfare Foundation	One-third of the funds are donated by E.Sun Bank and E.Sun Bills
E.Sun Venture Capital Co., Ltd. ("ESVC"), E.Sun Securities Investment Trust Corp. ("ESSIT"), E.Sun Securities Investment Consulting Co., Ltd. ("ESSIC'), E.Sun Finance & Leasing Co., Ltd. and E.Sun Insurance Agent Co., Ltd.	Equity-method investees
E.Sun Technologies Co., Ltd. and E.Sun Capital Co., Ltd.	Equity-method investees of subsidiaries
Fu Bon Securities Finance Co. and Bank-Pro E-Service Technology Co., Ltd.	E.Sun Bank is a director of the Company
Others	ESFHC's and subsidiaries' chairman, president, directors, supervisors, general managers and their relatives

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b. *Significant transactions with related parties*

(1) *Loan, deposits and bank debentures*

	June 30			
			Revenue (Expense)	
	Amount	% to Total	Interest Rate (%)	Amount
2003				
Loan	$268,615	—	1.50–7,02	$6,475
Deposits	$759,529	—	0–13	($ 39)
Securities purchased	$291,687	—		
Bank debentures	$100,000	1	4.2	($2,100)
2004				
Loan	$501,230	—	1.025–3.370	$4,882
Deposits	$515,213	—	0–8.45	($3,695)
Bank debentures	$100,000	—	4.2	($2,034)

The interest rates shown above are similar to, or approximate, those offered to third parties. However, the interest rates on deposits given to managers of the E.Sun Bank are the same as the interest rates on a certain amount of savings deposits of employees.

Under the Banking Law, except for consumer loans and government loans, credits extended by the E.Sun Bank to any related party should be 100% secured, and the terms of credits extended to related parties should be similar to those extended to third parties.

	June 30, 2004
(2) *Dividend Receivable (part of receivables) — ESSIT*	$81,600

(3) *Securities sold under agreements to repurchase*

	June 30			
	2003		2004	
Name	Amount	% to Total	Amount	% to Total
Funds managed by ESSIT	$690,618	15	$1,044,176	2
ESSIT	—	—	41,723	—
	$690,618	15	$1,085,899	2

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(4) *Bills and bonds transactions*

Purchased from:

Name	For the Six Months Ended June 30 2003	2004
Funds managed by ESSIT	$114,079	$—

	June 30, 2004
(5) *Securities purchased (mutual funds) — funds managed by ESSIT*	$56,001

(6) *Donation*

Name	For the Six Months Ended June 30 2003	2004
E.Sun Foundation	$ —	$20,000
E.Sun Volunteer & Social Welfare Foundation	$18,000	$30,292

The purpose of the donation above is for education and social welfare charity.

	June 30, 2004
(7) *Other receivable (part of receivable) — ESVC*	$1,693

The Company will file consolidated corporate tax returns from 2003. Any distribution of cash payments and receipts among the consolidated group members is recorded as receivable or payable.

(8) *Rent expenses*

Lessor	Address	The Period of Contract	For the Six Months Ended June 30 2003	2004
E.Sun Finance & Leasing Co., Ltd.	2F., No. 178, Fu-Xhin N. Road, Taipei, Taiwan	2003.10.1–2006.09.30	$3,000	$2,600

(9) *Rent revenue*

Lessor	Address	The Period of Contract	For the Six Months Ended June 30 2003	2004
ESSIC	5F., No. 77, Sec. 1 Wuchang St., Taipei, Taiwan	2003.05.1–2008.09.30	$—	$540

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(10) *Brokerage service fee*

	For the Six Months Ended June 30	
Name	2003	2004
E.Sun Finance & Leasing Co., Ltd.	$ 46	$ —
Funds managed by ESSIT	$2,142	$169

(11) E.Sun Securities signed an investment consolation service contract with ESSIC. The contract term is from June 30, 2003 to December 31, 2004. E.Sun Securities paid $6,500 of the service fee for the six months ended of June 30, 2004, and as of June 30, 2004, $6,500 was unpaid.

The term of the above transactions were similar to or approximated those made with third parties.

30. Pledged Assets

	June 30	
	2003	2004
Securities purchased (face value)	$8,184,100	$12,859,900
Long-term bond investments (face value)	200,000	7,044,100
	$8,384,100	$19,904,000

As of June 30, 2003 and 2004, the abovementioned pledged assets with aggregate face values of $7,200,000 and $7,150,000, respectively, had been provided as collateral for day-term overdraft to comply with the Central Bank’s clearing system requirement for Real-time Gross Settlement (RTGS). The unused overdraft amount at the end of the day may also be treated as liquidity reserve.

As of June 30, 2004, the abovementioned securities purchased amounting $5,300,000 had been provided to International Commercial Bank of China and Chiao Tung Banks as collaterals for issuing corporate bonds and E.Sun Bank provide government bonds with face value of $500,000 thousand as refund deposits according to the contract (Note 43). Others were provided as collaterals used for bank loan and credit line and as court deposits for certain lawsuits.

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31. Contingencies and Commitments

In addition to those mentioned in other notes, the commitments as of June 30, 2004 were as follows:

a. *E.Sun Bank*

(1) Renewable operating lease agreements on premises occupied by E.Sun Bank's branches, which will on various dates by 2014. Rentals are calculated on the basis of the leased areas and are payable monthly, quarterly or semiannually. Refundable deposits on these leases totaled $695,408 as of June 30, 2004. Minimum annual rentals for the next five years are as follows:

Year	Amount
July to December 2004	$133,569
2005	204,982
2006	168,684
2007	128,959
2008	87,963
January to June 2009	30,725

Total rentals for July 2009 to June 2014 will aggregate $277,430. The present value of these rentals is $256,227, based on 1% annual interest.

(2) Contracts to acquire land and buildings, decorate a building and make various purchases to improve the various branch premises. Total contract amount was approximately $559,317. As of June 30, 2004, the unpaid balance on these contracts was approximately $88,540.

b. *E.Sun Bills*

Commitments and contingent liabilities as of June 30, 2004:

(1) *Arising in the ordinary course of business*

Guarantees on commercial paper	$18,120,600
Negotiable instruments underwritten	445,000

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(2) *Leases*

E.Sun Bills leases certain properties under operating lease agreements expiring on various dates by July 31, 2009. The leases are payable quarterly or monthly. Refundable deposits on these leases aggregated $3,258 as of June 30, 2004.

Future minimum annual rentals are as follows:

Year	Amount
July to December 2004	$ 6,473
2005	10,046
2006	9,165
2007	9,165
2008	8,574
January to June 2009	4,189

c. *E.Sun Securities*

(1) Rent by E.Sun Securities of certain properties under operating lease agreements expiring on various dates. Future minimum annual rentals are as follows:

Year	Amount
July 2004 to June 2005	$24,326
July 2005 to June 2006	14,436
July 2006 to June 2007	10,175
July 2007 to June 2008	4,828
July 2008 to July 2009	119

(2) E.Sun Securities entered into agreements to acquire fixed assets. The related contract is summarized as follows:

	Contract Amount	Paid Amount	Unpaid Balance
Office equipment	$ 6,241	$4,912	$1,329
Lease improvement	$11,168	$9,822	$1,346

d. *E.Sun Securities Investment Trust Corp.*

(1) ESSIT leases certain properties under operating lease agreements expiring on various dates. The contract amount was approximately $1,296.

(2) ESSIT entered into internet service agreements with E.Sun Technology Co., Ltd. The contract amount was approximately $1,200.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

e. ***E.Sun Insurance Broker Co., Ltd.***

ESIB entered into insurance agent contracts with various insurance companies. The contracts are summarized as follows:

Insurance Company	Contract Date	Commission Received	Contract Period
Zurich Insurance (Taiwan) Ltd.	2003.08.01	Billed and received according to contract terms	Effectively starts on contract date. The term is one year after the contract date. The contract may be preterminated if a party provides a written notice of termination 30 days before the contract expiry.
Newa Insurance	2004.01.02	Billed and received according to contract terms	Same as the above
Prudential Insurance . .	2004.02.02	Billed and received according to contract terms	Same as the above

32. Personnel, Depreciation and Amortization Expenses

	For the Six Months Ended June 30	
	2003	2004
Personnel expenses		
Salaries	$759,900	$892,800
Insurance	54,130	64,858
Pension	38,490	45,884
Other.	53,025	60,987
Depreciation expenses	141,044	207,411
Amortization expenses	41,674	37,766

33. Capital Adequacy Ratio

Under the Financial Holding Company Law and related regulations, ESFHC should maintain a consolidated capital adequacy ratio (CAR) of at least 100%. If the ratio falls below 100%, the appropriation of earnings as cash dividends or others assets will be restricted, and the authorities may discipline ESFHC, depending on the situation. The consolidated CARs of ESFHC were 102.93% and 104.57% as of June 30, 2003 and 2004, respectively.

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The Banking Law and related regulations require that E.Sun Bank maintains both stand-alone and consolidated CARs at a minimum of 8% each. If E.Sun Bank's CAR falls below 8%, the Ministry of Finance may impose certain restrictions on the amount of cash dividends that E.Sun Bank may declare or, in certain conditions, totally prohibit E.Sun Bank from declaring cash dividends. As of June 30, 2003 and 2004, the stand-alone CARs of E.Sun Bank were 10.09% and 9.61%, respectively.

Under the law governing bills finance companies and related regulations, E.Sun Bills should maintain a CAR of at least 8%. If the CAR falls below 8%, the authorities might subject E.Sun Bills' earnings appropriations to certain restrictions. The CARs of E.Sun Bills were 16.00% and 13.72% as of June 30, 2003 and 2004.

Under the rules governing securities firms and related regulations, the CAR of a securities firm should be at least 200% to ensure its stability as well as maintain the health of the security markets. If the ratio is below 200%, the authority may impose certain restrictions on a firm's operations. The CARs of E.Sun Securities were 788.29% and 641.90% as of June 30, 2003 and 2004.

34. Average Amount and Average Interest Rate of Interest-Earning Assets and Interest-Bearing Liabilities

Average balance is calculated at the daily average balance of interest-earning assets and interest-bearing liabilities.

a. *E.Sun Bank*

	For the Six Months Ended June 30			
	2003		2004	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-earning assets				
Cash and cash equivalents — due from banks	$ 1,181,757	0.28	$ 2,618,382	0.93
Due from the Central Bank of China and banks	15,402,868	1.79	12,961,897	1.52
Securities purchased	52,571,283	3.12	52,521,090	1.56
Securities purchased under agreements to resell	—	—	2,174,999	0.74
Receivables of credit cards	17,580,806	15.23	24,218,218	14.32
Bills, discount and loans	171,913,216	4.25	218,394,831	3.41
Long-term bond investments	—	—	5,944,033	1.96
Other long-term investments	—	—	1,491,504	1.67

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	For the Six Months Ended June 30			
	2003		2004	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-bearing liabilities				
Securities sold under agreements to repurchase	$ —	—	$13,038,712	0.73
Due to banks	26,103,197	1.30	25,988,390	1.06
Demand	20,857,822	0.37	28,677,600	0.17
Savings — demand	49,462,631	0.87	65,456,623	0.54
Time	70,715,521	1.70	73,295,071	1.20
Savings — time	78,500,601	2.05	74,745,761	1.45
Negotiable certificates of deposit	1,109,189	1.41	11,090,779	1.02
Bonds	10,000,000	3.20	21,558,388	2.60

b. *E.Sun Bills*

	For the Six Months Ended June 30			
	2003		2004	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-earning assets				
Due from Banks	$4,626,234	1.73	$ 3,796,687	1.30
Call loans to banks	207,348	2.60	213,022	2.02
Operating securities and long-term bond investments	1,832,971	4.68	22,357,887	4.18
Bills purchased under agreements to resell	—	—	104,417	0.78
Bonds purchased under agreements to resell	—	—	1,463,548	0.74
Interest-bearing liabilities				
Call loans from banks	9,998,768	1.19	8,553,055	0.96
Bills sold under agreements to repurchase	—	—	20,741,614	0.78
Bonds sold under agreements to repurchase	—	—	21,112,126	0.77
Corporate bonds payable	—	—	4,450,549	0.72

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35. Maturity Analysis of Assets and Liabilities

The maturity of the Company's assets and liabilities is based on the remaining period from balance sheet dates. The remaining period to maturity is based on maturity dates specified under agreements and, if there are no specified maturity dates, on the expected dates of collection.

	June 30, 2003			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash and cash equivalents	$ 11,798,669	$ —	$ —	$ 11,798,669
Due from Central Bank of China and banks	15,249,495	—	—	15,249,495
Securities purchased	64,530,877	—	—	64,530,877
Receivables	22,933,410	—	—	22,933,410
Securities purchased under agreements to resell	982,748	—	—	982,748
Bills, discounts and loans	68,100,910	43,382,701	68,873,688	180,357,299
Long-term bond investments	—	1,259,975	—	1,259,975
	$183,596,109	$44,642,676	$68,873,688	$297,112,473
Liabilities				
Securities sold under agreements to repurchase	$ 4,662,186	$ —	$ —	$ 4,662,186
Due to banks	29,336,537	—	—	29,336,537
Payables	6,477,927	—	—	6,477,927
Deposits and remittances	208,526,182	13,369,731	—	221,895,913
Bonds	—	9,840,000	—	9,840,000
Corporate bonds payable	—	6,171,957	—	6,171,957
Long-term debts	291,000	838,000	—	1,129,000
	$249,293,832	$30,219,688	$ —	$279,513,520

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	June 30, 2003			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash and cash equivalents	$ 9,309,132	$ —	$ —	$ 9,309,132
Due from Central Bank of China and banks	15,168,811	—	—	15,168,811
Securities purchased	112,108,253	—	—	112,108,253
Receivables	31,970,512	—	—	31,970,512
Securities purchased under agreements to resell	3,659,461	—	—	3,659,461
Bills, discounts and loans	73,260,022	51,785,912	116,665,903	241,711,837
Long-term bond investments	—	1,260,480	6,618,640	7,879,120
Other long-term investments — special purpose trust beneficiary certificates	—	2,260,508	—	2,260,508
	$245,476,191	$55,306,900	$123,284,543	$424,067,634
Liabilities				
Short-term debts	$ 600,000	$ —	$ —	$ 600,000
Commercial paper issued	679,463	—	—	679,463
Securities sold under agreements to repurchase	58,160,128	—	—	58,160,128
Due to banks	32,476,966	—	—	32,476,966
Payables	8,079,139	—	—	8,079,139
Deposits and remittances	255,760,359	11,730,120	—	267,490,479
Bonds	—	25,000,000	—	25,000,000
Corporate bonds payable	4,216,938	5,000,000	—	9,216,938
Long-term debts	188,000	1,050,000	—	1,238,000
	$360,160,993	$42,780,120	$ —	$402,941,113

36. Financial Instruments

a. *Derivative financial instruments*

E.Sun Bank uses forward exchange, swap contracts and foreign-currency option as hedge instruments for foreign-currency exposures primarily related to its clients' import obligations and export receipts and remittances. It also uses these contracts to cover its own exposures. It also uses cross-currency swap contracts, interest rate swap and asset swap contracts to hedge its exchange rate and interest rate exposures, respectively.

E.Sun Bills used interest rate swap to hedge interest rates exposure pertaining primarily to its issuance of corporate bonds.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Credit risk represents the exposure of the Company to potential losses due to defaults by counter-parties. To manage this risk, the Company reviews the credit history and credit rating of individual customers before entering into any derivative contracts with them. The general terms of the contracts (including maximum limits on contractual amounts and, if necessary, required guarantees) are approved by the Company on the basis of the results of the reviews. The transactions are carried out within the terms and limits of the contracts. The acceptability of doing business with another bank is evaluated on the basis of its world ranking and credit rating. The evaluation also covers determining the limits on contractual amounts, and the transactions are made within this limit.

The contract (notional) amounts, credit risks, and fair values of derivative transactions were as follows:

(1) *E.Sun Bank*

	June 30, 2003			June 30, 2004		
	Contract (Notional) Amount	Credit Risk	Fair Value	Contract (Notional) Amount	Credit Risk	Fair Value
Trading purposes						
Forward exchange contracts	$1,148,401	$ 2,566	($ 1,546)	$ 2,832,019	$ 37,913	$ 158
Foreign-currency swap contracts	5,811,016	26,725	23,148	17,494,957	88,627	(48)
Interest rate swap contracts	—	—	—	1,300,000	74,228	74,228
Foreign-currency option contracts						
Buy	910,600	862	130	5,386,847	45,426	45,426
Sell	910,600	—	(130)	4,374,377	—	(48,422)
Nontrading purposes						
Asset swap contracts	5,958,259	1,688	(180,389)	7,263,460	297,016	90,697
Cross-currency swap contracts	5,553,993	139,432	139,432	9,618,966	332,426	8,910
Interest rate swap contracts	2,000,000	121,346	121,346	19,300,000	474,362	293,636

(2) *E.Sun Bills*

	June 30, 2004		
	Contract (Notional) Amount	Credit Risk	Fair Value
Nontrading purposes			
Interest rate swap contracts	$5,000,000	$—	($57,019)

E.Sun Bank calculates the fair value of each forward contract at the forward rate for the remaining term on the basis of quotations from Reuters or the Telerate Information System.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Bills calculates the fair value of each contract at the interest rate shown on TWD-T6165 from the Telerate information system.

The contract (notional) amount is used to calculate the amounts for settlement with the counter-parties, so it is neither the actual amount delivered nor the cash requirement for the Company. Also, the Company can enter into derivative financial contracts at reasonable market terms. In addition, the Company does not expect significant cash flow requirements to settle these contracts.

The gains and losses on the derivative transactions for the six months ended June 30, 2003 and 2004, were as follows:

(1) *E.Sun Bank*

	For the Six Months Ended June 30	
	2003	2004
Forward exchange contracts (under "foreign exchange gain — net")	$927	$ 6,418
Foreign currency swap contracts		
Interest revenue	$21,315	$ 36,465
Interest expense	(9,495)	(2,194)
	$11,820	$ 34,271
Asset swap contracts (under "interest revenue")	$ 3,913	$ 13,664
Cross — currency swap contracts		
Interest revenue	$43,659	$ 62,832
Interest expense	(37,433)	(50,753)
	$6,226	$ 12,079
Interest rate swap contracts		
Gains from derivatives	$—	$177,150
Interest expenses reduction	—	177,899
Interest revenue	76,850	2,917
Interest expense	(72,936)	(4,574)
	$3,914	$353,392
Foreign-currency option contracts		
Revenue	$10,478	$109,802
Expense	(11,140)	(75,408)
	($ 662)	$ 34,394

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(2) *E.Sun Bill*

	For the Six Months Ended June 30	
	2003	2004
Interest rate swap contracts		
Interest revenue	$—	$ 79,841
Interest expense	—	(16,108)
	$—	$ 63,733

E.Sun Bills did not have derivative transaction for the six months ended June 30, 2003.

b. ***Fair value of nonderivative financial instruments***

	June 30			
	2003		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Assets with fair value the same as carrying value	$229,839,273	$229,839,273	$299,848,450	$299,848,450
Securities purchased	64,528,327	64,923,619	112,022,395	114,750,874
Long-term investments	3,352,508	3,249,430	12,320,912	11,838,685
Operating deposits	303,171	340,651	307,612	318,303
Liabilities				
Liabilities with fair value the same as carrying value	272,870,493	272,870,493	393,078,254	393,078,254
Corporate bonds payable	6,233,676	6,309,530	9,231,363	9,598,479

Methods and assumptions used in estimating the fair value of nonderivative financial instruments were as follows:

(1) The carrying values of cash and cash equivalents, due from the Central Bank of China and banks, receivables, securities sold (purchased) under agreements to repurchase (resell), refundable deposits, settlement fund, due to banks, payables and remittances approximate fair values because of the short maturity of these instruments. The carrying value of other assets and other liabilities also approximate the expected cash inflows or outflows at settlement dates; thus, their carrying value also approximates its fair value.

(2) If market prices for securities purchased, long-term investments and operating deposits are available, the fair value of these financial instruments should be based on the market price. Otherwise, carrying value represents current fair value.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(3) Bills, discounts and loans, deposits, bonds, short-term debts, commercial paper issued and long-term debts are interest-bearing financial assets and liabilities. Thus, their carrying value is deemed to represents current fair value.

(4) If market prices for corporate bonds payable are available, the fair value of these financial instruments should be based on the market price. Otherwise, carrying values represent current fair values because corporate bonds payable are interest-bearing financial liabilities.

Only the fair values of financial instruments were listed above, thus, the total of the fair values listed does not represent the fair value of the Company.

37. Condensed Financial Statements of Subsidiaries

a. *Condensed balance sheets*

E.Sun Commercial Bank, Ltd.

Condensed Balance Sheets
June 30, 2003 and 2004

	June 30	
	2003	2004
Assets		
Cash and cash equivalents	$ 6,135,161	$ 5,813,453
Due from the Central Bank of China and banks	15,249,495	14,978,811
Securities purchased — net	50,365,510	51,943,494
Receivables — net	21,031,917	28,597,715
Securities purchased under agreements to resell	—	2,244,007
Prepaid expenses	57,666	85,923
Bills, discounts and loans — net	178,728,001	239,780,874
Long-term investments	4,774,470	11,828,268
Net properties	5,242,520	9,836,881
Other — net	1,876,686	1,099,331
Total assets	$283,461,426	$366,208,757

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	June 30	
	2003	2004
Liabilities and Stockholders' Equity		
Liabilities		
Securities sold under agreements to repurchase	$ —	$ 11,985,386
Due to banks	19,366,537	23,596,966
Payable	5,078,427	7,143,436
Advance	87,884	190,934
Deposits and remittances	228,575,876	274,828,711
Bonds	10,000,000	25,000,000
Other	391,511	504,198
Total liabilities	263,500,235	343,249,631
Stockholders' equity		
Capital stock	18,175,000	18,175,000
Capital surplus	233,502	233,502
Retained earnings	2,048,038	5,143,607
Unrealized loss on long-term equity investments	—	(98,267)
Cumulative translation adjustments	2,668	3,301
Treasury stock	(498,017)	(498,017)
Total stockholders' equity	19,961,191	22,959,126
Total liabilities and stockholders' equity	$283,461,426	$366,208,757

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Bills Finance Corp.

Condensed Balance Sheets
June 30, 2003 and 2004

	June 30	
	2003	2004
Assets		
Cash	$ 4,828,269	$ 4,015,499
Call loans to banks	200,000	190,000
Operating securities — net	9,046,799	55,347,626
Other short-term investments	—	452,312
Receivables	277,729	865,247
Securities purchased under agreement to resell	—	1,415,454
Other current assets	2,189	4,377
Total current assets	14,354,986	62,290,515
Long-term bond investments	1,419,975	1,260,480
Net properties	99,332	93,962
Other	415,567	442,449
Total assets	$16,289,860	$64,087,406

	June 30	
	2003	2004
Liabilities and Stockholders'		
Liabilities		
Securities sold under agreement to repurchase	$ —	$43,132,291
Bank loans	9,970,000	8,880,000
Payable	157,673	859,406
Total current liabilities	10,127,673	52,871,697
Corporate bonds payable	—	5,000,000
Reserve for losses on guarantees	447,311	443,010
Reserve for losses on sale of bonds	200,065	99,793
Total liabilities	10,775,049	58,414,500
Stockholders' equity		
Capital stock	4,265,000	4,265,000
Capital surplus	87,500	87,500
Retained earnings	1,162,311	1,320,406
Total stockholders' equity	5,514,811	5,672,906
Total liabilities and stockholders' equity	$16,289,860	$64,087,406

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Securities Corp.

Condensed Balance Sheets
June 30, 2003 and 2004

	June 30	
	2003	2004
Assets		
Current assets	$8,244,242	$7,217,087
Long-term investments	158,108	107,605
Net properties	197,528	376,534
Intangible assets	8,907	9,148
Other assets	379,933	486,704
Securities brokerage accounts — net	893	—
Total assets	$8,989,611	$8,197,078

	June 30	
	2003	2004
Liabilities and Stockholders' Equity		
Liabilities		
Current liability	$5,752,247	$5,006,036
Other	54,762	29,760
Securities brokerage accounts — net	—	2,883
Total liabilities	5,807,009	5,038,679
Stockholders' equity		
Capital stock	3,060,000	3,060,000
Retained earnings	122,602	98,399
Total stockholders' equity	3,182,602	3,158,399
Total liabilities and stockholders' equity	$8,989,611	$8,197,078

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Insurance Broker Co., Ltd.

Condensed Balance Sheet
June 30, 2004

	Amount
Assets	
Current assets	$106,980
Long-term investments	8,575
Total assets	$115,555

	Amount
Liabilities and Stockholders' Equity	
Liabilities	
Current liabilities	$ 16,438
Stockholders' equity	
Capital stock	62,000
Retained earnings	37,117
Total stockholders' equity	99,117
Total liabilities and stockholders' equity	$115,555

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. *Condensed income statements*

E.Sun Commercial Bank, Ltd.

Condensed Income Statements
For the Six Months Ended June 30, 2003 and 2004

Item	2003	2004
Operating revenues and gains	$6,978,562	$9,647,714
Operating cost	2,359,264	2,293,696
Gross profit	4,619,298	7,354,018
Operating expenses	2,009,769	2,375,623
Operating income	2,609,529	4,978,395
Nonoperating income and gains	19,413	29,113
Nonoperating expense and loss	24,847	25,446
Income before income tax	$2,604,095	$4,982,062
Net income	$2,048,038	$4,067,559
Earnings per share — pretax	$ 1.43	$ 2.74
Earnings per share — after tax	$ 1.13	$ 2.24

E.Sun Bills Finance Corp.

Condensed Income Statements
For the Six Months Ended June 30, 2003 and 2004

Item	2003	2004
Operating income	$685,269	$797,340
Operating expenses	156,784	378,801
Income before income tax	$528,485	$418,539
Net income	$482,134	$312,767
Earnings per share — pretax	$ 1.24	$ 0.98
Earnings per share — after tax	$ 1.13	$ 0.73

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Securities Corp.

Condensed Income Statements
For the Six Months Ended June 30, 2003 and 2004

Item	2003	2004
Operating income	$276,996	$396,916
Operating expenses	194,892	368,029
Income before income tax	$ 82,104	$ 28,887
Net income	$ 85,679	$ 29,036
Earnings per share — pretax	$ 0.27	$ 0.09
Earnings per share — after tax	$ 0.28	$ 0.09

E.Sun Insurance Broker Co., Ltd.

Condensed Income Statement
For the Six Months Ended June 30, 2004

Item	Amount
Operating income	$50,234
Operating expenses	(8,878)
Nonoperating revenue and expense	(407)
Income before income tax	$40,949
Net income	$30,514

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

38. Allocation of Revenue, Cost and Expense Resulting from Intercompany Sharing of Resources

Under cooperation arrangements, E.Sun Bank and E.Sun Securities shared some equipment and operating sites; thus, related expenses were apportioned as follows:

	E.Sun Bank	E.Sun Securities	Total	Apportionment Method
For the six months ended June 30, 2003				
Rental expense	$2,187	$1,093	$3,280	E.Sun Bank: 2/3; E.Sun Securities: 1/3.
Fixtures	449	3,369	3,818	Based on area actually occupied
Broadcasting and security systems	4,458	4,458	8,916	50% each
Networking, monitoring and telephone systems	—	1,142	1,142	Based on actual number of equipment used.
Others	477	858	1,335	Signboard, telephone and miscellaneous expenses — based on actual occurrence. Insurance and cleaning expenses — 50% each Utilities — based on the actual number of employees Building maintenance expenses — based on space actually occupied
	$7,571	$10,920	$18,491	
For the six months ended June 30, 2004				
Rental expense	$3,282	$1,639	$4,921	E.Sun Bank: 2/3; E.Sun Securities: 1/3.
Broadcasting and security systems	18	18	36	50% each
Networking, monitoring and telephone systems	—	189	189	Based on actual number of equipment used.
Others	377	863	1,240	Signboard, telephone and miscellaneous expenses — based on actual occurrence. Insurance and cleaning expenses — 50% each Utilities — based on the actual number of employees Building maintenance expenses — based on space actually occupied
	$3,677	$2,709	$6,386	

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Under cooperation arrangements, E.Sun Bank and E.Sun Bills shared some equipment and operating site since 2004; thus, related expense were apportioned as follows:

	E.Sun Bank	E.Sun Securities	Total	Apportionment Method
For the Six Months Ended June 30, 2004				
Rental expense	$ 346	$ 197	$ 543	Based on space actually occupied
Fixtures	3,153	1,881	5,034	Based on space actually occupied
Broadcasting, security systems and networking	124	193	317	Broadcast and network — based on actual number of equipment used Security system — 50% each
	$3,623	$2,271	$5,894	

Under cooperation arrangements, E.Sun Bank and E.Sun Insurance Broker Co., Ltd. ("ESIB") shared some equipment and operating site, personnel, internet service system and provide cross-selling financial services in 2004. The revenue earned by E.Sun Bank is based on 10% of the gross revenue derived from the insurance companies product sold by E.Sun Bank. For the six month ended June 30, 2004, ESIB should have paid E.Sun Bank $5,357 and unpaid amounts were $3,208.

39. Subsidiaries' Asset Quality, Management Information, Profitability, Liquidity and Sensitivity to Market Risk

a. *Asset quality*

(1) *E.Sun Bank*

Items	June 30, 2003	June 30, 2004
Nonperforming loans (overdue loans included)	2,434,511	2,357,077
Overdue loans	2,106,106	1,740,961
Nonperforming loans ratio	1.35%	0.98%
Surveillance loans	1,158,058	725,206
Surveillance loans/Total loan	0.64%	0.30%
Allowance for possible losses on loans and receivables	1,629,298	1,930,963

Note 1: Nonperforming loans represent the amounts of reported nonperforming loans, as required by the Ministry of Finance (MOF) rulings dated February 16, 1994 (Ref. No. Tai-Tsai-Zong-832292834) and December 1, 1997 (Ref. No. Tai-Tsai-Zong- 86656564)

Note 2: Nonperforming loans ratio = Nonperforming loans (including overdue loans)/(Outstanding loan balances + Overdue loans)

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Note 3: Surveillance loans

(a) Midterm and long-term loans repayable in installments, with repayments on delinquent for more than three months but less than six months.

(b) Other loans, with principal repayments overdue by less than three months and interest overdue by more than three months but less than six months.

(c) Nonperforming loans exempted from reporting (including reschedule loans which repayment terms meet the regulated criteria; nonperforming loans which will be repay by a credit insurance fund and settlement fund; nonperforming loans which have the same amount of certificates of time deposits as collaterals; and loans extended under other approved exemption programs).

(d) Loans of companies experiencing financial difficulty enterprise loans do not qualify as overdue loans.

(2) *E.Sun Bills*

Items	June 30, 2003	June 30, 2004
Nonperforming loans	—	—
Overdue loans	—	—
Nonperforming loans/Total loan	—	—
Allowance for possible losses on loans and receivables	447,311	443,010

b. *Management information*

(1) *Concentration of credit risk*

E.Sun Bank

Items	June 30, 2003		June 30, 2004	
Credit to interested party		$4,254,647		$4,582,477
Credit to interested party/Total credit		2.32%		1.86%
Credit with stock pledged/Total credit		1.32%		0.69%
	Type of Industry	%	Type of Industry	%
Loan concentration by industry	a. Manufacturing	16	a. Manufacturing	16
	b. Finance, insurance and real estate	12	b. Finance, insurance and real estate	11
	c. Wholesale, retail and catering	6	c. Wholesale, retail and catering	6

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

E.Sun Bills

Items	June 30, 2003		June 30, 2004	
Credit to interested party		$314,000		$237,000
Credit to interested party/Total credit		1.75%		1.31%
Credit with stock pledged/Total credit		9.10%		16.96%
Loan concentration by industry	**Type of Industry**	**%**	**Type of Industry**	**%**
	Finance	34	Finance	37
	Manufacturing	38	Manufacturing	34
	Wholesale, retail and catering	9	Wholesale, retail and catering	9

Note:

(a) Total credits includes bills, discounts and loans (including import and export negotiations), acceptances and guarantees.

(b) Ratios of credit extensions to interested parties: Credit to interested parties ÷ Total credit.

(c) Ratios of credit extensions secured by pledged stocks: Credit with stocks pledged ÷ Total credit

(d) The calculation of amounts of credit extensions to interested parties should be based on the Banking Law provisions.

(2) *Accounting policies on allowances for losses on loans, overdue loans, and securities purchased:*

E.Sun Bank

(a) Allowances for possible losses and reserve for losses on guarantees:

E.Sun Bank makes provisions for bad debts and losses on guarantees based on the evaluation of specific risks and general risks on the collectibility of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances. Allowances for specific-risk debts are evaluated internally for their collaterals, collectibility and customers' overall credit.

Under guidelines from the Ministry of Finance, E.Sun Bank should make full provisions for credits deemed uncollectible. Provisions for credits with high uncollectibility should be at least 50% of the credits. In addition, credits deemed uncollectible may be written off subject to a resolution issued by the Board of Directors.

(b) Allowances for possible losses on investments

i. Securities purchased

Securities purchased are carried at cost less allowance for decline in value. The allowance is reserved when the market value recovers, with the reversal recognized as income.

ii. Long-term equity investments

Investments in stocks with no quoted market price are accounted for at cost. The carrying amount of the investment is reduced to reflect an other than temporary decline in the value of the investments, with the related losses charged to current income. Investment in stock with quoted market price is stated at the lower of aggregate cost or market. The reduction of an investment cost to reflect a lower market value and its write-up due to the subsequent recovery in market value are charged and credited, respectively, to stockholders' equity. Cash dividends received from a year after investment acquisition are recorded as investment income. Foreign-currency investments are recorded in New Taiwan dollars at the rate of exchange in effect when the transactions occur. At year-end, the balances of these investments are restated at year-end exchange rates. If the restated amounts are lower than cost, the differences are recognized as translation adjustments under stockholders' equity; otherwise, no adjustment is made.

E.Sun Bills

(a) Allowance for doubtful receivables and reserve for losses on guarantees

A reserve for losses on guarantees for commercial paper issued is provided for any defaults by commercial paper issuers. Under the regulations of the Ministry of Finance of the Republic of China (ROC), the balance of this reserve should be at least equal to 1% of the amount guaranteed, full provisions for credits deemed uncollectible and 50% provision for credits with high uncollectibility.

(b) Reserves for losses on sale of bonds

Under the regulations of the Securities and Futures Bureau of the ROC, reserves for losses on the sale of bonds are computed at 10% of the net gain on the sale of these bonds until the balance of the reserve reaches $200,000. This reserve should be used only to offset actual losses on the sale of bonds.

(c) Allowance for reduction of investments

(i) Operating securities

Operating securities are stated at aggregate cost less allowance for losses from decline in market value. The allowance is reversed when the market value recovers, with the reversal recognized as income.

(ii) Other short-term investments

Other short-term investments are stated at aggregate cost less allowance for losses from decline in market value. The allowance is reversed when the market value recovers, with reversal recognized as income.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(3) *Financial instruments with off-balance-sheet credit risks*

(a) E.Sun Bank

Under normal business operations, E.Sun Bank is a party to transactions involving financial services with off-balance-sheet risks, such as issuing credit cards, extending credit facilities and providing financial guarantee and obligations under letters of credit issued. Generally, the related transactions are for one year.

The interest rates for loans ranged from 1.10% to 18.25% and from 1.03% to 18.25% for the six months ended June 30, 2003 and 2004, respectively. The highest interest rate for credit cards was 19.71% in both periods.

There was no concentration of maturity dates in one particular period that would potentially result in liquidity problems to E.Sun Bank.

The amounts of financial contracts with off-balance-sheet credit risks as of June 30, 2003 and 2004 were as follows:

	2003	2004
Credit card commitments	$170,973,927	$199,962,254
Guarantees and issuance of letter of credit	7,205,459	9,958,017

Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The total potential loss (without considering the value of any collateral) in case of default by counter-parties is equal to the above contractual amounts, if completely drawn upon.

E.Sun Bank evaluates the creditworthiness of credit applications case by case, taking into account the applicant’s credit history, credit rating and financial condition. Collateral, mostly in the form of real estate, cash, inventories and marketable securities, may be required depending on the evaluation result. As of June 30, 2003 and 2004, about 55.35% and 58.70%, respectively, of total loans granted and about 29.07% and 22.40%, respectively, of the aggregate guarantees and letters of credit issued, were secured. No collateral is required for credit card facilities but the credit status of each credit cardholder is closely monitored. Depending on the results of credit status monitoring, appropriate measures are adopted, including amending the credit limit and, if necessary, canceling the facility.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Concentration of credit risk exists when counter-parties to financial transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. E.Sun Bank has no credit risk concentration arising from any counter-party or groups of counter-parties engaged in similar business activities. The concentrations of credit risks were as follows (10% or more of the outstanding loans):

	June 30			
	2003		2004	
	Amount	%	Amount	%
	NT$		NT$	
Natural person	$89,770,042	49	$136,098,545	55
Manufacturing	29,484,512	16	39,957,759	16

(b) E.Sun Bills

E.Sun Bills guarantees commercial paper issued by other entities. The guarantee period is normally one year. The rate for guarantee service fees ranged from 0.1% to 1.0% of the amount guaranteed. As of June 30, 2003 and 2004, the total amounts guaranteed were $17,922,700 and $18,120,600, respectively.

Most of the guarantee contracts are expected to expire without entailing any payment by E.Sun Bills. Thus, the total amount guaranteed does not necessarily represent future cash payments. In addition, the potential total loss on each guarantee is equal to the amount guaranteed, without considering the value of any collateral.

E.Sun Bills approves the guarantee arrangements for commercial paper (including the maximum amount to be guaranteed) after reviewing a customer's history and credit rating. An appropriate collateral is required, if needed, and the transaction is made within the approved maximum amount. As of June 30, 2003 and 2004, about 29.90% and 36.90%, respectively, of total amounts guaranteed were covered by securities or other properties. If a customer defaults, E.Sun Bills is entitled to sell the related collateral.

Credit risk concentrations exist when the counter-parties to financial-instrument transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. For E.Sun Bills, concentration of credit risk do not involve individuals but industry groups, as follows:

	2003	2004
Guarantee on commercial paper — by industries:		
Financial	$6,177,000	$6,722,000
Manufacturing	6,770,000	6,150,000
Wholesale, retail and catering	1,700,000	1,687,000

E.Sun Bills maximum exposure to losses associated with credit guarantees, regardless of collateral involved, equals the total contract amount.

(4) *Matter requiring special notation*

E.Sun Bank

June 30, 2004
(In Thousands of New Taiwan Dollars)

Causes	Summary and Amount
Within the past year, a responsible person or professional employee violated the law in the course of business, resulting in an indictment by a prosecutor.	None
Within the past year, a fine was levied for violations of related regulations	None
Within the past year, misconduct occurred, resulting in the Ministry of Finance's imposing strict corrective measures on the Bank.	None
Within the past year, the individual loss or the total loss from employee fraud, accidental and material events, or failure to abide by the "Guidelines for the Maintenance of Soundness of Financial Institutions" exceeded $50 million dollars.	None
Other.	None

E.Sun Bills

June 30, 2004
(In Thousands of New Taiwan Dollars)

Causes	Summary and Amount
Within the past year, a responsible person or professional employee violated the law in the course of business, resulting in an indictment by a prosecutor.	None
Within the past year, a fine was levied for violations of related regulations	None
Within the past year, misconduct occurred, resulting in the Ministry of Finance's imposing strict corrective measures on the E.Sun Bills. . .	None
Within the past year, the individual loss or the total losses from employee corruption, fraud, accidental and material events, or failure to abide by the "Guidelines for the Maintenance of Soundness of Financial Institutions" exceeded $50 million dollars.	None
Other.	None

Note 1: The term "within the past year" means one year before the balance sheet date.

Note 2: The term "a fine levied for violations of the related regulations within the past year" means a fine levied by the Bureau of Monetary Affairs, Securities and Futures Commission or Department of Insurance.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(5) *Business information of E.Sun Bills*

Items	June 30, 2003	June 30, 2004
Guarantees and endorsements	$17,922,700	$18,120,600
Guarantees and endorsements/stockholders' equity	3.56	3.16
Short-term negotiable instruments sold under agreements to repurchase	$25,372,394	$43,132,291
Short-term negotiable instruments sold under agreements to repurchase/stockholders' equity	5.04	7.52

c. *Profitability*

E.Sun Bank

	For the Six Months Ended June 30	
Items	2003	2004
Return on assets	1.87	2.94
Return on equity	27.50	45.02
Net income ratio	29.35	42.16

Note:

(1) Return on assets = Income before income tax/Average total assets

(2) Return on equity = Income before income tax/Average equity

(3) Net income ratio = Net income/Total operating revenue

(4) Income before income tax or net income represents income for the six months ended June 30, 2003 and 2004.

(5) The profitability is expressed on annual basis.

d. *Liquidity as of June 30, 2004*

(1) *Liquidity analysis of assets and liabilities for E.Sun Bank*

		Period Remaining until Due Date (In Thousand of New Taiwan Dollars)				
	Total	0–30 Days	31–90 Days	91–180 Days	181–365 Days	Over 1 Year
Assets	$317,989,000	$35,142,000	$14,030,000	$ 13,003,000	$27,855,000	$227,959,000
Liabilities	298,137,000	32,431,000	30,954,000	129,155,000	67,349,000	38,248,000
Gap	19,852,000	2,711,000	(16,924,000)	(116,152,000)	(39,494,000)	189,711,000
Accumulated gap	19,852,000	2,711,000	(14,213,000)	(130,365,000)	(169,859,000)	19,852,000

Note: Listed amounts of the head office and domestic branches are in New Taiwan dollars (i.e., excluding foreign-currency amounts).

(2) *Liquidity analysis of E.Sun Bills*

Items/Period		1–30 Days	31–90 Days	91–180 Days	181–365 Days	Over 1 Year
		(In Millions of New Taiwan Dollars)				
Usage of funds . . .	Bills	$ 7,074	$ 9,790	$ 6,734	$ 8,376	$ 300
	Bonds	68	—	468	50	24,470
	Deposits	847	580	1,210	1,168	300
	Call loans	190	—	—	—	—
	R.S	1,289	126	—	—	—
	Total	9,468	10,496	8,412	9,594	25,070
Source of funds . . .	Borrowings	8,880	—	—	—	5,000
	R.P	34,316	7,385	1,219	212	—
	Capital	—	—	—	—	5,673
	Total	43,196	7,385	1,219	212	10,673
Net flows.		(33,728)	3,111	7,193	9,382	14,397
Accumulated net flows. .		(33,728)	(30,617)	(23,424)	(14,042)	355

Note:

R.S — securities purchased under agreement to resell
R.P — securities sold under agreement to repurchase

e. ***Interest sensitivity***

(1) *E.Sun Bank*

Unit: %

Items	June 30, 2003	June 30, 2004
Ratio of interest-rate sensitive assets to liabilities	71.08	89.01
Ratio of interest-rate sensitivity gap to stockholders' equity.	(275.73)	(116.79)

(2) *E.Sun Bills*

Unit: %

Items	June 30, 2003	June 30, 2004
Ratio of interest-rate sensitive assets to liabilities	77.27	72.99
Ratio of interest-rate sensitivity gap to stockholders' equity.	(216.02)	(245.09)

Note 1: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest earnings assets and interest-bearing liabilities are affected by the change of interest rates.

Note 2: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets ÷ Interest-rate sensitive liabilities

Note 3: Interest-rate sensitivity gap = Interest-rate sensitive assets – Interest-rate sensitive liabilities

f. Average amount and average interest rate of interest-earnings assets and interest-bearing liabilities: Please refer to Note 34.

g. The net position on foreign-currency transactions

The net position on foreign-currency of E.Sun Bank is shown below:

	June 30, 2003		June 30, 2004	
	Currency	NT$	Currency	NT$
	(In Thousands of Dollars)			
The net position on foreign-currency transaction (market risk)	US$10,625	$367,997	US($15,865)	($535,428)
	HK($46,720)	(207,498)	HK($65,452)	(283,222)
	JPY109,576	31,656	EUR5,139	209,953
	AU$896	20,677	JPY349,749	108,807
	CA($548)	(14,062)	NZ$2,970	62,942

Note: The foreign currencies represent the top five currencies in the Bank's basket of international currencies.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

40. Information Regarding Borrowers Guarantors and Collateral Providers as Interested Parties

Item	Account Volume	June 30, 2004	Possibility of Loss (Note 3)
Consumer's loans *(Note 1)*	384	$ 87,090	$—
Loan for employees' mortgage housing	406	787,076	—
Other loans *(Note 2)*	346	3,708,305	—
Guarantees	726	1,921,765	—
Collateral providers	660	1,983,293	—

Note 1: Consumer loans are governed by Article 32 of the Banking Law in ROC.

Note 2: Represent the loans, except for consumer loans and loans for employees' mortgage housing, that borrowers as interested parties.

Note 3: The interested parties mentioned above are governed by Article 33-1 of the Banking Law in ROC.

41. Disclosure Required Under Article 46 of the Financial Holding Company Law

Please see Table 6.

42. Information Regarding the Trust Business Under the Trust Law

a. Trust-related item, as shown in the following balance sheet and property list of trust items:

Balance Sheet of Trust
June 30, 2003 and 2004

Trust Assets	June 30 2003	June 30 2004
Deposits	$ 2,597	$ 7,244
Short-term investments	15,352,630	24,257,285
Total assets	$15,355,227	$24,264,529

Trust Liabilities	June 30 2003	June 30 2004
Trust capital		
Trust by cash	$15,355,227	$24,259,383
Trust by securities	—	5,146
Total liabilities	$15,355,227	$24,264,529

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Notes to Consolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Property List of Trust
June 30, 2003 and 2004

	June 30	
Investment Items	**2003**	**2004**
Employee deposit trust — demand	$ 2,597	$ 2,244
Employee deposit trust — time	—	5,000
Funds	15,141,730	24,025,127
Bonds	—	7,501
Stocks	210,900	224,657
	$15,355,227	$24,264,529

b. Nature of trust business operations under the trust law: Note 1.

43. Acquisition of Other Financial Institutions' Main Assets, Liabilities and Operation

To expand E.Sun Bank's business, enhance its competitiveness and ensure its long-term development, E.Sun Bank participated in the open bid and refund procedure for the assets, liabilities and operations (except the trust business) of Kaohsiung Business Bank and won the bid for $13,368,000, to be subsidized by the Resolution Trust Corporation (RTC) Fund on May 31, 2004. The effective date of acquisition is September 4, 2004. On June 1, 2004 the Board of Directors of E.Sun Bank issued a resolution to approve this acquisition. But, if the related regulations and the authorities would require changes in the content and other matters of the bid, E.Sun Bank's chairman will be fully authorized to handle to these changes. E.Sun Bank had provided $500,000 thousand of government bond as refund deposits. In addition, E.Sun Bank will increase its branches from 60 to 114 branches.

44. Others

In January 2003, pursuant to the resolution of the meeting of the board of directors, E.Sun Securities decided to take over the brokerage business of Yung Li Security Co., Ltd., including the brokerage department of head office, its five branch offices and its office buildings. The total transaction price for the above business take-over is $355,000. E.Sun Securities had paid off all amount and completed the title transfer registration in 2003. The details of the transaction targets were as follow:

	Amount
Land	$146,250
Buildings	78,750
Business operation right	105,000
Information System equipment	25,000

45. Additional Disclosures

Following are the additional disclosures required by the Securities and Futures Commission for ESFHC and its investees:

a. Significant transactions and subsidiaries: Tables 1 to 5 (attached) and Note 35.

   1) Marketable securities held: Table 1 (attached)

   2) Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: Table 2 (attached)

   3) Acquisition of individual real assets at costs of at least NT$100 million or 20% of the paid-in capital: Table 3 (attached)

   4) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 4 (attached)

   5) Names, locations, and other information of investees on which the Company exercises significant influence: Table 5 (attached)

   6) Derivative transactions: Please refer to Note 36.

b. Investment in Mainland China: None.

TABLE 1

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Marketable Securities Held
June 30, 2004
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004 Shares (Thousands)	June 30, 2004 Carrying Value	June 30, 2004 Percentage of Ownership	June 30, 2004 Market Value or Net Asset Value	Note
E.Sun Financial Holding Co., Ltd.	**Stock**							
	E.Sun Commercial Bank, Ltd.	Equity-method investee	Long-term investments	1,817,500	$20,694,990	100.00	$20,694,990	3 and 4 (494,000 thousands shares are hypothecated to a bank)
	E.Sun Bills Finance Corp.	Equity-method investee	Long-term investments	426,500	5,672,906	100.00	5,672,906	3 and 4
	E.Sun Securities Corp.	Equity-method investee	Long-term investments	306,000	3,123,999	100.00	3,123,999	3 and 4
	E.Sun Venture Capital Co., Ltd.	Equity-method investee	Long-term investments	100,000	1,012,697	100.00	1,012,697	3
	E.Sun Securities Investment Trust Corp.	Equity-method investee	Long-term investments	30,000	361,822	100.00	361,822	3
	E.Sun Insurance Brokers Co., Ltd.	Equity-method investee	Long-term investments	6,200	99,117	100.00	99,117	3 and 4
	Taiwan Debt Instruments Depository and Clearing Co., Ltd.	—	Long-term investments	4,000	40,000	2.00	40,056	2
E.Sun Commercial Bank, Ltd. . . .	**Stock**							
	E.Sun Finance & Leasing Co., Ltd.	Equity-method investee	Long-term investments	19,600	148,343	98.99	148,343	3
	E.Sun Insurance Agent Co., Ltd.	Equity-method investee	Long-term investments	1,280	33,872	79.00	33,872	2
	E.Sun Financial Holding Co., Ltd.	Parent company	Long-term investments	188,379	2,264,136	7.29	3,760,048	1 and 4
	United Micro Electronics	—	Long-term investments	4,115	200,451	0.03	102,183	1
	Fu Bon Securities Finance Co.	Its director	Long-term investments	10,253	98,957	2.56	132,041	2
	Apex Venture Capital Corp.	—	Long-term investments	5,000	50,000	4.67	47,213	2
	Gapura Incorporated	—	Long-term investments	750	14,828	4.90	14,511	2
	Financial Information Service Co., Ltd.	—	Long-term investments	4,550	45,500	1.14	62,514	2
	National Venture Capital Corp.	—	Long-term investments	2,700	27,000	4.99	21,442	2
	Taiwan Asset Management Corporation	—	Long-term investments	10,000	100,000	0.57	106,420	3
	Taiwan Financial Asset Service Corporation	—	Long-term investments	5,000	50,000	2.94	50,699	2
	Taipei Forex Inc.	—	Long-term investments	80	800	0.40	1,228	2
	Taiwan Futures Exchange Co., Ltd.	—	Long-term investments	900	9,000	0.45	17,473	2
	Bank-Pro E-Service Technology Co, Ltd.	Its director	Long-term investments	450	4,500	3.33	3,397	2
	Government bonds							
	A90107	—	Long-term investments	—	1,948,622	—	1,709,156	Government bonds (except A893) pledged as a collateral for day-term over the draft of RTGS
	A91104	—	Long-term investments	—	3,791,798	—	3,553,656	
	A89003	—	Long-term investments	—	878,220	—	879,849	

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004 Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
	Special-purpose trust beneficiary certificates							
	First Commercial Bank	—	Long-term investments	—	$1,294,314	—	$1,294,314	
	Taishin Commercial Bank	—	Long-term investments	—	966,194	—	966,194	
E.Sun Bills Finance Corp.	**Government bonds**							
	A914	—	Long-term bonds investment	—	1,260,480	—	1,254,232	Pledged of issuance corporate bonds
E.Sun Finance & Leasing Co., Ltd.	**Stock**							
	Gapura Incorporated	—	Long-term investments	950	18,758	6.20	18,340	2
	Government bonds							
	A832	—	Long-term investments	—	3,000	—	3,000	Government bonds (except A832 of $1,000) placed with courts of justice for collection case on overdue loan
	A854	—	Long-term investments	—	1,000	—	1,000	
	A862	—	Long-term investments	—	4,484	—	4,440	
E.Sun Securities Corp.	**Stock**							
	E.Sun Financial Holding Co., Ltd.	Parent company	Long-term investments	3,350	34,399	0.13	66,866	1 and 4
	E.Sun Investment Consulting Co., Ltd.	Equity-method investee	Long-term investments	1,000	11,417	100.00	11,417	2
	Lian Ding Venture Capital Co., Ltd.	—	Long-term investments	6,000	60,000	6.0	60,000	
	Giantcom International Telecommunication	—	Long-term investments	96	1,789	0.177	1,789	
E.Sun Securities Investment Trust Corp.	**Bonds**							
	E.Sun Commercial Bank	Common parent company	Long-term investments	—	100,488	—	100,488	
	Fubon Commercial Bank	—	Long-term investments	—	200,000	—	200,000	
	First Commercial Bank	—	Long-term investments	—	50,000	—	50,000	
	Fubon Commercial Bank	—	Long-term investments	—	50,000	—	50,000	
E.Sun Venture Capital Co., Ltd. .	**Stock**							
	Univacco Technology Inc.	—	Long-term investments	1,000	30,000	2.66	20,134	2
	Ampire Co., Ltd.	—	Long-term investments	837	13,314	1.94	11,469	2
	E.Sun Technologies Co., Ltd.	Equity-method investee	Long-term investments	1,200	11,397	48.00	7,766	2
	Bank-Pro E-Service Technology Co., Ltd.	—	Long-term investments	325	3,250	2.41	2,447	2
	E.Sun Capital Co., Ltd.	Equity-method investee	Long-term investments	450	5,052	45.00	4,633	2
	Twinhan Technology Co., Ltd.	—	Long-term investments	550	33,192	1.78	8,928	2
	Epoch Chemtronics Corp.	—	Long-term investments	400	10,800	4.00	5,570	2
	Chunghwa Chemical Synthesis Biotech Co., Ltd.	—	Long-term investments	2,000	20,005	3.07	17,247	2
	Sam Lam Technology Co., Ltd.	—	Long-term investments	1,700	23,800	8.50		2
	Etrend Technology Co., Ltd.	—	Long-term investments	546	6,825	3.11	8,916	2
	Progres-sive Optoelectronic Technology Co., Ltd.	—	Long-term investments	784	25,088	3.92	24,194	2

				June 30, 2004				
Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	Note
	Beyond Innovation Technology Co., Ltd.	—	Long-term investments	780	25,388	3.90	11,991	2
	Linear Tech Co., Ltd.	—	Long-term investments	500	14,500	2.50	7,963	2
	Advance Data Technology, Ltd.	—	Long-term investments	1,122	42,309	6.39	35,698	2
	Funds							
	IIT Wan Hwa Fund	—	Short-term investments	6,575	$ 90,000	—	$ 91,798	1
	Mega Diamond Bond Fund	—	Short-term investments	12,774	139,186	—	141,770	1
	Grand Cathay Bond Fund	—	Short-term investments	725	8,830	—	9,087	1
	Seng Hua 5599 Bond Fund	—	Short-term investments	9,594	100,794	—	103,927	1
	Seng Hua 1699 Bond Fund	—	Short-term investments	1,681	20,000	—	20,158	1
	KGI Victory Fund	—	Short-term investments	8,816	90,249	—	91,724	1
E.Sun Insurance Brokers Co., Ltd.	**Funds**							
	E.Sun New Era Bond Fund	Common parent company with the same fund management company	Short-term investments	1,927	20,000	—	20,216	1
	E.Sun Gin-Ru-E Balanced Fund	Common parent company with the same fund management company	Short-term investments	2,588	26,001	—	25,063	1
	TLAM B. B. Bond Fund	—	Short-term investments	418	4,500	—	4,562	1
	Sheng Hua 5599 Bond Fund	—	Short-term investments	93	1,000	—	1,011	1
	Sheng Hua 1699 Bond Fund	—	Short-term investments	757	9,000	—	9,074	1
	E.Sun Rising-Sun fund	Common parent company with the same fund management company	Short-term investments	1,000	10,000	—	10,045	1
	Fuh-Hwa Bond Fund	—	Short-term investments	235	3,000	—	3,014	1
	Stock							
	E.Sun Insurance Agent Co., Ltd.	Equity-method investee	Long-term investments	324	8,575	20.00	8,583	2
E.Sun Technologies Co., Ltd. . . .	**Stock**							
	E.Sun Capital Co., Ltd.	Equity-method investee	Long-term investments	550	5,675	55.00	5,662	2
	Fund							
	E.Sun Gin-Ru-E Balanced	Common parent company with the same fund management company	Short-term investments	199	2,000	—	1,928	1
E.Sun Capital Co., Ltd.	**Fund**							
	E.Sun Gin-Ru-E Balanced	Common parent company with the same fund management company	Short-term investments	498	5,000	—	4,820	1

Note 1. Market value of the listed was based on the average closing prices in June 2004.

Note 2. The amounts are based on the latest unaudited financial statements.

Note 3. The amounts are based on the latest audited financial statements.

Note 4. When compiling the consolidated financial statements, it has been eliminated.

TABLE 2

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Marketable Securities Acquired and Disposed of at Costs of Prices of at Least NT$100 million or 20% of the Paid-in Capital

For the Six Months Ended June 30, 2004

(In Thousands of New Taiwan Dollars)

					Beginning Balance		Acquisition		Disposal				Ending Balance	
Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount
E.Sun Financial Holding Co., Ltd.	JP Morgan Chase & Co.	Short-term investment	—	—	—	$ 364,493	—	$ —	—	$ 362,000	$ 364,493	($2,493)	—	$ —
E.Sun Commercial Bank, Ltd.	E.Sun Financial Holding Co., Ltd.	Long-term investments	—	—	325,779	3,914,375	—	—	137,400	2,961,642	1,650,239	1,311,403	188,379	2,264,136
	Government Bond A893	Long-term investments	—	—	—	—	—	879,576	—	—	1,356 *(Note 1)*	—	—	878,220
	First Commercial Bank — mortgage and asset-backed beneficiary certificates — A, in 2004	Long-term investments	—	—	—	—	—	1,630,000	—	—	335,686 *(Note 2)*	—	—	1,294,314
	Taishin Commercial Bank — mortgage and asset-backed 2004–1 trusts beneficiary certificates — A, in 2004	Long-term investments	—	—	—	—	—	1,050,000	—	—	83,806 *(Note 2)*	—	—	966,194

Note 1. This amount is premium amortized.

Note 2. Retrieve the principal.

TABLE 3

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Acquisition of Individual Real Estates at Costs of at Least NT$100 million or 20% of the Paid-in Capital
For the Six Months Ended June 30, 2004
(In Thousand of New Taiwan Dollars)

Company Name	Property	Transaction Date	Transaction Amount	Payment Amount	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party: Owner	Relationship	Transfer Date	Amount	Price Reference	Purpose of Acquisition	Other Terms
E.Sun Commercial Bank, Ltd.	No. 115 and 117, Minsheng E. Rd., Sec. 3, Songshan District, Taipei City 105, Taiwan (R.O.C.)	2003.12.11	$4,280,000	$3,870,949	Walsin Lihwa Corp.	—	—	—	—	$—	Appraisal of DTZ and Honda Appraisers Firm	For use by the head office and business unit	—
		2004.01.28	—	428,000	Walsin Lihwa Corp.	—	—	—	—	—			

TABLE 4

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Receivables from Related Parties Amounting to at Least NT$100 million or 20% of the Paid-in Capital
June 30, 2004
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
E.Sun Financial Holding Co., Ltd.	E.Sun Commercial Bank, Ltd.	Subsidiaries	$2,645,279 *(1 and 3)*	—	$—	—	$—	$—
	E.Sun Bills Finance Corp.	Subsidiaries	658,446 *(2 and 3)*					

Note 1. The receivable comes from the adoption of the linked tax system for tax filing, interest receivable, dividend and director bonus receivables.

Note 2. The receivable comes from the adoption of the linked tax system for tax filing and dividends receivables.

Note 3. When compiling the consolidated financial statements, it has been eliminated.

TABLE 5

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Names, Locations, and Other Information of Investees on which the Company Exercises Significant Influence
For the Six Months Ended June 30, 2004
(In Thousands of New Taiwan Dollars)

				Original Investment Amount		Balance as of June 30, 2004					
Investor Company	Investee Company	Location	Main Businesses and Products	June 30, 2004	Dec. 31, 2003	Shares (Thousands)	Percentage of Ownership	Carrying Value	Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
E.Sun Financial Holding Co., Ltd.	E.Sun Commercial Bank, Ltd.	Taipei	Banking	$19,160,117	$19,160,117	1,817,500	100.00	$20,694,990	$4,067,559	$2,616,943	Note 1
	E.Sun Bills Finance Corp.	Taipei	Dealing and brokering short-term negotiable instruments	5,150,581	5,150,581	426,500	100.00	5,672,906	312,767	292,477	Note 1
	E.Sun Securities Corp.	Taipei	Dealing, underwriting and brokering securities	3,137,819	3,137,819	306,000	100.00	3,123,999	29,036	(31,151)	Note 1
	E.Sun Venture Capital Co., Ltd.	Taipei	Investment	1,000,000	1,000,000	100,000	100.00	1,012,697	2,563	2,483	
	E.Sun Securities Investment Trust Corp.	Taipei	Investing funds under full discretionary authorization from customers	366,211	366,211	30,000	100.00	361,822	48,293	45,692	
	E.Sun Insurance Broker Co., Ltd.	Taipei	Insurance broker	10,000	10,000	6,200	100.00	99,117	30,514	30,384	Note 1
E.Sun Commercial Bank, Ltd. . . .	E.Sun Finance & Leasing Co., Ltd.	Taipei	Leasing and sale of machinery and equipment	196,000	196,000	19,600	98.99	148,343	16,517	16,350	
	E.Sun Insurance Agent Co., Ltd.	Taipei	Life insurance agent	3,950	3,950	1,280	79.00	33,872	163	103	
E.Sun Securities Corp.	E.Sun Securities Investment Consulting Co., Ltd.	Taipei	Security consulting	10,000	10,000	1,000	100.00	11,417	1,068	1,068	
E.Sun Venture Capital Co., Ltd. .	E.Sun Technologies Co., Ltd.	Taipei	Provides information software and computer installation services	12,000	12,000	1,200	48.00	11,397	(2,641)	(1,722)	
	E.Sun Capital Co., Ltd.	Taipei	Agency of service and human resource	4,500	4,500	450	45.00	5,052	1,493	622	
E.Sun Technologies Co., Ltd. . . .	E.Sun Capital Co., Ltd.	Taipei	Agency of service and human resource	5,500	5,500	550	55.00	5,675	1,493	702	
E.Sun Insurance Broker Co., Ltd.	E.Sun Insurance Agent Co., Ltd.	Taipei	Life insurance agent	8,556	8,566	324	20.00	8,575	163	38	

Note 1: When compiling the consolidated financial statement, it has been eliminated.

E.SUN FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES
Disclosure Required under Article 46 of the Financial Holding Company Law
June 30, 2004
(In Thousands of New Taiwan Dollars)

Name		Relation Condition	Total Amounts of Credits, Endorsement or Other Transactions	Percentage of ESFHC's Equity
1.	City Bus Operation Office	The same person	$2,229,146	7.42
2.	Tai Power Co., Ltd.	The same person	2,000,000	6.65
3.	Department of National Treasury	The same person	2,000,000	6.65
4.	China Bills Finance Corporation	The same person	1,862,061	6.19
5.	Masterlink Securities Co., Ltd.	The same person	1,664,183	5.54
6.	BNP Paribas Bank	The same person	1,628,000	5.42
7.	Continental Engineering Corp. and related parties	The same affiliate	2,379,367	7.92
8.	Far Eastern Textile Co., Ltd. and related parties	The same affiliate	2,324,836	7.73
9.	Taiwan Acceptance Corporation	The same affiliate	2,274,000	7.56
10.	SinoPac Financial Holding Co., Ltd. and related parties	The same affiliate	2,182,992	7.26
11.	Fuhwa Securities Co., Ltd. and related parties	The same affiliate	2,020,000	6.72
12.	China Trust Financial Holding Co., Ltd. and related parties	The same affiliate	2,003,230	6.66
13.	China Development Financial Holding Corporation	The same affiliate	1,906,416	6.34
14.	Fubon Securities Co., Ltd. and related parties	The same affiliate	1,866,343	6.21

English Translation of a Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

July 21, 2004

The Board of Directors and Stockholders
E.Sun Commercial Bank, Ltd.

We have audited the accompanying balance sheets of E.Sun Commercial Bank, Ltd. (the "Bank") as of June 30, 2003 and 2004 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended, all expressed in New Taiwan Dollars. These financial statements are responsibility of the Bank'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 Regulation for Audits of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 E.Sun Commercial Bank, Ltd. as of June 30, 2003 and 2004 and the results of its operations and its cash flows for the six months then ended, in conformity with Criteria Governing the Preparation of Financial Reports by Public Banks (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Securities Issuers (applicable to financial statements for 2003 and earlier) and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, sales and purchases of securities under agreements to repurchase or to resell were treated as outright sales or purchases. However, under the Criteria Governing the Preparation of Financial Reports by Public Banks effective January 1, 2004, the repurchase/resell transactions will be treated as financing.

We have also reviewed the translation of the New Taiwan dollar financial statements as of and for the six months ended June 30, 2004 into U.S. dollars, which have been included solely for the reader's convenience, against the exchange rate stated in Note 2 to the financial statements and, in our opinion, the U.S. dollars amount have been properly translated at that rate. The convenience translations should not be construed as representations that the New Taiwan dollars amount have been, could have been or could in the future be, converted into U.S. dollars at this or any other exchange rate.

Deloitte & Touche
Taipei, Taiwan
Republic of China

<u>Notice to Readers</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Balance Sheets
June 30, 2003 and 2004
(In Thousands of Dollars, Except Par Value)

	2003	2004	
	NT$	NT$	US$ (Note 2)
ASSETS			
CASH AND CASH EQUIVALENTS *(Note 4)*	$ 6,135,161	$ 5,813,453	$ 172,711
DUE FROM THE CENTRAL BANK OF CHINA AND BANKS *(Note 5)*	15,249,495	14,978,811	445,003
SECURITIES PURCHASED — Net *(Notes 2, 3, 6 and 25)*	50,365,510	51,943,494	1,543,182
RECEIVABLES — Net *(Notes 2, 7 and 24)*	21,031,917	28,597,715	849,605
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL *(Note 2, 3, 8 and 24)*	—	2,244,007	66,667
PREPAID EXPENSES	57,666	85,923	2,553
BILLS, DISCOUNTS, AND LOANS — Net *(Notes 2, 9 and 24)*	178,728,001	239,780,874	7,123,615
LONG-TERM INVESTMENTS — Net *(Notes 2, 10 and 25)*			
Long-term equity investments — equity method	358,348	182,215	5,413
Long-term equity investments — cost method	4,416,122	2,766,905	82,202
Bonds	—	6,618,640	196,632
Others	—	2,260,508	67,157
Total long-term investments — net	4,774,470	11,828,268	351,404
PROPERTIES *(Notes 2 and 11)*			
Cost			
Land	2,818,737	6,223,975	184,907
Buildings	1,556,645	2,488,196	73,921
Computers	1,347,789	1,499,416	44,546
Transportation equipment	171,657	183,297	5,446
Miscellaneous equipment	606,606	680,208	20,208
Total cost	6,501,434	11,075,092	329,028
Accumulated depreciation	1,546,819	1,717,553	51,027
	4,954,615	9,357,539	278,001
Prepayments	287,905	479,342	14,241
Net properties	5,242,520	9,836,881	292,242
OTHER ASSETS — Net *(Notes 2, 12, 19 and 26)*			
Refundable deposits	870,766	885,376	26,304
Others	249,328	213,955	6,356
Deferred income tax assets — net	756,592	—	—
Total other assets — net	1,876,686	1,099,331	32,660
TOTAL ASSETS	$283,461,426	$366,208,757	$10,879,642

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Balance Sheets — Continued
June 30, 2003 and 2004
(In Thousands of Dollars, Except Par Value)

	2003	2004	
	NT$	NT$	US$ (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Securities sold under agreements to repurchase *(Notes 2, 3, 6, 13 and 24)*	$ —	$ 11,985,386	$ 356,072
Due to banks *(Note 14)*	19,366,537	23,596,966	701,039
Payables *(Notes 15 and 24)*	5,078,427	7,143,436	212,223
Advances	87,884	190,934	5,673
Deposits and remittances *(Notes 16 and 24)*	228,575,876	274,828,711	8,164,846
Bonds *(Notes 17 and 24)*	10,000,000	25,000,000	742,721
Other *(Note 2 and 19)*	391,511	504,198	14,979
Total liabilities	263,500,235	343,249,631	10,197,553
STOCKHOLDERS' EQUITY			
Capital stock — NT$10 par value, authorized and issued 1,817,500 thousand shares	18,175,000	18,175,000	539,958
Capital surplus:			
Paid-in capital in excess of par value	233,502	233,502	6,937
Retained earnings			
Legal reserve	—	1,018,878	30,270
Unappropriated earnings	2,048,038	4,124,729	122,541
Total retained earnings	2,048,038	5,143,607	152,811
Unrealized loss on long-term equity investments	—	(98,267)	(2,920)
Cumulative translation adjustments	2,668	3,301	98
Treasury stock — 40,000 thousand shares	(498,017)	(498,017)	(14,795)
Total stockholders' equity	19,961,191	22,959,126	682,089
CONTINGENCIES AND COMMITMENTS *(Notes 2 and 26)*			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$283,461,426	$366,208,757	$10,879,642

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Income
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars, Except Per Share Amounts)

	2003	2004	
	NT$	NT$	US$ (Note 2)
OPERATING REVENUES AND GAINS			
Interest *(Notes 2 and 24)*	$5,431,764	$6,508,631	$193,364
Reversal of allowance for bad debts *(Note 2)*	119,797	—	—
Service fees *(Note 2)*	609,708	1,043,207	30,992
Gain on sales of securities — net *(Note 2)*	439,699	212,597	6,316
Income from long-term equity investments under the equity method — net *(Notes 2 and 10)*	35,466	16,453	489
Gain on sales of long-term investments *(Notes 2 and 10)*	—	1,317,770	39,150
Foreign exchange gain — net *(Note 2)*	161,834	164,554	4,889
Other	180,294	384,502	11,423
Total operating revenues and gains	6,978,562	9,647,714	286,623
OPERATING COSTS			
Interest *(Notes 2 and 24)*	2,070,200	1,732,536	51,472
Service charges	275,614	350,186	10,404
Provisions *(Note 2)*	—	132,379	3,933
Other	13,450	78,595	2,335
Total operating costs	2,359,264	2,293,696	68,144
GROSS PROFIT	4,619,298	7,354,018	218,479
OPERATING EXPENSES *(Note 18)*			
Business	1,852,635	2,122,830	63,067
General and administrative	148,030	239,581	7,118
Other	9,104	13,212	392
Total operating expenses	2,009,769	2,375,623	70,577
OPERATING INCOME	2,609,529	4,978,395	147,902
NONOPERATING INCOME AND GAINS	19,413	29,113	865
NONOPERATING EXPENSES AND LOSS	24,847	25,446	756
INCOME BEFORE INCOME TAX	2,604,095	4,982,062	148,011
INCOME TAX EXPENSE *(Notes 2 and 19)*	556,057	914,503	27,168
NET INCOME	$2,048,038	$4,067,559	$120,843

	2003		2004			
	Pretax	After Tax	Pretax	After Tax	Pretax	After Tax
	NT$		NT$		US$ (Note 2)	
EARNINGS PER SHARE *(Note 22)*						
Basic earnings per share	$1.43	$1.13	$2.74	$2.24	$0.08	$0.07

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

	Capital Stock Authorized and Issued ($10 Par Value)		Capital Surplus (Notes 2 and 20)				Retained Earnings (Deficit) (Notes 2 and 20)							
	Shares (thousands)	Amount	Paid-in capital in excess of par value	Gain on sale of properties	From treasury stock	Total	Legal reserve	Special reserve	Unappropriated earnings (deficit)	Total	Unrealized Loss on Long-term Equity Adjustments (Notes 2)	Cumulative Translation Investments (Note 2)	Treasury Stock (Note 2 and 21)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2003	1,817,500	$18,175,000	$303,140	$7,641	$15,452	$326,233	$3,112,924	$31,391	($3,237,046)	($ 92,731)	$ —	$2,906	($498,017)	$17,913,391
Offset of deficit	—	—	(69,638)	(7,641)	(15,452)	(92,731)	(3,112,924)	(31,391)	3,237,046	92,731	—	—	—	—
Net income for the six months ended June 30, 2003	—	—	—	—	—	—	—	—	2,048,038	2,048,038	—	—	—	2,048,038
Translation adjustments	—	—	—	—	—	—	—	—	—	—	—	(238)	—	(238)
BALANCE, JUNE 30, 2003	1,817,500	$18,175,000	$233,502	$ —	$ —	$233,502	$ —	$ —	$2,048,038	$2,048,038	$ —	$2,668	($498,017)	$19,961,191
BALANCE, JANUARY 1, 2004	1,817,500	18,175,000	$233,502	$ —	$ —	$233,502	$ —	$ —	$3,396,261	$3,396,261	$ —	$2,624	($498,017)	$21,309,370
Appropriation of prior year's earnings:														
Legal reserve	—	—	—	—	—	—	1,018,878	—	(1,018,878)	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	—	(2,181,000)	(2,181,000)	—	—	—	(2,181,000)
Bonus to directors and supervisors	—	—	—	—	—	—	—	—	(23,202)	(23,202)	—	—	—	(23,202)
Bonus to employees	—	—	—	—	—	—	—	—	(116,011)	(116,011)	—	—	—	(116,011)
Balance after appropriation	1,817,500	18,175,000	233,502	—	—	233,502	1,018,878	—	57,170	1,076,048	—	2,624	(498,017)	18,989,157
Net income for the six months ended June 30, 2004	—	—	—	—	—	—	—	—	4,067,559	4,067,559	—	—	—	4,067,559
Unrealized loss on long-term equity investments	—	—	—	—	—	—	—	—	—	—	(98,267)	—	—	(98,267)
Translation adjustments	—	—	—	—	—	—	—	—	—	—	—	677	—	677
BALANCE, JUNE 30, 2004	1,817,500	$18,175,000	$233,502	$ —	$ —	$233,502	$1,018,878	$ —	$4,124,729	$5,143,607	($98,267)	$3,301	($498,017)	$22,959,126

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Changes in Stockholders' Equity — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of U.S. Dollars-Note 2)

	Capital Stock Authorized and Issued		Capital Surplus	Retained Earnings (Notes 2 and 20)						
	Shares (thousands)	Amount	Capital Surplus — Paid-in capital in excess of par value (Notes 2 and 20)	Legal reserve	Unappropriated earnings	Total	Unrealized Loss on Long-term Equity Investments (Note 2)	Cumulative Translation Adjustments (Note 2)	Treasury Stock (Notes 2 and 21)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2004	1,817,500	$539,958	$6,937	$ —	$100,899	$100,899	$ —	$78	($14,795)	$633,077
Appropriation of prior year's earnings										
Legal reserve	—	—	—	30,270	(30,270)	—	—	—	—	—
Dividend	—	—	—	—	(64,795)	(64,795)	—	—	—	(64,795)
Bonus to directors and supervisors	—	—	—	—	(689)	(689)	—	—	—	(689)
Bonus to employees	—	—	—	—	(3,447)	(3,447)	—	—	—	(3,447)
Balance after appropriation	1,817,500	539,958	6,937	30,270	1,698	31,968	—	78	(14,795)	564,146
Net income for the six months ended June 30, 2004	—	—	—	—	120,843	120,843	—	—	—	120,843
Unrealized loss on long-term equity investments	—	—	—	—	—	—	(2,920)	—	—	(2,920)
Translation adjustments	—	—	—	—	—	—	—	20	—	20
BALANCE, JUNE 30, 2004	1,817,500	$539,958	$6,937	$30,270	$122,541	$152,811	$(2,920)	$98	($14,795)	$682,089

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Cash Flows
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars)

	2003	2004	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,048,038	$ 4,067,559	$ 120,843
Provisions (reversal)	(119,797)	132,379	3,933
Reversal of allowance for losses on securities purchased	(85,919)	—	—
Recovery of written-off credits	1,014,308	712,225	21,159
Depreciation and amortization	167,526	208,013	6,180
Equity in net income of equity-method investees, net of cash dividends received	(19,265)	(16,453)	(489)
Gain on sale of long-term investments	—	(1,313,455)	(39,021)
Amortization of premium on long-term bond investments	—	35,669	1,060
Loss on sale of properties and foreclosed collaterals	3,318	11,074	329
Deferred income tax	512,954	408,556	12,138
Others	—	(9,704)	(289)
Net changes in operating assets and liabilities:			
Securities purchased for trading purposes	2,197,354	(6,537,290)	(194,215)
Receivables	(3,333,558)	(4,056,094)	(120,502)
Prepaid expenses	(15,402)	(40,654)	(1,208)
Payables	34,015	(379,772)	(11,283)
Advances	53,646	15,900	472
Net cash (used in) provided by operating activities	2,457,218	(6,762,047)	(200,893)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in securities purchased for investing purposes	(3,221,514)	(2,535,753)	(75,334)
Decrease in due from the Central Bank of China and banks	1,934,349	889,559	26,428
Increase in securities purchased under agreements to resell	—	(2,244,007)	(66,667)
Proceeds from sales of:			
Long-term investments	—	265,542	7,889
Properties	319	374	11
Foreclosed collaterals	142,906	128,550	3,819
Acquisition of:			
Long-term investments	—	(3,559,576)	(105,751)
Properties	(381,762)	(654,858)	(19,455)
Increase in:			
Bills, discounts and loans	(8,579,444)	(41,233,014)	(1,224,986)
Other assets	(87,418)	(120,801)	(3,589)
Return of principal on long-term investments	—	478,444	14,214
Net cash used in investing activities	(10,192,564)	(48,585,540)	(1,443,421)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN COMMERCIAL BANK, LTD.
Statements of Cash Flows — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars)

	2003	2004	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in securities sold under agreements to repurchase	$ —	$11,985,386	$ 356,072
Increase in due to banks	5,746,157	1,932,767	57,420
Increase in deposits and remittances	2,836,276	27,812,240	826,270
Proceeds from issuance of bonds	—	12,696,100	377,187
Increase (decrease) in other liabilities	80,997	(69,138)	(2,054)
Payment of bonus to employees	—	(84,116)	(2,499)
Net cash provided by financing activities	8,663,430	54,273,239	1,612,396
EFFECTS OF EXCHANGE RATE CHANGES	(104)	967	29
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	927,980	(1,073,381)	(31,889)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,207,181	6,886,834	204,600
CASH AND CASH EQUIVALENTS, END OF PERIOD	$6,135,161	$ 5,813,453	$ 172,711
SUPPLEMENTARY INFORMATION			
Interest paid	$2,056,493	$ 1,741,226	$ 51,730
Income tax paid	$ 62,774	$ 65,461	$ 1,945
NONCASH INVESTING AND FINANCING ACTIVITIES			
Exchangeable bonds exchanged for ESFHC's stock	$ —	$ 2,696,100	$ 80,098
Carrying value of and expense for long-term equity investments	—	1,514,142	44,983
Gain on sale of long-term investments	$ —	$ 1,181,958	$ 35,115

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

(With Deloitte & Touche auditors' report dated July 21, 2004)

E.SUN COMMERCIAL BANK, LTD.
Notes to Financial Statements
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. Organization and Operations

E.Sun Commercial Bank, Ltd. (the "Bank") engages in commercial and savings banking permitted under the Banking Law and relevant regulations of the Republic of China (the "ROC").

As of June 30, 2004, the Bank had a business department, international banking department, trust department, an offshore banking unit (OBU), 2 overseas branches (Los Angeles and Hong Kong) and 53 domestic branches.

The operations of the Bank's Trust Department consist of planning, managing and operating a trust business. These operations are regulated under the Banking Law and Trust Law of the ROC.

On December 10, 2001, the Bank's stockholders approved the establishment of E.Sun Financial Holding Company, Ltd. (ESFHC) to hold the shares of the Bank, E.Sun Bills Finance Corp. and E.Sun Securities Corp. The holding company structure was achieved through a share swap: 1.0 share of ESFHC for 1.0 share of the Bank, 1.10 shares of E.Sun Bills Finance Corp, and 1.25 shares of E.Sun Securities Corp. The board of directors designated January 28, 2002 as the effective date of the share swap. After the shares transfer, the Bank became a 100% subsidiary of ESFHC. Also on January 28, 2002, the trading of the Bank's stock on the Taiwan Stock Exchange (TSE) was stopped, and ESFHC's stock began to be traded on the TSE.

As of June 30, 2003 and 2004, the Bank had 1,703 and 1,972 employees, respectively.

2. Summary of Significant Accounting Policies

The Bank's financial statements were issued in conformity with Criteria Governing the Preparation of Financial Reports by Public Banks (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Securities Issuers (applicable to financial statements for 2003 and earlier) and accounting principles generally accepted in the Republic of China.

The estimates of significant accounts — allowances for possible losses, reserve for losses on guarantees, depreciation, pension, losses on a suspended lawsuit, etc.-do not include any adjustments that might be required if related contingent liabilities arise.

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the Bank's financial statements were not classified as current or noncurrent. Nevertheless, these accounts were properly categorized according to the nature of each account and sequenced by liquidity. Please refer to Note 29 for maturity analysis of assets and liabilities. The Bank's significant accounting policies are summarized below.

Basis of Financial Statement Preparation

The accompanying financial statements include the accounts of the Head Office, OBU, and all branches. All interoffice transactions and balances have been eliminated.

Currency Translation

The Bank maintains its accounts and expresses its financial statements in New Taiwan (NT) dollars. The NT dollar amounts in the financial statements as of and for the six months ended June 30, 2004 were translated into U.S. dollars solely for the readers' convenience. The translation was made at NT$33.66=US$1.00, the noon buying rate of the U.S. Federal Reserve Bank of New York as of June 30, 2004. This convenience translation should not be construed as a representation that the NT 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.

Securities Purchased

Securities purchased are carried at aggregate cost less allowance for decline in value. Costs of securities sold are determined by the following methods: Stock, mutual funds and government bonds — moving average; and others — specific identification.

Securities Purchased/Sold Under Agreements to Resell/Repurchase

Sales or purchases of bonds and short-term bills under agreement to repurchase or resell are stated at cost. The difference between the original purchase cost (or sale price) and the contracted resale (or repurchase) amount is recognized as interest income (or interest expense). Please refer to Note 3.

Overdue Loan

Under a Ministry of Finance guideline, the Bank classifies loans and other credits (including accrued interest) outstanding for at least six months as overdue loans.

Allowances for Possible Losses and Reserve for Losses on Guarantees

The Bank makes provision for bad debts and losses on guarantees based on the evaluation of loans, overdue loans, bills, discounts, receivables, guarantees and acceptances for their specific or general risks.

Debts and guarantees with specific risks are evaluated internally for their collaterals, collectibility and customers' overall credit. Under Ministry of Finance (MOF) guidelines, the Bank makes full provisions for credits deemed uncollectible and makes at least 50% provisions for credits with high uncollectibility.

Under MOF guidelines, credits deemed uncollectible may be written off if the write-off is approved under a resolution issued by the Board of Directors.

Long-term Investments

Investments in shares of stock of companies in which the Bank exercises significant influence on their operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investments are carried at cost on the acquisition date and subsequently adjusted for the Bank's proportionate share in the net income or loss of the investees. The proportionate share in the net income or loss is recognized as current income or loss, and any cash dividends received are reflected as a reduction of the carrying values of the investments. The difference, on the acquisition date, between the acquisition cost and the Bank's proportionate equity in the net asset of the investee companies is amortized over five years.

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Capital increase of investees that results in the increase in the Bank's equity in the investees' net assets is credited to capital surplus, and any decrease is charged to such capital surplus to the extent of the available balance, with the difference charged to unappropriated earnings.

Other long-term equity investments are accounted for by cost method. Investments in stocks with no quoted market price are accounted for at cost. The carrying amount of the investment is reduced to reflect an other than temporary decline in the value of the investments, with the related losses charged to current income. Investment in stock with a quoted market price is stated at the lower of aggregate cost or market. The reduction of an investment to reflect a lower market value and its write-up due to the subsequent recovery in market value are charged or credited to stockholders' equity. Cash dividends received from a year after the acquisition date are recorded as investment income. Foreign-currency investments are recorded in New Taiwan dollars at the rate of exchange in effect when the transactions occur. At balance sheet date, the balances of these investments are restated at the balance sheet date exchange rates. If the restated amounts are lower than cost, the differences are recognized as translation adjustment under stockholders' equity, otherwise, no adjustment is made.

For both equity-method and cost-method investments, stock dividends received are recognized only as increases in the number of shares held, and not as income. Cost of long-term equity investments sold is determined by the weighted-average method.

Long-term bond investments are stated at cost. Premium or discount is amortized (as a charge or credit to interest income, respectively) over the remaining term of each bond. Costs of bonds sold are determined by the specific identification method.

The special-purpose trust beneficiary certificates are stated at cost. Costs of the special-purpose trust beneficiary certificates sold are determined by the moving-average method.

Properties

Properties are carried at cost less accumulated depreciation. The cost of betterments and major renewals that extend the useful life of an item of property and equipment is also capitalized. The cost of repairs and maintenance is charged to expense as incurred.

Depreciation is calculated by the straight-line method over service lives estimated as follows: buildings, 5 to 50 years; computers, 3 to 6 years; transportation equipment, 5 to 8 years; and miscellaneous equipment, 3 to 10 years. If an asset reaches its residual value but is still in use, it is further depreciated over its newly estimated service life.

The cost and accumulated depreciation are removed from the accounts when an item of property is disposed of or retired, and any gain or loss is credited or charged to income or expenses.

Foreclosed Collaterals

Foreclosed collaterals (part of other assets) are recorded at the lower of cost or net realizable value on balance sheet dates.

Treasury Stock

The reacquisition if issued capital stock is carried at cost and presented as a deduction to arrive at stockholders' equity.

The reissuance of treasury stocks is accounted for as follows: (a) reissue price higher than the acquisition cost — the excess is credited to capital surplus on treasury stock; and (b) reissue price less than the acquisition cost — initially charged to capital surplus on treasury stock, with any remaining deficiency charged to unappropriated earnings.

Under to a directive issued by the Securities and Futures Bureau, if a financial institution (FI) repurchases its own capital stock pursuant to the Securities and Exchange Law and becomes a wholly owned subsidiary of a financial holding company (FHC), resulting in the conversion of the FI's treasury stocks to the FHC's stock, the FHC's shares held by the FI should be treated as treasury stock. The FHC should also present the shares it issued in exchange for FI's capital stock as treasury stock. If shares of the FIs under the same FHC were held among each other before the share swap, these shares will be stated as equity investments after the swap.

Pension Costs

The Bank recognizes pension costs on the basis of actuarial calculations. Unrecognized net transition asset is amortized over 29 years.

Recognition of Interest Revenue and Service Fees

Interest revenue on loans is recorded on the accrual basis. Under the regulations of the Ministry of Finance, no interest revenue is recognized on loans and other credits extended by the Bank that are classified as overdue loans. The interest revenue on those loans is recognized upon collection on these loans and credits.

The unpaid interest on rescheduled loans should be recorded as deferred revenue, and the paid interest is recognized as interest revenue.

Service fees are recorded when a major part of the earnings process is completed and revenue is realized.

Income Tax

Provision for income tax is based on inter-period tax allocation. The tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred tax liabilities. Valuation allowance is provided for deferred tax assets that are not probable to be realized.

Tax credits for certain technology or equipment purchases, expenditures for research and development, employee training and stock investments are recognized in the current period.

Income tax on interest in short-term negotiable instruments, which is levied separately, and any adjustment of income taxes of prior years are added to or deducted from the current year's tax expense.

Income taxes (10%) on undistributed earnings are recorded as expenses in the year when the stockholders resolve to retain the earnings.

Contingencies

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. A footnote disclosure is made of the situation that might result in a loss if the loss is possible but the amount of loss cannot be reasonably estimated.

Foreign Currency Transactions

Foreign-currency transactions (except forward transactions) are included in the financial statements at their equivalent New Taiwan dollar amounts at the following rates: Assets and liabilities — current exchange rates; and income and expenses — rates prevailing on the date of each transaction. Exchange gains or losses are credited or charged to income.

Forward Contracts

For forward contracts, which are used for trading purposes, assets and liabilities are recorded at the contracted forward rate. Gains or losses resulting from the difference between the spot rate and the contracted forward rate on the settlement date are credited or charged to income.

For contracts outstanding as of the balance sheet date, the gains or losses resulting from the difference between the contracted forward rates and the forward rates available for the remaining periods of the contracts are credited or charged to income. In addition, the receivables and payables related to the forward contracts are netted out, and the resulting amount is presented as an asset or liability.

Foreign Currency Swap Contracts

Foreign-currency spot-position assets or liabilities arising from foreign currency swap contracts, which are entered into for trading purposes, are recorded at spot rates when the transactions occur, while the corresponding forward-position assets or liabilities are recorded at the contracted forward rates.

The related differences between spot rates and contracted forward rates are amortized and recorded as interest revenue or interest expense over the contract period on the straight-line basis. The receivables and payables related to the foreign currency swap contracts are netted out, and the resulting amount is presented as an asset or liability as of the balance sheet date.

Asset Swaps

The Bank agrees to swap the fixed interest and redemption premium or conversion right on its investment in bonds for the floating interest on these bonds. There is no exchange of contract (notional) principals (equal to the aggregate face values of the bonds). For swaps entered into for nontrading purposes, the net interest upon each settlement is recorded as an adjustment to interest revenue or expense associated with the items being hedged.

Cross-currency Swap

Cross-currency swap contracts, which are intended for nontrading purposes, are recorded at their forward rates on the contract dates. The interest received or paid under the contract is recorded as an adjustment to the revenue or expense of the items being hedged.

Interest Rate Swaps

Interest rate swap (IRS) contracts are recorded through memorandum entries on the contract dates since there is no exchange of notional principals. For IRS contracts used for nontrading purposes, interest received or paid upon each settlement is recorded as adjustment to interest income or expense of the hedged item.

For IRS contracts used for trading purposes, net interest received or paid upon each settlement date is recorded as revenue or expense. Loss from the valuation of contracts on the balance sheet date are recorded as expense.

Foreign-currency Options

The Bank enters into foreign-currency option contracts for trading purposes. Premiums received or paid are recorded as liability or assets and amortized on the straight-line method over the contract period. Gains or losses from the exercise of options are credited or charged to current income.

Reclassifications

Certain accounts for 2003 had been reclassified to conform to the 2004 financial statement presentation.

3. Accounting Changes

Under a directive issued by the Ministry of Finance, sales and purchases of bonds and short-term bills under agreements to repurchase or resell were treated as outright sales or purchases. However, under the Criteria Governing the Preparation of Financial Reports by Public Banks effective January 1, 2004, the repurchase/resell transactions will be treated as financing. The effect of this accounting change for the six months ended June 30, 2004 increased the Bank's net income by $43,544.

Since the volume of the Bank's repurchase/resell transactions is huge and the accounting systems had been revised several times such that historical trading data are hard to trace, calculating the cumulative effect of changes in accounting principles is difficult. Thus, the Bank cannot calculate the cumulative effect of change in accounting principles, and the pro forma information cannot be disclosed either.

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4. Cash and Cash Equivalents

	June 30 2003	June 30 2004
Cash on hand	$2,013,930	$2,250,390
Due from banks	1,943,337	1,544,575
Checks for clearing	2,177,894	2,018,488
	$6,135,161	$5,813,453

5. Due from the Central Bank of China and Banks

	June 30 2003	June 30 2004
Reserves for deposits	$ 8,590,464	$10,220,694
Call loan to banks	4,283,571	2,237,353
Deposit	2,375,460	2,520,764
	$15,249,495	$14,978,811

As required by law, the reserves for deposits are calculated by applying the prescribed rates to the average monthly balances of various types of deposit accounts. As of June 30, 2003 and 2004, deposit reserve portions of $5,384,632 and $6,448,378, respectively, were restricted from Bank use , as required by certain regulations.

6. Securities Purchased

	June 30 2003	June 30 2004
Overseas securities	$15,489,611	$22,111,589
Government bonds and treasury bills	13,858,344	16,005,732
Certificates of deposit	13,081,652	9,799,575
Stocks and mutual funds	3,133,532	3,169,007
Commercial paper	3,644,909	649,481
Corporate bonds and bank debentures	1,157,462	208,110
	$50,365,510	$51,943,494

As of June 30, 2004, some of the government bonds, which amounted to $11,030,000, had been sold under agreements to repurchase.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

7. Receivables — Net

	June 30	
	2003	2004
Credit cards	$18,732,590	$25,260,490
Acceptances	570,212	832,926
Accrued interest	785,203	1,408,299
Forward exchange contract receivable	154,049	212,896
Accrued income	488,735	126,019
Accounts receivable	46,821	473,849
Other	607,273	625,474
	21,384,883	28,939,953
Less — allowance for possible losses	352,966	342,238
	$21,031,917	$28,597,715

8. Securities Purchased under Agreements to Resell

Securities acquired for $2,244,007 under agreements to resell as of June 30, 2004 will be sold for $2,244,960 before July 27, 2004.

9. Bills, Discounts and Loans — Net

	June 30	
	2003	2004
Loans:		
Long-term	$ 71,068,025	$119,350,220
Medium-term	57,460,892	66,296,633
Short-term	47,930,391	52,542,588
Bills and discounts	1,791,885	1,781,435
Overdue loans	2,106,106	1,740,961
	180,357,299	241,711,837
Less — allowance for possible losses	1,629,298	1,930,963
	$178,728,001	$239,780,874

As of June 30, 2003 and 2004, the loan and credit balances for which accrual of interest revenues was discontinued, amounted to $2,106,106 and $1,740,961, respectively. The unrecognized interest revenues on these loans and credits amounted to $46,571 and $28,591 for the six months ended June 30, 2003 and 2004, respectively.

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For the six months ended June 30, 2003 and 2004, the Bank carried out legal procedures required before writing off certain credits.

The details of and changes in allowance for credit losses on bills, discounts and loans are summarized below:

	For the Six Months Ended June 30, 2003		
	Specific Risk	General Risk	Total
Balance, January 1, 2003	$ 104,593	$1,436,162	$1,540,755
Recovery of written-off credits	1,014,308	—	1,014,308
Reversal	(255,065)	(301,094)	(556,159)
Write-offs	(369,606)	—	(369,606)
Balance, June 30, 2003	$ 494,230	$1,135,068	$1,629,298

	For the Six Months Ended June 30, 2004		
	Specific Risk	General Risk	Total
Balance, January 1, 2004	$ 227,684	$1,942,076	$2,169,760
Reversal	(112,858)	(125,189)	(238,047)
Write-offs	(712,371)	—	(712,371)
Recovery of written-off credits	711,868	—	711,868
Effects of exchange rate changes	—	(247)	(247)
Balance, June 30, 2004	$ 114,323	$1,816,640	$1,930,963

10. Long-term Investments — Net

	June 30	
	2003	2004
Long-term equity investments	$ 4,774,470	$ 2,949,120
Long-term bond investments — government bonds	—	6,618,640
Other long-term investments — special purpose beneficiary certificates	—	2,260,508
	$ 4,774,470	$11,828,268

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Long-term equity investments are summarized as follows:

	June 30			
	2003		2004	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Equity method				
With no quoted market prices				
E.Sun Finance & Leasing Co., Ltd.	$ 161,309	99.0	$ 148,343	99.0
E.Sun Insurance Agent Co., Ltd.	40,432	79.0	33,872	79.0
E.Sun Securities Investment Trust Corp.	156,607	45.0	—	—
	358,348		182,215	
Cost method:				
With quoted market prices				
E.Sun Financial Holding Co., Ltd. (ESFHC)	3,749,586	12.5	2,264,136	7.3
United Micro Electronics	200,451	—	200,451	—
With no quoted market prices				
Taiwan Asset Management Corporation	100,000	0.6	100,000	0.6
Fu Bon Securities Finance Co.	155,857	2.6	98,957	2.6
Other	210,228	—	201,628	—
	4,416,122		2,865,172	
Less — allowance for possible losses	—		(98,267)	
	4,416,122		2,766,905	
	$4,774,470		$2,949,120	
Market values of stock with quoted market prices	$5,098,588		$3,862,232	

On December 1, 2003, the Bank's Board of Directors resolved to issue bonds for exchange with the underlying shares of ESFHC within the limit of 150,000 thousand shares under Article 31 of the Financial Holding Company Law. On January 23, 2004, the Bank issued three-year debenture exchangeable bonds amounting to $2,696,100, at 0% interest. For the six months ended June 30, 2004, foregoing bonds were all exchanged for the ESFHC's stock and the Bank recognized a gain of $1,181,958 on the exchange of these bonds for ESFHC's stock.

On February 12, 2004, the board of directors (hereinafter "the Board") of E.Sun Bank resolved to authorize the chairman to dispose the shares of ESFHC with in the limit of 184,449 thousand shares under Article 31 of the Financial Holding Company Law.

On April 27, 2004, the Board also resolved the transfer plan for the ESFHC's shares held by the Bank to employees. Related terms of the share transfer plan are as follows:

a. Type of shares transfer, the content and the limit of the right:

Common stock. The rights of shares are same as ESFHC's common stock.

b. Period of transfer:

The shares should be transferred once or several times before January 27, 2005.

c. Qualification of transferee:

Full-time employees of the ESFHC and its subsidiaries.

d. Procedures of transfer:

(1) The board of directors of E.Sun Bank is authorized to determine the term of payment, the contents of rights, and the restricted conditions.

(2) Registration of transfer shares will be processed after calculating the actual shares subscribed.

e. Transfer price:

The transfer price of each share is based on higher price for the average cost or the market closing price of ESFHC's common stock at transfer date.

f. Rights and obligations after transfer:

Registered transfer shares will bear the same rights and obligations as ESFHC's common stock, except for the prescriptions otherwise stated.

g. Others:

The qualified employees should not transfer or pledge the subscription right to the third party. The subscription right will be extinguished if the qualified employees resign or be disqualified due to other reasons.

The equity-method investees' financial statements on which the calculation of investment carrying value and the related income was based, had all been audited, except those of E. Sun Insurance Agent Co., Ltd. The Bank's management believes that, had this investee's accounts been audited, the effect of any adjustments on the Bank's financial statements would not have been significant.

The income from long-term equity investments under the equity method for the six months ended June 30, 2003 and 2004 were $35,466 and $16,453, respectively.

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11. Accumulated Depreciation

	June 30	
	2003	2004
Buildings	$ 320,927	$ 365,133
Computers	733,392	777,028
Transportation equipment	108,864	120,989
Miscellaneous equipment	383,636	454,403
	$1,546,819	$1,717,553

12. Other Assets — Net

	June 30	
	2003	2004
Refundable deposits	$ 870,766	$ 885,376
Deferred charges — net of amortization	62,235	168,455
Foreclosed collaterals	187,093	45,500
Deferred income tax assets — net	756,592	—
	$1,876,686	$1,099,331

13. Securities Sold under Agreements to Repurchase

Securities sold for $11,985,386 under agreements to repurchase as of June 30, 2004 will be purchased for $11,991,829 before December 10, 2004.

14. Due to Banks

	June 30	
	2003	2004
Call loans from banks	$18,106,526	$23,039,231
Bank overdraft	649,266	396,327
Due to banks	610,745	161,408
	$19,366,537	$23,596,966

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15. Payables

	June 30	
	2003	2004
Dividends payable	$ —	$2,236,097
Checks for clearing	2,177,894	2,018,081
Accrued interest	1,166,617	1,005,045
Acceptances	581,264	842,300
Accrued expenses	136,564	84,838
Tax	342,550	79,476
Other	673,538	877,599
	$5,078,427	$7,143,436

16. Deposits and Remittances

	June 30	
	2003	2004
Deposits:		
Savings — time	$ 80,786,940	$ 72,673,553
Time	69,914,580	87,154,417
Savings — demand	51,436,268	66,123,453
Demand	22,935,480	34,612,773
Negotiable certificates of deposit	836,100	10,875,100
Checking	2,544,587	3,357,010
Remittances	121,921	32,405
	$228,575,876	$274,828,711

17. Bonds

	June 30	
	2003	2004
Bonds issued on August 6, 2001; 3.76% interest, payable annually; principal due on maturity date (5 years after the issue date)	$ 3,000,000	$ 3,000,000
Subordinated bonds issued on August 6, 2001; 4.2% interest, payable annually; principal repayable in five installments from the third year from the issue date and final installment due at the end of the seventh year	2,000,000	2,000,000
Four types of subordinated bonds issued on June 13, 2002; 5%–8.6% interest rate minus the 90 days' interest rate of commercial paper (stated below), payable quarterly; principal due on the maturity date (5 years after the issue date)	1,700,000	1,700,000

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	June 30	
	2003	2004
Four types of subordinated bonds issued on August 16, 2002; 5.94% interest rate minus a floating interest rate (stated below), payable semiannually; principal due on the maturity date (5 years after the issue date).	$1,300,000	$1,300,000
Five types of bonds issued on August 23, 2002; 6% interest rate minus a floating interest rate (stated below), payable semiannually; principal due on the maturity date (5.5 years after the issue date).	2,000,000	2,000,000
Eight types of bonds issued on October 9, 2003; interest rate at (a) 3.8% for the first year and 5.0% minus 6M LIBOR for the second to fifth year for types A and B bonds; (b) 5.15% minus 6M LIBOR for types C to E bonds; and (c) 4.22% minus 90 days' interest rate of commercial paper for types F to H bonds, with all interest rates not to fall below 0% and payable semiannually; principal due on the maturity date (5 years after the issue date).	—	2,000,000
Seven types of bonds issued on October 16, 2003; interest rate at (a) twice the five years' NT$ interest rate swap (IRS) minus the two years' NT$ IRS for types A to D bonds; (b) twice the five years' NT$ IRS minus the two years' NT$ IRS plus 0.75% for types E and F bonds; and (c) 3% for the first year and twice the five years' NT$ IRS minus the two years' NT$ IRS plus 0.4% for the second to the fifth year for the type G bond, with all interest rates not to fall below 0% and payable semiannually; principal due on the maturity date (5 years after the issue date).	—	1,800,000
Five types of bonds issued on October 29, 2003; interest rates at (a) 3M LIBOR plus 1.2% if 3M LIBOR is less than 1% or 4.7% minus 3M LIBOR if 3M LIBOR is more than or equal to 1% for type A bond; (b) 2.5 times of the five years' NT$ IRS minus two years' NT$ IRS plus 0.45%, with limit of 3.75%, for types B and C bonds; and (c) 2.5 times of the five years' NT$ IRS minus the two years' NT$ IRS plus 0.4%, with limit of 3.7%, for types D and E bonds, with all interest rates not to fall below 0% and payable semiannually for type A bond and quarterly for other bond types; principal due on the maturity date (5 years after the issue date).	—	1,200,000

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	June 30	
	2003	2004
Seven types of bonds issued on February 27, 2004; interest rates at (a) 6M LIBOR if 6M LIBOR is less than 1.05%, or 3.6% if 6M LIBOR is between 1.05% and 2%, or 4.52% minus 6M LIBOR if 6M LIBOR is more than 2% for types A to D bonds; (b) 6M LIBOR if 6M LIBOR is less than 1.05%, or 3.50% if 6M LIBOR is between 1.05% and 2%, or 4.5% minus 6M LIBOR if 6M LIBOR is more than 2% for types E to G bonds with all interest rates not to fall below 0% and payable quarterly for all bond types; principal repayable on the maturity date (5 years after the issue date).	$ —	$2,000,000
Three types of bonds issued on February 27, 2004; interest rates at 3.03% if 6M LIBOR is less than or equal to 2.5%, or 5.2% minus 6M LIBOR if 6M LIBOR is more than 2.5%, with all interest rates not to fall below 0% and payable quarterly for all bond types; principal repayable on the maturity date (7 years after the issue date).	—	1,000,000
Eight types of bonds issued on March 18, 2004; interest rates at (a) 6M LIBOR if 6M LIBOR is less than or equal to 1.05%, or 3.50% if 6M LIBOR is between 1.05% and 2.00%, or 4.5% minus 6M LIBOR if 6M LIBOR is more than 2% for types A and B bonds; (b) 6M LIBOR if 6M LIBOR is less than 1.05%, or 3.40% if 6M LIBOR is between 1.05% and 2.00%, or 4.4% minus 6M LIBOR if 6M LIBOR is more than 2% for types C to E bonds; (c) 2.5 times of the five years' NT$ IRS minus the two years' NT$ IRS plus 0.5% if the five years' NT$ IRS minus the two years' NT$ IRS is up to 1.2%, or 2% if the five years' NT$ IRS minus the two years' NT$ IRS is more than 1.2% for types F and G bonds; (d) 2 times of the five years' NT$ IRS minus the two years' NT$ IRS plus 1.75% if the five years' NT$ IRS minus the two years' NT$ IRS is up to 1.2% in the first and second year, or 2.65% if the five years' NT$ IRS minus the two years' NT$ IRS is more than 1.2% in the first and second years, and 3 times of the five years' NT$ IRS minus the two years' NT$ IRS if the five years' NT$ IRS minus the two years' NT$ IRS is up to 1.2%, or 2.1% if the five years' NT$ IRS minus the two years' NT$ IRS is more than 1.2% in the third to fifth year for type H bond, with all interest rates not to fall below 0% and payable quarterly for all bond types; principal repayable on the maturity date (5 years after the issue date).	—	2,000,000

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	June 30	
	2003	2004
Five types of bond issued on May 10, 2004; interest rates at (a) (6M LIBOR plus 0.5001%) multiplied by n/N for type A bond; (b) (6M LIBOR plus 0.5002%) x n/N for type B bond; (c) (6M LIBOR plus 0.5003%) x n/N for type C bond; (d) (6M LIBOR plus 0.5004%) multiplied by n/N for type D bond, with 6M LIBOR for types A to D bonds between 1% and 2% in first year, between 1.00% and 2.25% in second year, between 1.05% and 3.00% in the third year, between 1.05% and 3.50% in the fourth year, between 1.1% and 4.0% in the fifth year, between 1.10% and 4.25% in the sixth year, between 1.1% and 4.5% in the seventh year, "n" means the total days of 6M LIBOR between the foregoing interest rate range in each interest-bearing period, "N" means total days of each interest-bearing period; (e) 1.15 times of the ten years' US$ CMS minus the two years' US$ CMS and with interest rates not to fall below 0% for type E bond; payable quarterly for all bond types; principal repayable on the maturity date (7 years after the issue date).	$ —	$2,300,000
Three types of bonds issued on May 19, 2004; interest rates at (a) 3% if 6M LIBOR is less than or equal to 2.5%, or 5.3% minus 6M LIBOR if 6M LIBOR is more than 2.5% for type A bond; (b) 6M LIBOR if 6M LIBOR is less than 1.1%, or 3.82% if 6M LIBOR is between 1.1% ad 2.5%, or 5% minus 6M LIBOR if 6M LIBOR is more than 2.5% for type B bond; (c) 6M LIBOR if 6M LIBOR is less than 1.1%, or 4% if 6M LIBOR between 1.1% and 2.0%, or 5.1% minus 6M LIBOR if 6M LIBOR is more than 2%; with all interest rates not to fall below 0% and payable semiannually for all bond types; principal repayable on the maturity date (7 years after the issue date).	—	900,000
Five types of bonds issued on June 1, 2004; interest rates at (a) 6M LIBOR if 6M LIBOR is less than 1.1%, or 3.5% if 6M LIBOR is between 1.1% and 2.5%, or 5.15% minus 6M LIBOR if 6M LIBOR is more than 2.5% for type A bond; (b) 6M LIBOR if 6M LIBOR is less than 1.1%, or 4% if 6M LIBOR is between 1.1% and 3.5%, or 5.5% minus 6M LIBOR if 6M LIBOR is more than 3.5% for types B and C bonds; (c) 6M LIBOR if 6M LIBOR is less than 1.1%, or 4% if 6M LIBOR is between 1.1% and 3.5%, or 6.05% minus 6M LIBOR if 6M LIBOR is more than 3.5%, with all interest rates not to fall below 0% and payable semiannually for all bond types; principal repayable on the maturity date (5 years after the issue date).	—	1,300,000

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	June 30	
	2003	2004
Bonds issued on June 1, 2004; interest rate at 6M LIBOR if 6M LIBOR is less than 0.9%, or 4% if 6M LIBOR is between 0.9% and 3.5%, or 5.5% minus 6M LIBOR if 6M LIBOR is more than 3.5%, with all interest rates not to fall below 0% and payable semiannually for all bond types; principal repayable on the maturity date (7 years after the issue date)	$ —	$ 500,000
	$10,000,000	$25,000,000

The above 90 days' interest rate for commercial paper and floating interest rate were based on the average interest rate quoted by Hong Kong's Moneyline Telerate and Reuter.

18. Personnel, Depreciation and Amortization Expenses

	For the Six Months Ended June 30, 2003			For the Six Months Ended June 30, 2004			
	Business Expense	Adminis-trative Expense	Total	Business Expense	Adminis-trative Expense	Other Expense	Total
Personnel expenses							
Salaries	$605,451	$ 58,722	$664,173	$702,407	$ 67,429	$ —	$769,836
Insurance	43,835	4,842	48,677	52,573	4,136	—	56,709
Pension	30,029	3,086	33,115	36,292	3,400	—	39,692
Other	45,777	3,799	49,576	52,687	3,508	—	56,195
Depreciation expenses	78,898	49,410	128,308	126,607	57,248	—	183,855
Amortization expenses	29,521	9,697	39,218	8,517	13,988	1,653	24,158

19. Income Tax

a. Income tax information is as follows:

	For the Six Months Ended June 30	
	2003	2004
Income tax expense — current before tax credits	$ 43,103	$394,825
Net change in deferred income tax:		
Tax credits	—	(2,268)
Loss carryforwards	461,956	306,901
Allowance for possible losses on loans and receivables	43,862	106,102
Unrealized foreign exchange gain	(1,269)	(2,179)
Tax on unappropriated earnings (10%)	—	111,122
Adjustment of prior year's tax	8,405	—
	$556,057	$914,503

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b. A reconciliation of income tax expense-current before tax credits and income tax expense on income before income tax is shown below:

	For the Six Months Ended June 30	
	2003	2004
Income tax expense on income before income tax at statutory rate (25%)	$651,014	$1,245,505
Permanent differences:		
Tax-exempt income	(94,317)	(449,912)
Others	(9,045)	7,788
Temporary differences	(504,549)	(408,556)
Income tax expense — current before tax credits	$ 43,103	$ 394,825

c. Net deferred income tax assets (liabilities) were as follows:

	June 30	
	2003	2004
Deferred income tax assets (liabilities)		
Tax credits	$ 10,139	$12,947
Loss carryforwards	809,650	—
Allowance for possible losses on loans and receivables	1,797	3,850
Unrealized foreign exchange gain	(64,994)	(57,242)
Net deferred income taxes assets (liabilities)	$756,592	($40,445)

Tax credits as of June 30, 2004 are summarized below:

Regulation	Item	Tax Credits	Expiration
Statute for Upgrading Industries	Employee training expenditures	$10,679	2007
Statute for Upgrading Industries	Employee training expenditures	2,268	2008

d. Imputed tax credit

	June 30	
	2003	2004
Balance of stockholders' imputed tax credit	$106,419	$143,873

There was a deficit in 2002; thus, no earnings were distributable. The Bank estimated at 4.28% the creditable tax ratio for distributing 2003 earnings. The actual creditable tax ratio may differ from the estimated creditable tax ratio since this ratio is computed on the date the dividend is actually paid or distributed.

e. The unappropriated earnings as of December 31, 2003 and 2004 had no earnings generated before January 1, 1998.

f. The effective tax rate for 2003 and 2004 was about 25%.

g. Income tax returns through 2001 had been examined by the tax authorities. In their assessment of the 1994, 1995, 1997, 1998, 2000 and 2001 tax returns, the tax authorities denied the creditability of 10% withholding tax on interest income on bonds pertaining to periods in which those bonds, totaling $290,044, were held by other investors. In addition, the 1996 and 1999 income tax returns included a reduction of $30,431 in income tax obligations, which the tax authorities had already examined but could still deny. The Bank had accrued liabilities and written off assets that were related to the foregoing withholding taxes as part of income tax expense in 2001. In August 2002, the Supreme Administrative Court decided that the Taipei National Tax Administration should find another disciplinary action to deal with the withholding tax issue.

   In 2003, the Taipei National Tax Administration decided to rebate 65% of the foregoing withholding taxes. The Bank accepted this decision and thus recognized a tax refund receivable of $218,988 for 1994 to 2001 and wrote off withholding taxes of $10,711 from its 2002 accounts.

20. Stockholders' Equity

The Bank's Articles of Incorporation provide that the following should be appropriated from the annual net income less any accumulated deficit:

a. 30% as legal reserve;

b. Special reserve, if needed; and

c. From any remainder

   The following appropriations based on the amendment of the Articles of Incorporation

   (1) 94% as dividends

   (2) 1% as remuneration to directors and supervisors

   (3) 5% as bonus to employees

   The stockholders may decide not to declare any dividends or decide to distribute only a portion of the distributable earnings.

   Under the Bank's policy, cash dividends are the major portion of the declared dividends. However, cash dividends should not be more than 15% of paid-in capital if legal reserve is less than the total paid-in capital.

Appropriations of earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

On May 15, 2003, the stockholders resolved to offset deficits of $3,112,924 against legal reserve; $31,391 against special reserve; and $92,731 against capital surplus.

On April 27, 2004, the stockholders resolved the following appropriation of the 2003 earnings:

a.	Legal reserve	$1,018,878
b.	Cash dividend — 12%	2,181,000
c.	Bonus to directors and supervisors	23,202
d.	Bonus to employees	116,011

The above appropriation was the same as that resolved in the Board of Directors' meeting on February 12, 2004.

Information on the appropriation of earnings or deficit offsetting can be accessed through the Web site of the Taiwan Stock Exchange (http://mops.tse.com.tw).

Under the Company Law, legal reserve should be appropriated until the reserve equals the Bank's paid-in capital. This reserve should only be used to reduce or offset a deficit. When the reserve reaches 50% of the Bank's paid-in capital, up to 50% thereof may be declared as stock dividend. In addition, the Banking Law limits the appropriation of cash dividends and any bonuses to stockholders to 15% of the Bank's paid-in capital. But when the legal reserve equals the Bank's paid-in capital, this 15% limit may be excluded.

Under related regulations, capital surplus may only be used to offset a deficit. However, capital surplus arising from issuance of shares in excess of par value (issuance in excess of common stock par value, capital surplus from issuance of common stock for combination and treasury stock transactions) and donation may be transferred to common stock on the basis of the percentage of shares held by the stockholders. Any capital surplus transferred to common stock should be within a certain percentage prescribed by law.

Under the integrated income tax system, which took effect on January 1, 1998, ROC resident stockholders are allowed a tax credit for the income tax paid by the Bank on earnings generated since 1998.

21. Treasury Stock

Reason for Redemption	Shares at Beginning of the Period	Increase	Decrease	Shares at End of the Period
For the six months ended June 30, 2003 and 2004				
Reissuance to employees *(Note)*	40,000	—	—	40,000

Note: Shares in thousands.

The Securities and Exchange Law provides for the following:

a. The total number of shares that can be held in treasury stock is limited to 10% of the number of total outstanding shares.

b. The maximum cost of reacquiring treasury shares is limited to the sum of the balances of the retained earnings and all realized capital surplus;

c. Using treasury shares to secure any obligations or commitment of the Bank is prohibited; and

d. The Bank is prohibited from exercising stockholder's rights on the treasury shares.

Under a directive issued by the Securities and Futures Bureau, the Bank repurchased its issued stock pursuant to the Securities and Exchange Law and became a wholly owned subsidiary of E.Sun Financial Holding Company Ltd. (ESFHC), resulting in the conversion of the Bank's treasury stocks into the ESFHC's stocks. The stocks acquired by the Bank were as also treated treasury stock. The Bank should reissue the treasury stock by December 2004.

22. Earnings Per Share

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

	Amount (Numerator)		Shares	Earnings Per Share (Dollar)	
	Pretax	After Tax	(Denominator in Thousands)	Pretax	After Tax
Basic EPS					
For the six moths ended June 30, 2003	$2,604,095	$2,048,038	1,817,500	$1.43	$1.13
For the six months ended June 30, 2004	$4,982,062	$4,067,559	1,817,500	$2.74	$2.24

The number of shares outstanding should be retroactively adjusted to reflect the effects of the stock dividends distributed subsequently. But since no stock dividends were distributed for the latest two years, the earnings per share need not be retroactively adjusted for the period ended June 30, 2003 and 2004.

23. Pension Plan

The Bank has a pension plan for all regular employees. Upon retirement, an employee will receive (a) the Bank's contributions before May 1, 1997, which were credited to his/her account, plus earnings thereof, and (b) an amount calculated on the basis of the length of service after May 1, 1997 and monthly average basic pay of the six months before retirement.

The Bank makes monthly contributions, equal to 5.54%, of salaries, to a pension fund. The fund is deposited in the Central Trust of China in the name of a workers fund administrative committee, which manages the fund. The difference between the Bank's contributions and the pension costs based on actuarial calculations is deposited in the Bank in the name of the employees' pension fund administrative committee.

Pension expenses were $33,115 and $39,692 for the six months ended of June 30, 2003 and 2004, respectively.

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24. Related-Party Transactions

In addition to those mentioned in other notes, the relationship with the Bank and significant related-party transactions were summarized as follows:

a. *Related parties*

Related Party	Relationship with the Bank
E.Sun Financial Holding Company, Ltd. (ESFHC)	Parent company
E.Sun Bills Finance Corporation (E.Sun Bills), E.Sun Securities Corporation (E.Sun Securities), E.Sun Venture Capital Co., Ltd., E.Sun Securities Investment Trust Corp. and E.Sun Insurance Broker Co., Ltd.	Subsidiaries of ESFHC
E.Sun Foundation and E.Sun Volunteer & Social Welfare Foundation	One-third of the funds are donated by the Bank and E.Sun Bills
E.Sun Finance & Leasing Co., Ltd. and E.Sun Insurance Agent Co., Ltd.	Subsidiaries
Fu Bon Securities Finance Co. and Bank-Pro E-Service Technology Co., Ltd.	The Bank is a director of the Company
Other	The Bank's chairman, president, directors, supervisors, managers and their relatives

b. *Significant transactions between the Bank and related parties*

	June 30		Revenue (Expense)	
	Amount	% to Total	Interest Rate (%)	Amount
2003				
Loans	$ 268,615	—	1.5–7.02	$ 6,475
Deposits	$3,980,979	2	0–13	($26,197)
Securities sold under agreements to repurchase	$ 417,384	—	0.85–1.73	($ 6,613)
Securities purchased under agreements to resell	$ 515,105	—	1.03–1.48	$ 948
Bonds payable	$ 260,000	3	4.2	($ 5,460)

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	June 30			
			Revenue (Expense)	
	Amount	% to Total	Interest Rate (%)	Amount
2004				
Loans	$ 501,230	—	1.025–3.37	$ 4,882
Deposits	$7,853,445	3	0–8.45	($54,130)
Securities sold under agreements to repurchase	$ 447,145	4	0.65–0.88	($ 2,316)
Securities purchased under agreements to resell	$ —	—	0.75–0.975	$ 144
Bonds payable	$ 100,000	—	4.2	($ 2,034)
Dividends payable (under payables) ESFHC	$2,204,202	31		
Other receivables (under receivables) ESFHC	$ 80,131	—		
Other payables (under payables) ESFHC	$ 429,770	6		

The Bank's parent company, ESFHC, will file consolidated corporate tax returns from 2003, i.e., including the Bank's income tax return.

	For the Six Months Ended June 30 2004
Donation — E.Sun Volunteer & Social Welfare Foundation	$30,292

The purpose of the donation above is for social welfare charity.

The interest rates shown above are similar to, or approximate, those offered to third parties. However, the interest rates for deposits given to managers of the Bank are the same as the interest rates on a certain amount of savings deposits of employees.

Under the Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party should be 100% secured, and the terms of credits extended to related parties should be similar to those for third parties.

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25. Pledged Assets

As of June 30, 2003 and 2004, certain investments in securities with an aggregate face value of $844,100 and $719,900, respectively, were (a) deposited in the Central Bank of China to secure the Bank's potential obligations on its trust activities, (b) placed with courts of justice pursuant to various collection cases on overdue loans; (c) placed with the National Credit Card Center to secure its potential obligations arising from its credit card activities; and (d) placed with other parties as refundable deposits.

As of June 30, 2003 and 2004, certain negotiable certificates of deposit and government bonds, aggregating $5,000,000 and $5,050,000, respectively, and included in the securities purchased and long-term bond investments account, had been provided as collaterals for day term overdraft to comply with the Central Bank's clearing system requirement for Real-time Gross Settlement (RTGS). The unused overdraft amount at the end of a day may also be treated as the Bank's liquidity reserve.

As of June 30, 2004, the Bank provided $500,000 of government bond as refund deposits (please refer to Note 35).

26. Contingencies and Commitments

In addition to those mentioned in other notes, the commitments as of June 30, 2004 were as follows:

a. Renewable operating lease agreements on premises occupied by the Bank's branches, which will expire on various dates by 2014. Rentals are calculated on the basis of the leased area and are paid monthly, quarterly or semiannually. As of June 30, 2004, refundable deposits on these leases totaled NT$695,408 (shown as "refundable deposits"). Minimum annual rentals for the next five years are as follows:

Year	Amount
July to December 2004	$133,569
2005	204,982
2006	168,684
2007	128,959
2008	87,963
January to June 2009	30,725

Total rentals for July 2009 to June 2014 will aggregate $277,430. The present value of these rentals is $256,227 based on 1% annual interest.

c. Contracts to acquire land and building, decorate a building and make various purchases for the improvement of various branch premises. Total contract amount was approximately $559,317. As of June 30, 2004, the unpaid balance on these contracts was approximately $88,540.

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27. Capital Adequacy Ratio

Unit: %

Item	June 30, 2003	June 30, 2004
Capital adequacy ratios *(Note)*	10.09%	9.61%
Ratios of debt to net worth	1,320.00%	1,495.00%

Note: Capital adequacy ratio = Eligible capital/Risk-based assets. Under the Banking Law and related regulations, the capital adequacy ratio (CAR) should be computed at the end of June and December; thus, the above figures were the capital adequacy ratios as of June 30, 2003 and 2004, respectively.

The Banking Law and related regulations also require that the Bank maintain its stand-alone and consolidated CARs at a minimum of 8% each. In addition, if the Bank's CAR falls below 8%, the Ministry of Finance may impose certain restrictions on the amount of cash dividends that the Bank may declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

28. Average Amount and Average Interest Rate of Interest-Earning Assets and Interest-Bearing Liabilities

Average balance is calculated at the daily average balance of interest-earning assets and interest-bearing liabilities.

	For the Six Months Ended June 30			
	2003		2004	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-earning assets				
Cash and cash equivalents — due from banks	$ 1,181,757	0.28	$ 2,618,382	0.93
Due from the Central Bank of China and banks	15,402,868	1.79	12,961,897	1.52
Securities purchased	52,571,283	3.12	52,521,090	1.56
Securities purchased under agreements to resell	—	—	2,174,999	0.74
Receivables of credit cards	17,580,806	15.23	24,218,218	14.32
Bills, discounts and loans	171,913,216	4.25	218,394,831	3.41
Long-term bond investments	—	—	5,944,033	1.96
Other long-term investments	—	—	1,491,504	1.67
Interest-bearing liabilities				
Securities sold under agreements to repurchase	—	—	13,038,712	0.73
Due to banks	26,103,197	1.30	25,988,390	1.06
Demand	20,857,822	0.37	28,677,600	0.17
Savings — demand	49,462,631	0.87	65,456,623	0.54
Time	70,715,521	1.70	73,295,071	1.20
Savings — time	78,500,601	2.05	74,745,761	1.45
Negotiable certificates of deposit	1,109,189	1.41	11,090,779	1.02
Bonds	10,000,000	3.20	21,558,388	2.60

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29. Maturity Analysis of Assets and Liabilities

The maturity of assets and liabilities of the Bank is based on the remaining period from balance sheet dates. The remaining period to maturity is based on maturity dates specified under related agreements and, if there are no specified maturity dates, on the expected dates of collection.

	June 30, 2003			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash and cash equivalents	$ 6,135,161	$ —	$ —	$ 6,135,161
Due from the Central Bank of China and banks	15,249,495	—	—	15,249,495
Securities purchased	50,365,510	—	—	50,365,510
Receivables	21,384,883	—	—	21,384,883
Bills, discounts and loans	68,100,910	43,382,701	68,873,688	180,357,299
	$161,235,959	$43,382,701	$68,873,688	$273,492,348
Liabilities				
Due to banks	$ 19,366,537	$ —	$ —	$ 19,366,537
Payables	5,078,427	—	—	5,078,427
Deposits and remittances	215,206,145	13,369,731	—	228,575,876
Bonds	—	10,000,000	—	10,000,000
	$239,651,109	$23,369,731	$ —	$263,020,840

	June 30, 2004			
	Due in One Year	Due in Seven Years	Due After Seven Years	Total
Assets				
Cash and cash equivalents	$ 5,813,453	$ —	$ —	$ 5,813,453
Due from the Central Bank of China and banks	14,978,811	—	—	14,978,811
Securities purchased	51,943,494	—	—	51,943,494
Receivables	28,939,953	—	—	28,939,953
Securities purchased under agreements to resell	2,244,007	—	—	2,244,007
Bills, discounts and loans	73,260,022	51,785,912	116,665,903	241,711,837
Long-term bond investments	—	—	6,618,640	6,618,640
Other long-term investments	—	2,260,508	—	2,260,508
	$177,179,740	$54,046,420	$123,284,543	$354,510,703
Liabilities				
Securities sold under agreements to repurchased	$ 11,985,386	$ —	$ —	$ 11,985,386
Due to banks	23,596,966	—	—	23,596,966
Payables	7,143,436	—	—	7,143,436
Deposits and remittances	263,098,591	11,730,120	—	274,828,711
Bonds	—	25,000,000	—	25,000,000
	$305,824,379	$36,730,120	$ —	$342,554,499

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30. Financial Instruments

a. *Derivative financial instruments*

The Bank uses forward exchange, swap contracts and foreign-currency options as hedge instruments for foreign-currency exposures primarily related to its clients' import obligations and export receipts and remittances. It also uses these contracts to cover its own exposures. It also uses cross-currency swap contracts, interest rate swap and asset swap contracts to hedge its exchange rate and interest rate exposures, respectively.

Credit risk represents the exposure of the Bank to potential losses due to defaults by counter-parties. To manage this risk, the Bank reviews the credit history and credit rating of individual customers before entering into any derivative contracts with customers. The general terms of the contracts (including maximum limits on contractual amounts and, if necessary, required guarantees) are approved by the Bank on the basis of the results of the reviews. The transactions are carried out within the approved terms and limits. The acceptability of doing business with another bank is evaluated on the basis of its world ranking and credit rating. The evaluation also covers determining the limits on contractual amounts, and the transactions are made within this limit.

The contract (notional) amounts, credit risks, and fair values of derivative transactions as of June 30, 2003 and 2004 were as follows:

	June 30, 2003			June 30, 2004		
	Contract (Notional) Amount	Credit Risk	Fair Value	Contract (Notional) Amount	Credit Risk	Fair Value
Trading purposes						
Forward exchange contracts	$1,148,401	$ 2,566	($ 1,546)	$ 2,832,019	$ 37,913	$ 158
Foreign-currency swap contracts	5,811,016	26,725	23,148	17,494,956	88,627	(48)
Interest rate swap contracts	—	—	—	1,300,000	74,228	74,228
Foreign-currency option contracts						
Buy	910,600	862	130	5,386,847	45,426	45,426
Sell	910,600	—	(130)	4,374,377	—	(48,422)
Nontrading purposes						
Asset swap contracts	5,958,259	1,688	(180,389)	7,263,460	297,016	90,697
Cross-currency swap contracts	5,553,993	139,432	139,432	9,618,966	332,426	8,910
Interest rate swap contracts	2,000,000	121,346	121,346	19,300,000	474,362	293,636

The Bank calculates the fair value of each forward contract at the forward rate for the remaining term on the basis of quotations from Reuters or the Telerate Information System.

The contract (notional) amount is used to calculate the amounts for settlement with the counter-parties, so it is neither the actual amount delivered nor the cash requirement for the Bank. Also, the Bank can enter into derivative financial contracts at reasonable market terms. In addition, the Bank does not expect significant cash flow requirements to settle these transactions.

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The gains and loss on the derivative transactions for the six months ended June 30, 2003 and 2004 were as follows:

	For the Six Months Ended June 30	
	2003	2004
Forward exchange contracts (under "foreign exchange gain — net")	$ 927	$ 6,418
Foreign currency swap contracts		
Interest revenue	$21,315	$36,465
Interest expense	(9,495)	(2,194)
	$11,820	$34,271
Asset swap contracts (under "interest revenue")	$ 3,913	$13,664
Cross-currency swap contracts:		
Interest revenue	$43,659	$ 62,832
Interest expense	(37,433)	(50,753)
	$ 6,226	$ 12,079
Interest rate swap contracts		
Gains from derivatives (part of other operating revenues and gains)	$ —	$177,150
Interest expense reduction	—	177,899
Interest revenue	76,850	2,917
Interest expense	(72,936)	(4,574)
	$ 3,914	$353,392
Foreign-currency option contracts		
Revenue	$10,478	$109,802
Expense	(11,140)	(75,408)
	($ 662)	$ 34,394

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b. ***Fair value of nonderivative financial instruments***

	June 30, 2003		June 30, 2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Asset with fair value the same as carrying value	$221,588,314	$221,588,314	$291,841,867	$291,841,867
Securities purchased	50,365,510	50,660,832	51,943,494	52,121,034
Long-term investments	4,774,470	5,923,021	11,828,268	12,848,201
Liabilities				
Liability with fair value the same as carrying value	262,825,908	262,825,908	342,387,974	342,387,974

Methods and assumptions used in estimating the fair value of nonderivative financial instruments were as follows:

(1) The carrying values of cash and cash equivalents, due from the Central Bank of China and banks, securities sold (purchased) under agreement to repurchase (resell), receivables, refundable deposits, due to banks, payables, remittances and other liabilities approximate fair values because of the short maturity of these instruments. The carrying value of other assets and other liabilities also approximate the expected cash inflows or outflows at settlement dates; thus, their carrying value also approximates their fair value.

(2) If market prices for securities purchased and long-term investments are available, the fair value of these financial instruments should be based on the market price. Otherwise, carrying value represents fair value.

(3) Bills, discounts and loans, deposits and bonds are interest-bearing financial assets and liabilities. Thus, their carrying value is deemed to represent fair value.

Only the fair values of financial instruments were listed above, thus, the total of the fair values listed above does not represent the Bank's fair value.

c. ***Financial instruments with off-balance-sheet credit risks***

Under normal business operations, the Bank is a party to transactions involving financial services with off-balance-sheet risks, such as issuing credit cards, extending credit facilities and providing financial guarantee and obligations under letters of credit issued. Generally, the related transactions are for one year.

The interest rates for loans ranged from 1.10% to 18.25% and from 1.03% to 18.25%, for the six months ended June 30, 2003 and 2004, respectively, with the highest interest rates for credit cards at 19.71% in both periods.

There was no concentration of maturity dates in one particular period that would potentially result in liquidity problems to the Bank.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

The amounts of financial contracts with off-balance-sheet credit risks as of June 30, 2003 and 2004 were as follows:

	June 30, 2003	June 30, 2004
Credit card commitments	$170,973,927	$199,962,254
Guarantees and issuance of letter of credit	7,205,459	9,958,017

Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The total potential loss (without considering the value of any collateral) in case of default by counter-parties is equal to the above contractual amounts, if completely drawn upon.

The Bank evaluates the creditworthiness of each credit application case by case, taking into account the applicant's credit history, credit rating and financial condition. Collateral, mostly in the form of real estate, cash, inventories and marketable securities, may be required depending on the evaluation result. As of June 30, 2003 and 2004, about 55.35% and 58.70%, respectively, of total loans granted and about 29.07% and 22.40%, respectively, of the aggregate guarantees and letters of credit issued, were secured. No collateral is required for credit card facilities but the credit status of each credit cardholder is closely monitored. Depending on the results of credit status monitoring, appropriate measures are adopted, including amending the credit limit and, if necessary, canceling the facility.

d. ***Concentrations of credit risks***

The concentration of credit risk exists when counter-parties to financial transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Bank has no credit risk concentration arising from any counter-party or groups of counter-parties engaged in similar business activities. The concentrations of credit risk were as follows (10% or more of the outstanding loans):

	June 30			
	2003		2004	
	Amount	%	Amount	%
Natural person	$89,770,042	49	$136,098,545	55
Manufacturing	29,484,512	16	39,957,759	16

The net position on foreign-currency transactions is shown below:

	June 30, 2003		June 30, 2004	
	Currency	NT$	Currency	NT$
	(In Thousands of Dollars)			
The net position on foreign-currency transaction (market risk)	US$ 10,625	$367,997	(US$ 15,865)	($535,428)
	(HK$ 46,720)	(207,498)	(HK$ 65,452)	(283,222)
	JPY109,576	31,656	EUR 5,139	209,953
	AU$ 896	20,677	JPY349,749	108,807
	(CA$ 548)	(14,062)	NZ$ 2,970	62,942

Note: The foreign currencies represent the top five currencies in the Bank's basket of international currencies.

31. Risk Management Policies and Practices for Credit Risk, Market Risk, Liquidity Risk, Operation Risk, Legal Risk and Major Exposure

a. *Credit risk*

(1) *Asset quality*

Items	June 30, 2003	June 30, 2004
Nonperforming loans (overdue loans included)	2,434,511	2,357,077
Overdue loans	2,106,106	1,740,961
Nonperforming loans ratio	1.35%	0.98%
Surveillance loans	1,158,058	725,206
Surveillance loans/Total loan	0.64%	0.30%
Allowance for possible losses on loans and receivables	1,629,298	1,930,963

Note 1: Nonperforming loans represent the amounts of reported nonperforming loans, as required by the Ministry of Finance (MOF) rulings dated February 16, 1994 (Ref. No. Tai-Tsai-Zong-832292834) and December 1, 1997 (Ref. No. Tai-Tsai-Zong-86656564)

Note 2: Nonperforming loans ratio = Nonperforming loans (including overdue loans)/(Outstanding loan balances + Overdue loans)

Note 3: Surveillance loans

(a) Midterm and long-term loans repayable in installments, with repayments overdue for more than three months but less than six months

(b) Other loans, with principal repayments overdue by less than three months and interest overdue by more than three months but less than six months

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(c) Nonperforming loans exempted from reporting (including rescheduled loans with repayment terms meeting the criteria under relevant regulations; nonperforming loans which to be repaid through a credit insurance fund and settlement fund; nonperforming loans with the same amount of certificates of time deposits as collaterals; and loans extended under other approved exemption programs).

(d) Loans of companies experiencing financial difficulty enterprise loans do not qualify as overdue loans.

(2) *Concentrations of credit risk*

Items	June 30, 2003		June 30, 2004	
Credit to interested party		4,254,647		4,582,477
Credit to interested party/Total credit		2.32%		1.86%
Credit with stock pledged/Total credit		1.32%		0.69%
	Type of Industry	**%**	**Type of Industry**	**%**
Loan concentration by industry	a. Manufacturing	16	a. Manufacturing	16
	b. Finance, insurance and real estate	12	b. Finance, insurance and real estate	11
	c. Wholesale, retail and catering	6	c. Wholesale, retail and catering	6

Note:

(a) Total credit including bills, discounts and loans (including import and export negotiations), acceptances and guarantees.

(b) Ratios of credit extensions to interested parties: Credit to interested parties ÷ Total credit.

(c) Ratios of credit extensions secured by pledged stocks: Credit with stocks pledged ÷ Total credit.

(d) The calculation of amounts of credit extensions to interested parties should be based on the Banking Law provisions.

(3) Accounting policies on allowance for losses on loans: *Note 2*

(4) Concentrations of risk: *Note 30*

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. ***Market risk***

(1) Average amount and average interest rate of interest-earning assets and interest-bearing liabilities: *Note 28*

(2) Sensitivity ratios

Unit: %

Items	June 30, 2003	June 30, 2004
Ratio of interest-rate sensitive assets to liabilities	71.08	89.01
Ratio of interest-rate sensitivity gap to stockholders' equity	(275.73)	(116.79)

Note 1: Interest-rate sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by the change of interest rates.

Note 2: Ratio of interest-rate sensitive assets to liabilities = Interest-rate sensitive assets ÷ Interest-rate sensitive liabilities.

Note 3: Interest-rate sensitivity gap = Interest-rate sensitive assets - Interest-rate sensitive liabilities

(3) Net positions on foreign-currency transactions: *Note 30*

c. ***Liquidity***

(1) *Profitability*

Unit: %

Item	For the Six Months Ended June 30, 2003	For the Six Months Ended June 30, 2004
Return on assets	1.87	2.94
Return on equity	27.50	45.02
Net income ratio	29.35	42.16

Note:

(1) Return on total assets = Income before income tax/Average total assets

(2) Return on equity = Income before income tax/Average equity

(3) Net income ratio = Net income/Total operating revenue

E.SUN COMMERCIAL BANK, LTD.
Notes to Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

(4) Income before income tax or net income represents income for the six months ended June 30, 2003 and 2004.

(5) The profitability is expressed on annual basis.

(2) *Liquidity analysis of assets and liabilities as of June 30, 2004*

		Period Remaining until Due Date				
	Total	0–30 Days	31–90 Days	91–180 Days	181 Days to 1 Year	Over 1 Year
	(In Thousands of New Taiwan Dollars)					
Assets	$317,989,000	$35,142,000	$14,030,000	$ 13,003,000	$ 27,855,000	$227,959,000
Liabilities	298,137,000	32,431,000	30,954,000	129,155,000	67,349,000	38,248,000
Gap	19,852,000	2,711,000	(16,924,000)	(116,152,000)	(39,494,000)	189,711,000
Accumulated gap	19,852,000	2,711,000	(14,213,000)	(130,365,000)	(169,859,000)	19,852,000

Note: Listed amounts of the head office and domestic branches are in New Taiwan dollars (i.e., excluding foreign-currency amounts).

d. ***Operation and Legal Risk***

Matters requiring special notation
June 30, 2004
(In Thousands of New Taiwan Dollars)

Causes	Summary and Amount
Within the past year, a responsible person or professional employee violated the law in the course of business, resulting in an indictment by a prosecutor	None
Within the past year, a fine was levied on the Bank for violations of related regulations	None
Within the past year, misconduct occurred, resulting in the Ministry of Finance's imposing strict corrective measures on the Bank	None
Within the past year, the individual loss or total loss from employee fraud, accidental and material events, or failure to abide by the "Guidelines for Maintenance of Soundness of Financial Institutions" exceeded NT$50 million dollars.	None
Other	None

Note 1: The term "within the past year" means one year before the balance sheet date.

Note 2: The term "a fine levied for violations of the related regulations within the past year" means a fine levied by Bureau of Monetary Affairs, Securities and Futures Commission or Department of Insurance.

E.SUN COMMERCIAL BANK, LTD.
Notes to Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

32. Information Regarding Borrowers Guarantors and Collateral Providers as Interested Parties

Category	Account Volume	June 30, 2004	Possibility of Loss *(Note 3)*
Consumers loans *(Note 1)*	384	$ 87,090	—
Loan for employees' mortgage housing	406	787,076	—
Other loans *(Note 2)*	346	3,708,305	—
Guarantees	726	1,921,765	—
Collateral providers	660	1,983,293	—

Note 1: Consumer loans are governed by article 32 of the Banking Law in ROC.

Note 2: Represent the loans, except for consumer loans and loans for employees' mortgage housing, that borrowers as interested parties.

Note 3: The interested parties mentioned above are governed by article 33-1 of the Banking Law in ROC.

33. Information Regarding the Trust Business under the Trust Law

a. Trust-related items, as shown in the following balance sheet and property list of trust item:

Balance Sheet of Trust

June 30, 2003 and 2004

Trust Assets	June 30 2003	June 30 2004	Trust Liabilities	June 30 2003	June 30 2004
Deposits	$ 2,597	$ 7,244	Trust capital		
Short-term investments	15,352,630	24,257,285	Trust by cash	$15,355,227	$24,259,383
			Trust by securities	—	5,146
Total assets	$15,355,227	$24,264,529	Total liabilities	$15,355,227	$24,264,529

E.SUN COMMERCIAL BANK, LTD.
Notes to Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Property List of Trust

June 30, 2003 and 2004

Investment Items	June 30 2003	June 30 2004
Employee deposit trust — demand	$ 2,597	$ 2,244
Employee deposit trust — time	—	5,000
Funds	15,141,730	24,025,127
Bonds	—	7,501
Stocks	210,900	224,657
	$15,355,227	$24,264,529

b. Nature of trust business operations under the Trust Law: *Note 1*

34. Allocation of Revenue, Cost and Expense That Resulted from the Sharing of Resources between E.Sun Financial Holding Co., Ltd. and Subsidiaries

Under cooperation arrangements, the Bank and E.Sun Securities shared some equipment and operating sites; thus, related expenses were apportioned as follows:

	E.Sun Bank	E.Sun Securities	Total	Apportionment Method
For the six months ended June 30, 2003				
Rental expense	$2,187	$ 1,093	$ 3,280	E.Sun Bank: 2/3; E.Sun Securities: 1/3.
Fixtures	449	3,369	3,818	Based on area actually occupied
Broadcasting and security systems	4,458	4,458	8,916	50% each
Networking, monitoring and telephone systems	—	1,142	1,142	Based on actual number of equipment used.
Others	477	858	1,335	Signboard, telephone and miscellaneous expenses — based on actual occurrence. Insurance and cleaning expenses — 50% each Utilities — based on the actual number of employees Building maintain expenses — based on space actually occupied
	$7,571	$10,920	$18,491	

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	E.Sun Bank	E.Sun Securities	Total	Apportionment Method
For the six months ended June 30, 2004				
Rental expense	$3,282	$1,639	$4,921	E.Sun Bank: 2/3; E.Sun Securities: 1/3.
Broadcasting and security systems	18	18	36	50% each
Networking, monitoring and telephone systems	—	189	189	Based on actual number of equipment used.
Others	377	863	1,240	Signboard, telephone and miscellaneous expenses — based on actual occurrence. Insurance and cleaning expenses — 50% each Utilities — based on the actual number of employees Building maintain expenses — based on space actually occupied
	$3,677	$2,709	$6,386	

Under cooperation arrangements, E.Sun Bank and E.Sun Bills shared some equipment and operating sites since 2004; thus, related expenses were apportioned as follows:

	E.Sun Bank	E.Sun Bills	Total	Apportionment Method
For the six months ended June 30, 2004				
Rental expense	$ 346	$ 197	$ 543	Based on space actually occupied
Fixtures	3,153	1,881	5,034	Based on space actually occupied
Broadcasting, security and networking systems	124	193	317	Broadcast and network — based on actual number of equipment used. Security system — 50% each.
	$3,623	$2,271	$5,894	

Under cooperation arrangements, the Bank and E.Sun Insurance Broker Co., Ltd. (“ESIB”) shared some equipment and operating site, personnel, internet service system and provided cross-selling financial services in 2004. The revenue earned by the Bank was based on 10% of the gross revenue derived from the insurance companies’ products sold by the Bank. For the six months ended June 30, 2004, ESIB should have paid the Bank $5,357; the unpaid for this period was $3,208.

35. Acquisition of other Financial Institutions' Main Assets, Liabilities and Operation

To expand E.Sun Bank's business, enhance its competitiveness and ensure its long-term development, E.Sun Bank participated in the open bid and refund procedure for the assets, liabilities and operations (except the trust business) of Kaohsiung Business Bank and won the bid for $13,368,000, to be subsidized by the Resolution Trust Corporation (RTC) Fund on May 31, 2004. The effective date of acquisition is September 4, 2004. On June 1, 2004 the Board of Directors of E.Sun Bank issued a resolution to approve this acquisition. But, if the related regulations and the authorities would require changes in the content and other matters of the bid, E.Sun Bank's chairman will be fully authorized to handle to these changes. E.Sun Bank had provided $500,000 of government bond as refund deposits. In addition, E.Sun Bank will increase its branches from 60 to 114 branches.

36. Additional Disclosures

Following are the additional disclosures required by the Securities and Futures Bureau for the Bank and its investees:

a. Related information of significant transaction and investees: Tables 1 to 4 (attached) and Notes 30 and 35.

b. Investment in Mainland China: None

TABLE 1

E.SUN COMMERCIAL BANK, LTD.
Marketable Securities Held
June 30, 2004
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2004 Shares (Thousands)	June 30, 2004 Carrying Value	June 30, 2004 Percentage of Ownership	June 30, 2004 Market Value or Net Asset Value	Note
E.Sun Finance & Leasing Co., Ltd.	**Stock**							
	Gapura Incorporated	—	Long-term investments	950	$18,758	6.20	$18,340	1
	Government bonds							
	A832	—	Long-term investments	—	3,000	—	3,000	Government bonds (except A832 of $1,000) placed with courts of justice for collection case on overdue loan
	A854	—	Long-term investments	—	1,000	—	1,000	
	A862	—	Long-term investments	—	4,484	—	4,440	

Note 1 : The amounts are based on the investee's latest unaudited financial statements.

TABLE 2

E.SUN COMMERCIAL BANK, LTD.
Marketable Securities Acquired and Disposed of at Costs or Prices of at Least NT$300 million or 10% of the Paid-in Capital
For the Six Months Ended June 30, 2004
(Amounts in Thousand of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousand)	Amount	Shares (Thousand)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousand)	Amount
E.Sun Commercial Bank, Ltd.	E.Sun Financial Holding Co., Ltd.	Long-term investments	—	—	325,779	$3,914,375	—	$—	137,400	$2,961,642	$1,650,239	$1,311,403	188,379	$2,264,136

TABLE 3

E.SUN COMMERCIAL BANK, LTD.
Acquisition of Individual Real Estates at Costs of at Least NT$300 million or 10% of the Paid-in Capital
For the Six Months Ended June 30, 2004
(Amounts in Thousand of New Taiwan Dollars)

Company Name	Property	Transaction Date	Transaction Amount	Payment Amount	Counter-party	Nature of Relationship	Prior Transaction of Related Counter-party: Owner	Prior Transaction of Related Counter-party: Relationship	Prior Transaction of Related Counter-party: Transfer Date	Prior Transaction of Related Counter-party: Amount	Price Reference	Purpose of Acquisition	Other Terms
E.Sun Commercial Bank, Ltd.	No. 115 and 117, Minsheng E. Rd., Sec. 3, Songshan District, Taipei City 105, Taiwan (R.O.C.)	2003.12.11	$4,280,000	$3,870,949	Walsin Lihwa Corp.	—	—	—	—	$—	Appraisal of DTZ and Honda Appraisers Firm	For use by the head office and business unit	—
		2004.01.28	—	428,000	Walsin Lihwa Corp.	—	—	—	—	—			

TABLE 4

E.SUN COMMERCIAL BANK, LTD.

Names, Locations, and Other Information of Investees on which the Company Exercises Significant Influence
For the Six Months Ended June 30, 2004
(Amounts in Thousand of New Taiwan Dollars)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2004	Dec. 31, 2003	Shares (Thousands)	Percentage of Ownership	Carrying Value			
E.Sun Commercial Bank, Ltd.	E.Sun Finance & Leasing Co., Ltd.	Taipei	Leasing and sale of machinery and equipment	$196,000	$196,000	19,600	98.99	$148,343	$16,517	$16,350	
	E.Sun Insurance Agent Co., Ltd.	Taipei	Life insurance agent	3,950	3,950	1,280	79.00	33,872	163	103	

English Translation of Report Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

July 9, 2004

The Board of Directors and Stockholders
E.Sun Bills Finance Corporation

We have audited the accompanying balance sheets of E.Sun Bills Finance Corporation as of June 30, 2003 and 2004 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Corporation'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 Audits of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 E.Sun Bills Finance Corporation as of June 30, 2003 and 2004 and the results of its operations and its cash flows for the six months then ended, in conformity with Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporation (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports by Securities Issuers (applicable to financial statements for 2003 and earlier) and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, sales and purchases of bonds and short-term bills under agreements to repurchase or to resell were treated as outright sales or purchases. However, under the Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporation effective January 1, 2004, the repurchase/resell transactions will be treated as financing.

We have also reviewed the translation of the New Taiwan dollar financial statements as of June 30, 2004 into U.S. dollars, which have been included solely for the reader's convenience, at the exchange rate stated in Note 2 to the financial statements and, in our opinion, the U.S. dollar amounts have been properly translated at that rate. The convenience translations should not be construed as representations 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.

Deloitte & Touche
Taipei, Taiwan
Republic of China

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Balance Sheets
June 30, 2003 and 2004
(In Thousands of Dollars)

	2003	2004	
	NT$	NT$	US$ (Note 2)
ASSETS			
CURRENT ASSETS			
Cash *(Notes 4 and 22)*	$ 4,828,269	$ 4,015,499	$ 119,296
Call loans to banks *(Note 5)*	200,000	190,000	5,645
Operating securities — net *(Notes 2, 6, 22 and 23)*	9,046,799	55,347,626	1,644,314
Other short-term investments *(Notes 2 and 7)*	—	452,312	13,438
Receivables *(Notes 2, 8 and 22)*	277,729	865,247	25,705
Securities purchased under agreements to resell *(Notes 2 and 9)*	—	1,415,454	42,052
Other current assets	2,189	4,377	130
Total current assets	14,354,986	62,290,515	1,850,580
LONG-TERM BOND INVESTMENTS *(Notes 2, 10 and 23)*	1,419,975	1,260,480	37,447
PROPERTIES *(Notes 2 and 11)*			
Cost			
Land	50,156	50,156	1,490
Buildings	32,585	32,585	968
Computers	19,341	20,333	604
Transportation equipment	11,464	12,188	362
Miscellaneous equipment	37,769	36,960	1,098
Total cost	151,315	152,222	4,522
Accumulated depreciation	(51,983)	(58,260)	(1,731)
Net properties	99,332	93,962	2,791
OTHER ASSETS *(Notes 2, 12, 17, 22 and 24)*			
Operating deposits	303,171	307,612	9,139
Refundable deposits	62,918	63,612	1,890
Deferred income tax assets	43,872	65,487	1,946
Other	5,606	5,738	170
Total other assets	415,567	442,449	13,145
TOTAL ASSETS	$16,289,860	$64,087,406	$1,903,963

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Balance Sheets — Continued
June 30, 2003 and 2004
(In Thousands of Dollars)

	2003	2004	
	NT$	NT$	US$ (Note 2)
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Securities sold under agreements to repurchase *(Notes 2 and 22)*	$ —	$43,132,291	$1,281,411
Bank loans *(Note 13)*	9,970,000	8,880,000	263,815
Payables *(Notes 14 and 22)*	157,673	859,406	25,532
Total current liabilities	10,127,673	52,871,697	1,570,758
CORPORATE BONDS PAYABLE *(Note 15)*	—	5,000,000	148,544
RESERVE FOR LOSS ON GUARANTEES *(Note 2)*	447,311	443,010	13,161
RESERVE FOR LOSS ON SALE OF BONDS *(Note 2)*	200,065	99,793	2,965
Total liabilities	10,775,049	58,414,500	1,735,428
STOCKHOLDERS' EQUITY			
Capital stock	4,265,000	4,265,000	126,708
Capital surplus	87,500	87,500	2,600
Retained earnings			
Legal reserve	523,902	813,755	24,175
Unappropriated earnings	638,409	506,651	15,052
Total retained earnings	1,162,311	1,320,406	39,227
Total stockholders' equity	5,514,811	5,672,906	168,535
COMMITMENTS AND CONTINGENT LIABILITIES *(Note 24)*			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$16,289,860	$64,087,406	$1,903,963

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

(With Deloitte & Touche auditors' report dated July 9, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Income
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars, Except Per Share Amounts)

	2003	2004	
	NT$	NT$	US$ (Note 2)
REVENUES *(Note 2)*			
Interest *(Notes 2 and 22)*	$ 85,576	$564,621	$16,774
Service fees	92,259	62,437	1,855
Gain on sale of short-term negotiable instruments *(Note 2)*	507,434	154,259	4,583
Recovered reserves	—	15,996	475
Other	—	27	1
Total revenues	685,269	797,340	23,688
EXPENSES			
Interest *(Notes 2 and 22)*	59,606	285,349	8,478
Service charges	3,583	5,930	176
Provisions *(Note 2)*	5,140	—	—
Administrative and other operating expenses *(Notes 2, 18, 21, 22and 25)*	88,455	87,522	2,600
Total expenses	156,784	378,801	11,254
INCOME BEFORE INCOME TAX	528,485	418,539	12,434
INCOME TAX EXPENSES *(Notes 2 and 17)*	46,351	105,772	3,142
NET INCOME	$482,134	$312,767	$9,292

	2003		2004			
	Income before Income Tax	Net Income	Income before Income Tax	Net Income	Income before Income Tax	Net Income
	NT$		NT$		US$ (Note 2)	
EARNINGS PER SHARE *(Note 20)*						
Basic	$1.24	$1.13	$0.98	$0.73	$0.03	$0.02

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

(With Deloitte & Touche auditors' report dated July 9, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Changes in Stockholders' Equity
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

	Capital Stock Authorized and Issued ($10 Par Value)		Capital Surplus — Paid-in Capital in Excess of Par Value (Note 19)	Retained Earnings (Note 19)			Total Stockholders' Equity
	Shares (thousands)	Amount		Legal reserve	Unappropriated earnings	Total	
BALANCE, JANUARY 1, 2003 . . .	426,500	$4,265,000	$87,500	$352,620	$ 725,396	$1,078,016	$5,430,516
Appropriation of prior year's earnings							
Legal reserve	—	—	—	171,282	(171,282)	—	—
Cash dividends	—	—	—	—	(383,850)	(383,850)	(383,850)
Bonus to directors and supervisors	—	—	—	—	(3,997)	(3,997)	(3,997)
Bonus to employees. . .	—	—	—	—	(9,992)	(9,992)	(9,992)
Net income for the six months ended June 30, 2003	—	—	—	—	482,134	482,134	482,134
BALANCE, JUNE 30, 2003	426,500	$4,265,000	$87,500	$523,902	$ 638,409	$1,162,311	$5,514,811
BALANCE, JANUARY 1, 2004 . . .	426,500	$4,265,000	$87,500	$523,902	$1,122,452	$1,646,354	$5,998,854
Appropriation of prior year's earnings							
Legal reserve	—	—	—	289,853	(289,853)	—	—
Cash dividends	—	—	—	—	(618,425)	(618,425)	(618,425)
Bonus to directors and supervisors	—	—	—	—	(6,763)	(6,763)	(6,763)
Bonus to employees. . .	—	—	—	—	(13,527)	(13,527)	(13,527)
Net income for the six months ended June 30, 2004	—	—	—	—	312,767	312,767	312,767
BALANCE, JUNE 30, 2004	426,500	$4,265,000	$87,500	$813,755	$ 506,651	$1,320,406	$5,672,906

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

(With Deloitte & Touche auditors' report dated July 9, 2004)

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Changes in Stockholders' Equity — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of U.S. Dollars — Note 2)

	Capital Stock Authorized and Issued		Capital Surplus — Paid-in Capital in Excess of Par Value (Note 19)	Retained Earnings (Note 19)			Total Stockholders' Equity
	Shares (thousands)	Amount		Legal reserve	Unappropriated earnings	Total	
BALANCE, JANUARY 1, 2004	426,500	$126,708	$2,600	$15,564	$33,347	$48,911	$178,219
Appropriation of prior year's earnings							
Legal reserve	—	—	—	8,611	(8,611)	—	—
Cash dividends	—	—	—	—	(18,373)	(18,373)	(18,373)
Bonus to directors and supervisors	—	—	—	—	(201)	(201)	(201)
Bonus to employees	—	—	—	—	(402)	(402)	(402)
Net income for the six months ended June 30, 2004	—	—	—	—	9,292	9,292	9,292
BALANCE, JUNE 30, 2004	426,500	$126,708	$2,600	$24,175	$15,052	$39,227	$168,535

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

(With Deloitte & Touche auditors' report dated July 9, 2004)

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Cash Flows
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars)

	2003	2004	
	NT$	NT$	US$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 482,134	$ 312,767	$ 9,292
Adjustments to reconcile net income to net cash provided by operating activities:			
Reversal of allowance for losses on operating securities	—	(8,976)	(267)
Loss on sale of properties	—	624	19
Depreciation and amortization	4,873	3,545	105
Amortization of premium (discount) on long-term bonds investments	(2)	5,039	150
Provision (reversal of reserve) for losses on guarantees and sale of bonds	5,140	(15,996)	(475)
Recovery from loss on guarantees	50,014	31,200	927
Deferred income taxes	22,322	(14,267)	(424)
Net changes in operating assets and liabilities			
Operating securities	(5,211,990)	(43,978,337)	(1,306,546)
Receivables	(126,327)	(303,715)	(9,023)
Securities purchased under agreements to resell	—	(1,415,454)	(42,052)
Other current assets	653	(673)	(20)
Securities sold under agreements to repurchase	—	43,132,291	1,281,411
Payables	35,296	98,322	2,921
Others	713	—	—
Net cash used in operating activities	(4,737,174)	(2,153,630)	(63,982)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in call loans to bank	—	10,000	297
Increase in other short-term investments	—	(162,312)	(4,822)
Increase in long-term bond investments	(200,000)	—	—
Increase in refundable deposits	—	(1,108)	(33)
Proceeds from sale of properties	—	170	5
Acquisition of properties	(325)	(935)	(28)
Others	(11,013)	(429)	(12)
Net cash used in investing activities	(211,338)	(154,614)	(4,593)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in bank loans	6,050,000	1,260,000	37,433
Decrease in commercial paper issued	—	(798,837)	(23,733)
Increase in bonds issued	—	2,000,000	59,418
Dividends paid to stockholders	(383,850)	—	—
Bonus paid to directors, supervisors and employees	(13,989)	(6,763)	(201)
Net cash provided by financing activities	5,652,161	2,454,400	72,917

English Translation of Financial Statements Originally Issued in Chinese

E.SUN BILLS FINANCE CORPORATION
Unconsolidated Statements of Cash Flows — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of Dollars)

	2003	2004	
	NT$	NT$	US$ *(Note 2)*
NET INCREASE IN CASH	$ 703,649	$ 146,156	$ 4,342
CASH, BEGINNING OF PERIOD	4,124,620	3,869,343	114,954
CASH, END OF PERIOD	$4,828,269	$4,015,499	$119,296
SUPPLEMENTAL INFORMATION			
Interest paid	$ 57,388	$ 240,001	$ 7,130
Income tax paid	$ 48,180	$ 80,018	$ 2,377

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

(With Deloitte & Touche auditors' report dated July 9, 2004)

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. Organization and Operations

E.Sun Bills Finance Corporation (the "Corporation") was incorporated on August 12, 1995 and started operations on October 12, 1995. As of June 30, 2004, it had branches in Kaohsiung, Taichung, Taoyuan and Panchiau.

The Corporation's operations are (a) underwriting and acting as registrar of commercial paper and bank acceptances; (b) brokering and dealing in commercial paper and bank acceptances; (c) providing guarantees or endorsements on commercial paper and bank acceptances; (d) brokering of call loans between financial institutions; (e) consultations on corporate financial matters; (f) brokering and dealing in government bonds; (g) underwriting and acting as registrar of financial institution bonds; (h) brokering and dealing in financial institution bonds; (i) conducting derivative activities approved by Ministry of Finance and (j) dealing in corporate bonds.

On December 10, 2001, the stockholders approved the establishment of E.Sun Financial Holding Company, Ltd. (ESFHC) to hold the shares of the Corporation, E.Sun Commercial Bank Ltd. and E.Sun Securities Corp. The holding company structure was achieved through a share swap: 1 share of ESFHC for 1.10 shares of the Corporation, 1.0 share of E.Sun Commercial Bank Ltd. and 1.25 shares of E.Sun Securities Corp. The board of directors designated January 28, 2002 as the effective date of the share swap. After the shares transfer, the Corporation became a 100% subsidiary of ESFHC.

Before January 28, 2002, the Corporation's stock was traded on the over-the-counter securities exchange. On the effective date of ESFHC's establishment, its stock became listed on the Taiwan Stock Exchange.

The Corporation's parent company, E.Sun Financial Holding Company, Ltd., wholly owned the Corporation's common stocks as of June 30, 2003 and 2004.

As of June 30, 2003 and 2004, the Corporation had 90 and 86 employees, respectively.

2. Significant Accounting Policies

The Corporation's financial statements were issued in conformity with Criteria Governing the Preparation of Financial Reports of Public Bills Finance Corporation (effective January 1, 2004), Criteria Governing the Preparation of Financial Reports of Securities Issuers (applicable to financial statements for 2003 and earlier) and accounting principles generally accepted in the Republic of China (ROC). In determining the allowance for credit losses, depreciation, pension, losses upon suspended lawsuit and provision for losses on guarantees, the Corporation needs to make estimates. Since estimates are made under uncertain conditions, the estimates may vary from the actual amounts. Significant accounting policies of the Corporation are summarized below:

Currency Translation

The Corporation maintains its accounts and expresses its financial statements in New Taiwan (NT) dollars. The NT dollar amounts in the financial statements as of and for the six months ended June 30, 2004 were translated into U.S. dollars solely for the readers' convenience. The translation was made at NT$33.66=US$1.00, the noon buying rate of U.S. Federal Reserve Bank of New York as of June 30, 2004.

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

This convenience translation should not be construed as a representation that the NT 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.

Current and Noncurrent Assets and Liabilities

Assets to be converted or consumed within one year are classified as current. Obligations to be liquidated or settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

Operating Securities — Net

Operating securities are stated at aggregate cost less allowance for losses from decline in market value. The allowance is reversed when the market value recovers, with the reversal recognized as income. Costs of operating securities sold are determined by the moving-average method.

Securities Sold or Purchased Under Agreements to Repurchase or Resell

Sales or purchases of bonds and short-term bills under agreements to repurchase or resell for the Corporation are stated at cost. The difference between the original purchase cost (or selling price) and the contracted resale (or repurchase) amount is recognized as interest income (or interest expenses). Please refer to Note 3.

Other Short-term Investments

Other short-term investments are stated at aggregate cost less allowance for losses from decline in market value. The allowance is reversed when the market value recovers, with reversal recognized as income. Cost of other short-term investments sold are determined by the moving-average method.

Long-term Investments in Bonds

These investments are stated at cost less amortized premium or discount.

Properties

Properties are stated at cost less accumulated depreciation. Major renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred.

Depreciation is computed by the straight-line method over service lives estimated as follows: building, 55 years; computers, 5 years; transportation equipment, 5 to 8 years and miscellaneous equipment, 5 to 10 years. If an asset reaches its residual value and is still in use, it is further depreciated over its newly estimated service life.

Upon sale or other disposal of an item of property, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income.

Allowance for Possible Losses and Reserve for Losses on Guarantees

The Corporation makes provision for bad debts and reserve for losses on guarantees based on the evaluation of related risks. Reserve for loss on guarantees for commercial paper issued is provided for any defaults by commercial paper issuers. Under the regulations of the Ministry of Finance of the Republic of China (ROC), the balance of this reserve should be at least 1% of the amount guaranteed, full provisions for credits deemed uncollectible and 50% provision for credits with high uncollectibility.

Reserves for Losses on Sale of Bonds

Under the regulations of the Securities and Futures Commission of the ROC, reserves for losses on sale of bonds are computed at 10% of net gain on sale of bonds until the balance of the reserve reaches $200,000. This reserve should be used only to offset actual losses on sale of the bonds.

Pension Cost

The Corporation recognizes pension cost based on actuarial calculations. Unrecognized net transition assets are amortized over 27 years.

Recognition of Revenues

Revenues are recorded at rates negotiated with customers when most of the earnings is completed and revenues are realized or realizable.

Interest Rate Swaps

Interest rate swaps are intended for nontrading purposes. In these swaps, there is no exchange of principal amounts. To recognize a swap, the Corporation makes a memo entry when a contract is signed. The interest received or paid under the contract is recognized as interest income or expense.

Income Tax

Provision for income tax represents income tax paid and payable for the current year plus the changes in the deferred income tax assets and liabilities during the year. Deferred income taxes are recognized for tax effects of temporary differences and operating loss carryforwards. Valuation allowance is provided for deferred tax assets that are not certain to be realized.

Tax credits for certain purchases of equipment and technology, research development, training and stock investments are recognized in the current year.

Income tax on interest derived from short-term negotiable instruments, which is levied separately, is included in the income tax expense. Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax expense.

Additional income tax of 10% is levied on undistributed earnings generated since 1998 in the year the stockholders resolve to retain the earnings.

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

Any adjustment of income taxes of prior years are added to or deducted from the current year's tax provision.

Reclassifications

Certain accounts for the six months ended June 30, 2003 have been reclassified to conform to the presentation of the financial statements for the six months ended June 30, 2004.

3. Accounting Change

Consistent with the industry practice, sales of securities under agreements to repurchase ("repo") are recorded at their carrying values, and gains or losses are deferred and recognized until outright sale. Purchases of securities under agreements to resell are recorded at purchase costs, and gains or losses are recognized when the instruments are sold. However, under the Criteria Governing the Preparation of Financial Reports by Public Bills Finance Corporation effective January 1, 2004, the repurchase/resell transactions will be treated as financing. The effect of this accounting change resulted in a reduction by $23,167 of income after income tax for the six months ended June 30, 2004.

Since the repurchase/resell transactions of the Corporation are daily financing activities of great volume and the historical trading data are hard to trace, calculating the cumulative effect of the change in accounting principles is difficult. Thus, the Corporation cannot calculate the cumulative effect of this change, and the pro forma information cannot be disclosed either.

4. Cash

	June 30	
	2003	2004
Time deposits — interest of 0.9%–2.4% in 2003 and 1.15%–4.80% in 2004	$4,326,900	$3,813,250
Demand deposits	487,819	192,717
Checking accounts	13,550	9,532
	$4,828,269	$4,015,499

5. Call Loans to Banks

These represent call loans with interests of 2.45% in 2003 and 1.875% in 2004, with maturities on July 3, 2003 and July 13, 2004, respectively.

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

6. Operating Securities — Net

	June 30	
	2003	2004
Commercial paper	$4,903,170	$16,385,685
Negotiable certificates of deposit	3,168,974	14,827,557
Corporate and financial institution bonds	174,867	2,523,120
Government bonds	539,218	20,552,641
Treasury bills	252,287	961,493
Bank acceptances	8,283	99,033
	9,046,799	55,349,529
Allowance for decline in value	—	(1,903)
	$9,046,799	$55,347,626

As of June 30, 2004, commercial paper and government bonds with aggregate face value of $40,159,462 had been sold under agreements to repurchase.

7. Other Short-term Investments

	June 30, 2004
Mutual bond funds	$410,743
Convertible corporate bonds	41,569
	$452,312

These investments pertained to mutual bond funds and convertible corporate bonds with total market value of $455,503 as of June 30, 2004.

8. Receivables

	June 30	
	2003	2004
Refundable income tax *(Notes 17 and 22)*	$ 56,427	$268,021
Interest	55,262	531,394
Other	166,040	65,832
	$277,729	$865,247

9. Securities Purchased under Agreements to Resell

As of June 30, 2004, securities with aggregate face value of $1,107,100, which had been purchased under agreements to resell, had been sold to third parties under agreements to repurchase.

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

10. Long-term Bond Investments

	June 30	
	2003	2004
Government bonds	$ —	$1,260,480
Bank debentures	1,019,978	—
Corporate bonds	399,997	—
	$1,419,975	$1,260,480

11. Accumulated Depreciation of Properties

	June 30	
	2003	2004
Building	$ 4,461	$ 5,043
Computers	11,511	14,014
Transportation equipment	6,171	7,355
Miscellaneous equipment	29,840	31,848
	$51,983	$58,260

12. Other Assets

	June 30	
	2003	2004
Deposits in the Central Bank (required for dealers of short-term negotiable instruments) — including government bonds and financial institution bonds amounting to $215,000 in 2003 and 2004	$252,084	$255,548
Refundable deposits (including deposits of $60,000 for bond clearance)	62,918	63,612
Deposits in E.Sun Commercial Bank (required for bond traders) — including government bonds and certificates of deposits amounting to $50,000 in 2003 and 2004	51,087	52,064
Deferred income tax assets — net *(Note 17)*	43,872	65,487
Miscellaneous	5,606	5,738
	$415,567	$442,449

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

13. Bank Loans

These represent call loans with interests ranging from 0.90% to 1.18% in 2003 and from 0.985% to 1.050% in 2004, with interest and principal repayable by July 29, 2003 and July 23, 2004, respectively.

As of June 30, 2003 and 2004, the Corporation had unused credit lines of $27,300,000 and $27,270,000, respectively, for the call loans.

14. Accounts Payable

	June 30	
	2003	2004
Collections on customers' behalf	$125,819	$115,584
Accrued expenses	12,469	17,198
Dividend payable	—	618,425
Interest payable	—	50,307
Other	19,385	57,892
	$157,673	$859,406

15. Corporate Bonds Payable

On December 22, 2003, the Corporation made a first issue of secured corporate bonds with aggregate face value of $3,000,000. The corporate bonds are categorized from A to J at the stated interest rate. The corporate bonds will mature in five years, and the principal is repayable on the maturity date. Interest is payable semiannually, and interest calculation is based on the six months' London Interbank Offered Rate for U.S. dollars (6M LIBOR). If the 6M LIBOR is less than 1.05%, the interest rate will be between 6M LIBOR and 6M LIBOR plus 0.005%. If the 6M LIBOR falls between 1.05% and 2.00%, the interest rate is 3.5%, but if 6M LIBOR is more than 2%, the interest rate is 4.52% minus 6M LIBOR. However, the interest rate should not be zero.

On February 20, 2004, the Corporation made a second issue of secured corporate bonds with aggregate face value of $2,000,000. The corporate bonds are categorized from A to H at the stated interest rate. The corporate bonds will mature in five years, and the principal is repayable on the maturity date. Interest is payable semiannually, and interest calculation is based on the 6M LIBOR. If the 6M LIBOR is less than 1.05%, the interest rate will be between 6M LIBOR and 6M LIBOR plus 0.007%. If the 6M LIBOR is between 1.05% and 2.00%, the interest rate is 3.8%, but if 6M LIBOR is more than 2%, the interest rate is 5% minus 6M LIBOR. However, the interest rate should not be zero.

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

16. Maturity Analysis of Assets and Liabilities

	June 30, 2003		
	Due in One Year	Due after One Year	Total
Assets			
Cash	$ 4,828,269	$ —	$ 4,828,269
Call loans to banks	200,000	—	200,000
Operating securities — net	9,046,799	—	9,046,799
Receivables	277,729	—	277,729
Other current assets	2,189	—	2,189
Long-term bond investments	—	1,419,975	1,419,975
Net properties	—	99,332	99,332
Operating deposits	303,171	—	303,171
Refundable deposits	—	62,918	62,918
Deferred income tax assets	—	43,872	43,872
Other assets	—	5,606	5,606
	$14,658,157	$1,631,703	$16,289,860
Liabilities			
Bank loans	$ 9,970,000	$ —	$ 9,970,000
Payables	157,673	—	157,673
Reserve for loss on guarantees	—	447,311	447,311
Reserve for loss on sale of bonds	—	200,065	200,065
	$10,127,673	$647,376	$10,775,049

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

	June 30, 2004		
	Due in One Year	Due after One Year	Total
Assets			
Cash	$ 4,015,499	$ —	$ 4,015,499
Call loans to banks	190,000	—	190,000
Operating securities — net	55,347,626	—	55,347,626
Securities purchased under agreements to resell	1,415,454	—	1,415,454
Other short-term investments	452,312	—	452,312
Receivables	865,247	—	865,247
Other current assets	4,377	—	4,377
Long-term bond investments	—	1,260,480	1,260,480
Net properties	—	93,962	93,962
Operating deposits	307,612	—	307,612
Refundable deposits	—	63,612	63,612
Deferred income tax assets	—	65,487	65,487
Other assets	—	5,738	5,738
	$62,598,127	$1,489,279	$64,087,406
Liabilities			
Securities sold under agreements to repurchase	$43,132,291	$ —	$43,132,291
Bank loans	8,880,000	—	8,880,000
Payables	859,406	—	859,406
Corporate bonds payable	—	5,000,000	5,000,000
Reserve for loss on guarantees	—	443,010	443,010
Reserve for loss on sale of bonds	—	99,793	99,793
	$52,871,697	$5,542,803	$58,414,500

17. Income Tax Expenses

a. Income tax expenses consisted of:

	For the Six Months Ended June 30	
	2003	2004
Income tax expense — current	$24,029	$120,039
Deferred income tax expenses (benefits)		
Provision for loss on guarantees	(1,411)	(14,231)
Loss carryforwards	23,733	—
Tax credits	—	(36)
	$46,351	$105,772

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

b. A reconciliation of income tax expense — current and income tax expense on "income before income tax" is shown below:

	For the Six Months Ended June 30	
	2003	2004
Income tax expense on "income before income tax" at statutory rate (25%)	$132,111	$104,625
Permanent differences		
Tax-exempt income	(90,745)	18,580
Interest income taxed separately at 20%	7,375	(6,752)
Temporary differences	(24,712)	3,586
Income tax expense — current	$ 24,029	$120,039

c. Deferred income taxes assets (part of other assets) as of June 30, 2003 and 2004 consisted of the income tax effects of the following:

	June 30	
	2003	2004
Provision for losses on guarantees	$43,872	$65,451
Others	126	36
	43,998	65,487
Less — valuation allowance	126	—
	$43,872	$65,487

d. Imputed tax credit

	June 30	
	2003	2004
Balance of stockholders' imputed credit account	$59,845	$64,773

The ratio of the balance of the imputation credit account (ICA) to the undistributed earnings as of December 31, 2002 was 3.49% on April 7, 2003 (the date the earnings as of December 31, 2002 were distributed). Management estimated that the ratio of the ICA balance to the undistributed earnings up to December 31, 2003 was 6.28%. However, the estimated ratio may change depending on the ICA balance on the dividend distribution date.

Income tax returns through 2000 had been examined by the tax authorities. However, the tax authorities challenged the Corporation's income tax refund claim of $277,515 (covering the period 1995 to 2000). The claim pertained to the tax withheld from interest income for the periods when other investors held those bonds. In light of this tax issue, the Corporation might also face questioning by the tax authorities on the taxes of $56,771 withheld in 2001 and $25,960 withheld in 2002 for bonds held under the same situation.

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

In view of the tax authorities' challenge, the Corporation wrote off 2001 and 2002 the related income tax refunds of $334,286 for 2001 and $25,960 for 2002, which had been recognized as assets in its accounts. However, in 2002 and 2003, the supreme court decided that the tax refund of $219,305 covering 1996 to 1999 be given to the Corporation.

The tax authorities informed the Bills Finance Trade Association in the Republic of China of their intent to negotiate with each bills financing company for the return of 60% of tax credit from interest income for the periods when other investor held those bonds in 2002 and earlier. In turn, the Corporation will negotiate with the tax authorities the increase in the return rate. Thus, on December 31, 2003, the Corporation reversed the tax refund receivable of $207,758 covering 1995 to 2002.

18. Personnel, Depreciation and Amortization Expenses

	June 30	
	2003	2004
Personnel expenses		
Salaries	$37,840	$34,171
Insurance	2,295	2,196
Pension	2,225	2,180
Other	1,890	1,946
	$44,250	$40,493
Depreciation expenses	$ 4,133	$ 2,937
Amortization expenses	$ 740	$ 608

19. Stockholders' Equity

Capital surplus may only be used to offset a deficit or distributed as stock dividend. Paid-in capital in excess of par value may be capitalized once a year within a prescribed limit.

The Corporation's Articles of Incorporation provide that the annual net income, less any deficit, should be appropriated as follows:

a. 30% as legal reserve;

b. Special reserve, if needed.

c. The remainder, if any:

   1) Bonus to directors and supervisors, 1%

   2) Bonus to employees, 2% to 5%

   3) The remainder, to be decided by the board of directors.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

The appropriation for cash dividend cannot exceed 15% of the Corporation's paid-in capital until the legal reserve equals the Corporation's paid-in capital. The Articles also provide that the stockholders may decide that all or part of the net income be retained. In addition, the dividend policy of the Corporation is to have cash dividends as the first priority.

The appropriation of earnings should be resolved by the stockholders in their meeting in the following year and given effect to in the financial statements of that year.

The Corporation's stockholders meetings in March of 2003 and May of 2004 resolved the following appropriation of earnings generated in 2002 and 2003, respectively:

	Earnings Appropriation		Dividends Per Share (Dollars)	
	2002	2003	2002	2003
a. Legal reserve	$171,282	$289,853	$ —	$ —
b. Cash dividends	383,850	618,425	0.9	1.45
c. Remuneration to directors and supervisors	3,997	6,763	—	—
d. Bonus to employees	9,992	13,527	—	—

The Company Law provides that legal reserve should be appropriated until the reserve equals the Corporation's paid-in capital. This reserve may only be used to offset a deficit. When the reserve reaches 50% of the Corporation's paid-in capital, up to 50% thereof may be distributed as stock dividend.

Under the Integrated Income Tax System, which took effect on January 1, 1998, stockholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. An imputation credit account is maintained by the Corporation for the income tax and the tax credit allocated to each stockholder.

As of June 30, 2003 and 2004, the earnings generated before 1998, which were included in the balance of unappropriated earnings, amounted to $91,777.

20. Earnings Per Share

The calculation of earnings per share (EPS) is based on the weighted-average number of the Corporation's common shares outstanding during the applicable periods. The details are as follows:

	Amount			Earnings Per Share (Dollars)	
	Income before Income Tax	Net Income	Thousand Shares	Income before Income Tax	Net Income
For the six months ended June 30, 2003	$528,485	$482,134	426,500	$1.24	$1.13
For the six months ended June 30, 2004	$418,539	$312,767	426,500	$0.98	$0.73

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

The number of shares outstanding should be retroactively adjusted to reflect the effects of the stock dividends distributed subsequently. But since no stock dividends were distributed for the latest two years, the earnings per share (EPS) need not be retroactively adjusted for the six months ended June 30, 2003 and 2004.

21. Pension Plan

Before the Labor Standards Law (LSL) took effect on March 1, 1998, the Corporation had a contributory retirement plan for all its employees. Under this plan, employees and the Corporation made contributions every month to a fund managed by a pension fund administration committee. Upon retirement, the employees get back their contributions as well as the Corporation's counterpart contributions, including all related earnings.

The LSL mandated the Corporation to establish a pension plan for qualified employees. Under this pension plan, employees should receive retirement benefits based on the length of service after March 1, 1998 and the average basic salary of the final six months of employment. The Corporation also established a pension fund and has made monthly contributions to this fund of amounts equal to 4% of salaries. The fund is administered by a workers' fund administration committee and deposited in the committee's name in the Central Trust of China.

The Corporation also has another pension plan for employees not covered by the LSL ("non-LSL plan"). The benefits under the non-LSL plan are similar to those under the LSL plan. It also has a pension fund deposited in a financial institution in the name of the employees' pension fund administration committee. Fund contributions are equivalent to 4% of the monthly salary of employees.

Pension information is summarized as follows:

	For the Six Months Ended June 30	
	2003	2004
Changes in the pension fund		
Balance, beginning of the period	$29,288	$34,474
Contributions	1,875	1,816
Interest income	524	401
Balance, end of the period	$31,687	$36,691
Pension cost	$ 2,225	$ 2,180

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
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22. Related Party Transactions

The Corporation's related parties were (a) E.Sun Financial Holding Company, Ltd-parent company, (b) E.Sun Commercial Bank, Ltd. (common parent company), (c) E.Sun Securities Corp. (common parent company), (d) E.Sun Securities Investment Trust Corp. (common parent company from September 16, 2003, but before this date, its major stockholders were E.Sun Commercial Bank, Ltd. and E.Sun Securities Corp.), (e) E.Sun Foundation and E.Sun Volunteer & Social Welfare Foundation (a third of the Foundation's funds was donated by E.Sun Bank and E.Sun Bills), and (f) E.Sun Finance & Leasing Co., Ltd (subsidiary of the E.Sun Commercial Bank, Ltd.). Related-party transactions are summarized as follows:

For the six months ended June 30, 2003

	Highest Balance During	Year-end Balance	Interest Rate	Interest Revenue (Expense)
a. Bank loans — E.Sun Commercial Bank, Ltd.	$ 110,000	$ —	1%	($9)
b. Bank deposits and deposits for bond clearance (paid through time deposits, recorded as refundable deposits) — E.Sun Commercial Bank, Ltd.	2,990,517	2,229,353	0–2.4%	18,178
c. Long-term bond investments — E.Sun Commercial Bank, Ltd.	160,000	160,000	4.2%	3,360

	2004	%
d. Donation (part of general and administrative expenses) — E.Sun Volunteer & Social Welfare Foundation	$18,000	20

The above donation of the Corporation was for the Foundation's social welfare services.

e. Purchases and sales of negotiable instruments and bonds:

	Purchase		Sales		Sales under Agreements to Repurchase		Purchases under Agreements to Resell	
Related Party	Amount	%	Amount	%	Amount	%	Amount	%
E.Sun Commercial Bank, Ltd.	$16,052,905	0.87	$22,151,824	1.20	$1,311,204	0.07	$240,074	0.01
E.Sun Securities Corp.	865,907	0.05	1,206,673	0.07	189,162	0.01	787,950	0.04
E.Sun Securities Investment Trust Corp.	—	—	49,888	—	44,417	—	9,993	—

E.SUN BILLS FINANCE CORPORATION
Notes to Unconsolidated Financial Statements — Continued
For the Six Months Ended June 30, 2003 and 2004
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For the six months ended June 30, 2004

	Highest Balance During	Year-end Balance	Interest Rate	Interest Revenue (Expense)
a. Bank deposits and deposits for bond clearance (paid through time deposits, recorded as refundable deposits) — E.Sun Commercial Bank, Ltd.	$1,622,698	$1,015,858	1.15–1.85%	$7,519

	2004	%
b. Donation (part of general and administrative expenses) — E.Sun Foundation	$ 20,000	23
c. Income tax refund receivable (part of receivables — E.Sun Financial Holding Co., Ltd.)	30,849	4
d. Income tax payable (party of payables — E.Sun Financial Holding Co., Ltd.)	40,021	5
e. Dividend payable (part of payables — E.Sun Financial Holding Co., Ltd.)	618,425	72

The above donation of the Corporation was for the Foundation's public welfare services.

The Corporation's parent company, E.Sun Financial Holding Co., Ltd., will file consolidated corporate tax returns from 2003, i.e., including the Corporation's income tax return.

f. Securities sold under agreements to repurchase

Related Party	Year-end Balance	%	Interest Expense
E.Sun Securities Investment Trust Corp.	$41,723	0.10	$205
E.Sun Commercial Bank, Ltd.	—	—	144

g. Purchase and sales of negotiable instruments and bonds:

	Purchase		Sale	
Related Party	Amount	%	Amount	%
E.Sun Commercial Bank, Ltd.	$2,150,393	0.15	$299,517	0.02
E.Sun Securities Corp.	221,610	0.02	257,389	0.02

The terms of the above transactions were similar to or approximated those made with third parties.

E.SUN BILLS FINANCE CORPORATION
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23. Pledged Assets

	June 30	
	2003	2004
Operating securities	$2,341,947	$6,672,321
Long-term bond investments	199,978	1,260,480
	$2,541,925	$7,932,801

As of June 30, 2003 and 2004, operating securities amounting to $2,201,237 and $2,100,000, respectively, had been provided as collateral for the day-term overdraft in joining the Central Bank's clearing system of Real-time Gross Settlement (RTGS). As of June 30, 2004, pledged assets amounting to $5,492,610 had been provided to the International Commercial Bank of China and Chiao Tung Bank as collaterals for issuing corporate bonds. The remaining pledged assets were provided as collaterals for bank loans and credit lines.

24. Commitments And Contingent Liabilities as of June 30, 2004

a. Arising in the ordinary course of business

Securities sold under agreements to repurchase (repurchase price)	$43,174,776
Securities under agreements to resell (reselling price)	1,416,048
Guarantees on commercial papers (Note 27)	18,120,600
Negotiable instruments underwritten	445,000

b. Leases

The Corporation leases certain properties under operating lease agreements expiring on various dates until July 31, 2009. The leases are payable quarterly or monthly. Refundable deposits on these leases aggregated $3,258 (included in refundable deposits) as of June 30, 2004. Future minimum annual rentals are as follows:

Year	Amount
From July to December 2004	$ 6,473
2005	10,046
2006	9,165
2007	9,165
2008	8,574
From January to June 2009	4,189

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

25. Allocation of Revenue, Cost and Expenses that Resulted from the Sharing of Resources Between the Corporation and Subsidiaries

Under cooperation arrangements, E.Sun Commercial Bank, Ltd. and the Corporation has shared some equipment and operating site since 2004; thus, related expenses were apportioned as follows:

For the Six Months Ended June 30, 2004	E.Sun Bank	Corporation	Total	Apportionment Method
Rental expense	$ 346	$ 197	$ 543	Based on area actually occupied
Fixtures	3,153	1,881	5,034	Based on area actually occupied
Broadcasting, security systems and networking	124	193	317	Broadcast and network — based on actual number of equipment used; security system and networking — 50% each
	$3,623	$2,271	$5,894	

26. Financial Instruments

a. Derivative financial instruments

The Corporation used interest rate swaps as hedge instruments for interest rates exposures pertaining primarily to its first issue of corporate bonds.

Credit risk is the exposure to loss on any counter-party's default on contracts. To manage this risk, the Corporation enters into derivative transactions only with known international financial institutions among the top 500 listed in "The Banker" magazine or rated as "A" in the S&P (Standard & Poor) classification or "A3" in Moody's. Thus, the Corporation's credit risk is minimum.

The contract (notional) amounts, credit risks, and fair value of derivative transactions were as follows:

	June 30, 2004		
Nontrading Purposes	Contract (Notional) Amount	Credit Risk	Fair Value
Interest rate swap contracts	$5,000,000	$ —	($57,019)

The Corporation calculates the fair value of each contract at the interest rate shown on TWD-T6165 from the Telerate information system.

The contract (notional) amount is used to calculate the amount of settlement with a counter-party, so neither is it the amount to be actually delivered to nor is it the cash required from the Corporation. Also, for corporate bonds issued, the Corporation will hold the contracts to maturity to hedge the related interest rate fluctuations. Thus, the Corporation does not expect significant cash flow requirements to settle these instruments.

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The gain and loss on the derivative transactions were as follows:

	For the Six Months Ended June 30, 2004
Interest rate swap contracts	
Interest income	$79,841
Interest expense	(16,108)
	$63,733

The Corporation did not have derivative transactions in 2003.

b. Fair values of financial instruments

	June 30			
	2003		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Financial assets — fair value approximate carrying value	$ 5,312,489	$ 5,312,489	$ 6,281,791	$ 6,281,791
Operating securities	9,046,799	9,092,937	55,347,626	55,347,626
Other short-term investments	—	—	452,312	455,503
Long-term bond investments	1,419,975	1,422,824	1,260,480	1,254,232
Operating deposits	303,171	340,651	307,612	318,303
Financial liabilities				
Financial liabilities — fair value approximate carrying value	10,125,890	10,125,890	52,829,216	52,829,216
Corporate bonds payable	—	—	5,000,000	5,060,000

Fair values were determined on the basis of the following:

a. The carrying values of cash, call loans to banks, receivables, securities purchased/sold under agreements to resell/repurchase, bank loans and payables approximate fair values because of the short maturities of these instruments.

b. If market prices of short-term negotiable instruments and long-term bond investments are available, the fair value of these financial instruments should be based on the market prices. Otherwise, their carrying value will represent current fair value.

c. For operating deposits that are paid through bonds, the fair value is the bond market price. The rest of the deposits are valued at carrying value because the settlement period is indefinite.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

d. Corporate bonds are liabilities bearing interest and have issue dates near the balance sheet date, based on the market price.

Only the fair values of financial instruments are listed above. Thus, the total of fair values listed above is not equal to the Corporation's fair value.

27. Off-balance Sheet Credit Risks

The Corporation guarantees commercial paper issued by other entities. The guarantee period is normally one year. The rate for guarantee service fees ranged from 0.1% to 1.0% in 2003 and 2004 of the amount guaranteed. As of June 30, 2003 and 2004, the total amounts guaranteed were $17,922,700 and $18,120,600, respectively.

Most of the guarantee contracts are expected to expire without entailing any payment by the Corporation. Thus, the total amount guaranteed does not necessarily represent future cash payments. In addition, the potential total loss on each guarantee is equal to the amount guaranteed, without considering the value of any collateral.

The Corporation approves the guarantee arrangements for commercial paper (including the maximum amount to be guaranteed) after reviewing a customer's credit history and credit rating. An appropriate collateral is required, if needed, and the transaction is made within the approved maximum amount. As of June 30, 2003 and 2004, about 29.90% and 36.90%, respectively, of total amounts guaranteed were covered by securities or other properties. If a customer defaults, the Corporation is entitled to sell the related collateral.

28. Credit Risk Concentrations

Credit risk concentrations exist when the counter-parties to financial-instrument transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Corporation's credit risk concentration is not in its customer-financing activities with individuals but in the following industries:

	2003	2004
Guarantee on commercial paper — by industry:		
Financial	$6,177,000	$6,722,000
Manufacturing	6,770,000	6,150,000
Wholesale, retail and catering	1,700,000	1,687,000

The collateral policy is mentioned in Note 26. The Corporation's maximum exposure to losses associated with credit guarantees, regardless of collateral involved, equals the total contract amount.

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29. Risk Management Policies and Practices for Credit Risk, Market Risk, Liquidity Risk, Operation Risk and Legal Risk and Major Exposure

a. Credit risk

1) *Asset quality*

Items	June 30, 2003	June 30, 2004
Nonperforming loans	—	—
Overdue loans	—	—
Nonperforming loans/total loans	—	—
Allowance for possible losses on guarantees	$447,311	$443,010

2) *Business information*

Items	June 30, 2003	June 30, 2004
Guarantees and endorsements.	$17,922,700	$18,120,600
Guarantees and endorsements/stockholders' equity	3.56%	3.16%
Short-term negotiable instruments sold under agreements to repurchase	$25,372,394	$43,132,291
Short-term negotiable instruments sold under agreements to repurchase/stockholders' equity	5.04%	7.52%

3) *Concentrations of credit risk*

Items	June 30, 2003		June 30, 2004	
Credit to interested party		$314,000		$237,000
Credit to interested party/total credit		1.75%		1.31%
Credit with stock pledged/total credit		9.10%		16.96%
	Type of Industry	**%**	**Type of Industry**	**%**
Loan concentration by industry	Finance	34	Finance	37
	Manufacturing	38	Manufacturing	34
	Wholesale, retail and catering	9	Wholesale, retail and catering	9

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b. Market risk

1) Average amount and average interest rate of interest-earning assets and interest-bearing liabilities

Average balance is calculated at the daily average balance of interest-earning assets and interest-bearing liabilities.

	For the Six Months Ended June 30			
	2003		2004	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
Interest-earning assets				
Due from banks	$4,626,234	1.73	$ 3,796,687	1.30
Call loans to banks	207,348	2.60	213,022	2.02
Operating securities and long-term bond investments	1,832,971	4.68	22,357,887	4.18
Bills purchased under agreements to resell	—	—	104,417	0.78
Bonds purchased under agreements to resell	—	—	1,463,548	0.74
Interest-bearing liabilities				
Call loans from banks	9,998,768	1.19	8,553,055	0.96
Bills sold under agreements to repurchased	—	—	20,741,614	0.78
Bonds sold under agreements to repurchased	—	—	21,112,126	0.77
Corporate bonds payable	—	—	4,450,549	0.72

2) Sensitivity to interest

	Unit: %	
Items	June 30, 2003	June 30, 2004
Ratio of interest-sensitive assets to liabilities	77.27	72.99
Ratio of interest-sensitivity gap to stockholders' equity	(216.02)	(245.09)

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

c. Liquidity risk

1) *Liquidity analysis as of June 30, 2004*

Unit: NT$1,000,000

	Period				
	1–30 Days	31–90 Days	91–180 Days	181–365 Days	Over 1 Year
Items					
Usage of funds					
Bills	$ 7,074	$ 9,790	$ 6,734	$ 8,376	$ 300
Bonds	68	—	468	50	24,470
Deposits	847	580	1,210	1,168	300
Call loans	190	—	—	—	—
R.S(*)	1,289	126	—	—	—
Total	9,468	10,496	8,412	9,594	25,070
Source of funds					
Borrowings	8,880	—	—	—	5,000
R.P(*)	34,316	7,385	1,219	212	—
Capital	—	—	—	—	5,673
Total	43,196	7,385	1,219	212	10,673
Net flows	(33,728)	3,111	7,193	9,382	14,397
Accumulated net flows	(33,728)	(30,617)	(23,424)	(14,042)	355

(*) "RS" means securities purchased under agreements to resell, and "RP" means securities sold under agreement to repurchase.

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

d. Operation risk and legal risk

1) *Special items as of June 30, 2004*

Causes	Summary and Amount
Within the past year, a responsible person or professional employee violated the law in the course of business, resulting in an indictment by a prosecutor.	None
Within the past year, a fine was levied on the Corporation for violations of related regulations	None
Within the past year, misconduct occurred, resulting in the Ministry of Finance's imposing strict corrective measures on the Corporation	None
Within the past year, the individual loss or the total losses from employee fraud, accidental and material events, or failure to abide by the "Guidelines for the Maintenance of Soundness of Financial Institutions" exceeded $50 million dollars.	None
Other	None

a) The term "within the past year" means the year before the balance sheet date.

30. Capital Adequacy

	Unit: %	
Items	June 30, 2003	June 30, 2004
Capital adequacy ratio	16.00	13.72
Ratios of debt to stockholders' equity	195.38	1,029.71

31. Additional Disclosures

The Securities and Futures Commission requires the following additional disclosures:

a. Significant transactions and investees: Note 26.

b. Investment in Mainland China: None.

APPENDIX A — THE SECURITIES MARKET OF THE ROC

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the Manager or any of our respective affiliates or advisors in connection with this Offering.

The Taiwan Stock Exchange

In 1961, the Securities and Futures Commission ("SFC, now the Securities and Futures Bureau, or the SFB") established the Taiwan Stock Exchange to provide a marketplace for securities trading. The Taiwan Stock Exchange is a corporation owned by government controlled and private banks and enterprises. The Taiwan Stock Exchange is independent of entities transacting business through it, each of which pays to the Taiwan Stock Exchange a user's fee. Generally, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the Taiwan Stock Exchange.

The Taiwan Stock Exchange commenced operations in 1962. During the early 1980s, the Securities and Futures Commission actively encouraged new listings on the Taiwan Stock Exchange and the number of listed companies grew from 119 in 1983 to 683 as of August 31, 2004. As of August 31, 2004, the market capitalization of companies listed on the Taiwan Stock Exchange was approximately NT$12.4 trillion.

Historically, ROC companies have listed only shares and bonds on the Taiwan Stock Exchange. However, the Securities and Futures Commission has encouraged companies to list other types of securities. In 1988, the Securities and Futures Commission permitted the issuance of Taiwan's first convertible bonds. Since 1989, there have been offerings of domestic convertible bonds and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed end investment funds and Dragon Bonds issued by Asian Development Bank are also listed on the Taiwan Stock Exchange or traded on the GreTai Securities Market. The Securities and Futures Bureau also has regulations which permit foreign issuers to list their equity securities directly on the Taiwan Stock Exchange or through the use of depositary receipts. To date, five foreign issuers have listed their equity securities on the Taiwan Stock Exchange through the use of depositary receipts in accordance with these regulations.

The Taiwan Stock Exchange requirements consider the following factors when evaluating a company for listing:

- the number of shareholders and the distribution of shareholdings among such shareholders;
- length of time in business;
- amount of paid-in capital; and
- profitability.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development.

The ROC GreTai Securities Market

To complement the Taiwan Stock Exchange, the GreTai Securities Market was established in September 1982 on the initiative of the Securities and Futures Commission to encourage the trading of securities of companies who do not qualify for listing on the Taiwan Stock Exchange. As of August 31, 2004, 458 companies had listed equity securities on the GreTai Securities Market and the total market capitalization of those companies was approximately NT$1.2 trillion.

Taiwan Stock Exchange Index

The Taiwan Stock Exchange Index is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. This weighted average method is also used for the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan. The Taiwan Stock Exchange Index is compiled by dividing the market value by the base day's total market value for the index shares. The Taiwan Stock Exchange Index is the oldest and most widely quoted market index in Taiwan.

The weighting of shares in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation.

The following table sets forth, for the periods indicated, information relating to the Taiwan Stock Exchange Index.

Period Ended December 31,	Number of Listed Companies at the Period End	Stock Trading Values	Index High	Index Low	Index at Period End
		NT$ (in billions)			
1990	199	19,031.3	12,495.34	2,560.47	4,530.16
1991	221	9,682.7	6,305.22	3,316.26	4,600.67
1992	256	5,917.1	5,391.63	3,327.67	3,377.06
1993	285	9,056.7	6,070.56	3,135.56	6,070.56
1994	313	18,812.1	7,183.75	5,194.63	7,124.66
1995	347	10,151.5	7,051.49	4,503.37	5,173.73
1996	382	12,907.6	6,982.81	4,690.22	6,933.94
1997	404	37,241.2	10,116.84	6,820.35	8,187.27
1998	437	29,619.0	9,277.09	6,251.38	6,418.43
1999	462	29,291.5	8,608.91	5,474.79	8,448.84
2000	531	30,526.6	10,202.20	4,614.63	4,739.09
2001	586	18,354.9	6,104.24	3,446.26	5,551.24
2002	640	21,874.0	6,462.30	3,850.04	4,452.45
2003	674	20,355.3	6,142.32	4,139.50	5,890.69
2004 (until August 31, 2004)	683	17,599.3	5,813.39	5,316.87	5,765.54

Source: Taiwan Stock Exchange; World Federation of Stock Exchange (www.fibv.com) for "Number of Listed Companies at the Period End" information.

As indicated above, the performance of the Taiwan Stock Exchange has in recent years been characterized by extreme price volatility.

Price Limits, Commissions, Transaction Tax and Other Matters

The Taiwan Stock Exchange has placed limits on block trading and on the range of daily price movements. Fluctuations in the price of securities traded on the Taiwan Stock Exchange is restricted to 7% above and below the previous day's closing price in the case of equity securities, and 5% in the case of debt securities. The price limit for movements below the previous day's closing price has been modified from time to time by the MOF based on market conditions.

Effective July 1, 2000, brokerage commission can be set at any rate not exceeding 0.1425% of the transaction price subject to reporting to the Taiwan Stock Exchange.

Sales of shares of listed companies on the Taiwan Stock Exchange are generally sold in "round lots" of 1,000 shares. Investors who desire to sell less than 1,000 shares of a listed company occasionally experience delays in making these sales. Transactions that involve 500 trading lots (500,000 shares) or more must be registered and executed in accordance with Taiwan Stock Exchange guidelines.

Regulation and Supervision

On July 1, 2004, the ROC government established a new agency, the Financial Supervisory Commission (the "FSC"), by integrating three supervisory bodies previously under the ROC Ministry of Finance (the Bureau of Monetary Affairs, the Securities and Futures Commission and the Department of Insurance). The SFC changed its name to the "Securities and Futures Bureau" after the integration. The Ministry of Finance remains the regulatory authority for taxing matters.

The Securities and Futures Bureau has extensive regulatory authority over public companies. Public companies are generally required to obtain approval from, or registration with, the Securities and Futures Bureau for all securities offerings. The Securities and Futures Bureau requires periodic reporting of financial and operating information by all public companies. In addition, the Securities and Futures Bureau establishes standards for financial reporting and carries out licensing and supervision of participants in the Taiwan securities market.

The Securities and Futures Bureau has responsibility for implementing the ROC Securities and Exchange Law and for overall administration of governmental policies in the Taiwan securities market. It has extensive regulatory authority over the offering, issuance and trading of securities. In addition, the ROC Securities and Exchange Law specifically empowers the Securities and Futures Bureau to promulgate necessary rules. The ROC Securities and Exchange Law prohibits market manipulation. For example, it permits an issuer to recover short-term trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors, as well as the spouses, minor children and nominees of these parties, and shareholders who (together with their spouses, minor children and nominees) hold 10% or more of the shares of the issuer. The ROC Securities and Exchange Law prohibits trading by "insiders" based on non-public information that materially affects share price movement. "Insiders" include:

- directors, supervisors, managers, as well as the spouses, minor children and nominees of these parties, and shareholders (together with their spouses, minor children and nominees) who hold 10% or more of the issuing company's shares;

- any person who has learned material, non public information due to an occupational or controlling relationship with the issuing company; and

- any person who has learned material, non-public information from any of the above.

Sanctions include imprisonment. In addition, damages may be awarded to persons injured by the transaction.

The ROC Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer's contracts, reports and other documents related to securities transactions. The Securities and Futures Bureau regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

In addition, the ROC Securities and Exchange Law provides for civil liability for material misstatements or omissions made by issuers and regulation of tender offers.

The Securities and Futures Bureau does not have criminal or civil enforcement powers under the ROC Securities and Exchange Law. Criminal actions may be pursued only by the government prosecutors. Civil actions may only be brought by plaintiffs who assert that they have suffered damages. The Securities and Futures Bureau is empowered to curb abuses and violations of laws and regulations only through administrative measures including:

- issuance of warnings;
- temporary suspension of operation;
- imposition of administrative fines; and
- revocation of licenses.

In addition to providing a market for securities trading, the Taiwan Stock Exchange reviews applications by Taiwan issuers to list securities on the Taiwan Stock Exchange. If issuers of listed securities violate laws and regulations or encounter extended or severe negative results of operations, the Taiwan Stock Exchange may, with the approval of the Securities and Futures Bureau, delist securities of these issuers.

APPENDIX B — FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the Manager or any of our respective affiliates or advisors in connection with this Offering.

General

Historically, foreign investments in the securities market of Taiwan were restricted. However, commencing in 1983, the ROC government has from time to time enacted legislation and adopted regulations to make foreign investment in the Taiwan securities market possible. Initially, only overseas investment trust funds of authorized securities investment trust enterprises established in Taiwan were permitted to invest in the Taiwan securities market. Since January 1, 1991, qualified foreign institutional investors have been allowed to make investments in the Taiwan securities market. Since March 1, 1996, overseas Chinese, foreign institutional and foreign individual investors (other than qualified foreign institutional investors), called "general foreign investors", have been permitted to make direct investments in the Taiwan securities market.

On September 30, 2003, the Executive Yuan approved an amendment to "Regulations Governing Investment in Securities by Overseas Chinese and Foreign Nationals" (the "Regulations") which took effect on October 2, 2003. According to the Regulations, the SFC abolished the categories of the so-called "qualified foreign institutional investors" and "general foreign investors", as stipulated in the Regulations before the amendment.

Under the Regulations, foreign investors are classified as either "onshore foreign investors" or "offshore foreign investors" according to their respective geographical location. Both onshore and offshore foreign investors are allowed to invest in ROC securities after they register with the Taiwan Stock Exchange. The Regulations further classify foreign investors into "foreign institutional investors" and "foreign individual investors". "Foreign institutional investors" refer to those incorporated and registered in accordance with foreign laws outside of the ROC (i.e., offshore foreign institutional investors) or their branches set up and recognized within the ROC (i.e., onshore foreign institutional investors). A maximum investment ceiling may be separately determined by the SFC after consultation with the CBC for the investment by offshore overseas Chinese and foreign individual investors. Foreign institutional investors are not subject to any ceiling for investment in the ROC securities market.

Foreign Ownership Limitations

Except for certain limits imposed by specific laws and regulations, there are generally no limits on the foreign ownership of the issued share capital in a Taiwan Stock Exchange listed company or a GreTai Securities Market traded company.

Foreign Investment Approval

Other than investors under the Regulations and investors in overseas convertible bonds and depositary receipts, foreign investors who wish to make direct investments in the shares of ROC companies may submit a "foreign investment approval" application to the Investment Commission of the ROC Ministry of Economic Affairs or other governmental authority. Foreign investors who obtain this approval will be subject to the ROC Law Governing Investments by Foreigners. The Investment Commission or other governmental authority reviews each foreign investment approval application and approves or disapproves the application after consultation with other governmental agencies. Any non-ROC person possessing a foreign investment approval may repatriate annual net profits, interests and cash dividends attributable to an approved investment. Stock dividends, investment capital and capital gains attributable to the investment may be repatriated with approval of the Investment Commission or other governmental authority.

In addition to the general restrictions against direct investment by non-ROC persons in Taiwan companies, non-ROC persons are currently prohibited from investing in prohibited industries in Taiwan which are listed under the Negative List, as amended. The prohibition on direct foreign investment in the prohibited industries in the Negative List is absolute and provides no specific exemption from its application. Under the Negative List, some industries are restricted so that non-ROC persons may directly invest only up to a specified level and with the specific approval of the relevant governmental authority. We are not in a restricted industry under the Negative List.

Depositary Receipts

In April 1992, the Securities and Futures Commission (now the Securities and Futures Bureau, or the SFB) began allowing Taiwan companies listed on the Taiwan Stock Exchange to sponsor the issuance and sale of depositary receipts evidencing depositary shares. In December 1994, MOF began allowing companies whose shares are traded on the GreTai Securities Market also to sponsor the issuance and sale of depositary receipts evidencing depositary shares. Approvals for these issuances are still required.

No deposits of shares may be made in a depositary receipt facility and no depositary receipts may be issued against deposits without specific Securities and Futures Bureau approval, unless they are:

- stock dividends;

- free distributions of shares;

- due to the exercise by depositary receipt holders of their preemptive rights in the event of capital increases for cash; or

- if permitted in the deposit agreement and the custody agreement, due to the purchase (up to the number of withdrawn shares) by investors, directly or through the depositary, of shares on the Taiwan Stock Exchange or the GreTai Securities Market or the delivery by the investors of shares held thereby, for deposit in the depositary receipt facility. In this event, the total number of depositary receipts outstanding after an issuance cannot exceed the aggregate number of:

  (1) the number of issued depositary receipts previously approved by the Securities and Futures Bureau; and

  (2) the number of depositary shares created from stock dividends, free distributions of shares and rights offerings.

These issuances of depositary receipts may only be made to the extent that previously issued depositary receipts have been cancelled.

In the past, for depositary shares that represent new shares issued for cash, a holder may request the depositary to cause the underlying shares to be sold in Taiwan or to withdraw the shares and deliver the shares to the holder three months after the issuance of depositary receipts; for depositary shares that represent previously existing shares, a holder may request the depositary to cause the underlying shares to be sold in Taiwan or to withdraw the shares and deliver the shares to the holder immediately after the issuance of depositary receipts. The Executive Yuan and the SFC recently amended the relevant regulations such that the three-month withdrawal restriction has been removed. Accordingly, a holder of depositary receipts (other than a citizen of the PRC or an entity organized under the laws of the PRC) may now withdraw shares immediately after the issuance of a depositary receipt representing new shares. In practice, withdrawals may take place typically four business days after the issuance of the depositary receipt.

A depositary receipt holder wishing to withdraw shares represented by depositary receipts in order to hold the shares is required to register with the Taiwan Stock Exchange for purposes of making investments in the ROC securities market, and to appoint a qualified local agent to, among other things, open a securities account with a local securities brokerage firm, remit funds, exercise shareholders' rights, and perform such other actions as may be designated by such depositary receipt holder. In addition, the withdrawing holder is also required to appoint a custodian bank to hold the securities and cash proceeds in safekeeping, make confirmations, settle trades and report all relevant information. Without making this appointment, opening these accounts and obtaining prior approval of the Taiwan Stock Exchange, the withdrawing holder would be unable to subsequently hold or sell the shares withdrawn from a depositary receipt facility on the Taiwan Stock Exchange or otherwise. The withdrawing holder is also required to appoint a tax guarantor for filing tax returns and making tax payments.

A depositary may, without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of Taiwan, convert NT dollars into other currencies, including U.S. dollars, in respect of the following: (1) the proceeds of the sale of shares represented by depositary receipts; (2) the proceeds of the sale of shares received as stock dividends on the shares and deposited into the depositary receipt facility; or (3) any cash dividends or cash distributions received. In addition, a depositary may convert into NT dollars inward remittances of payments for purchases of underlying shares for deposit in the depositary facility against the creation of depositary shares. A depositary must obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion into foreign currencies from the proceeds from the sale of subscription rights for new shares. It is expected that the Central Bank of China will grant this approval as a routine matter. A depositary receipt holder may, after becoming a holder of shares, convert NT dollars into other currencies from proceeds from the sale of any underlying shares withdrawn from the depositary receipt facility or any cash dividends or distributions received and the subscription payment for rights offering. Proceeds from the sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in securities listed on the Taiwan Stock Exchange or traded on the GreTai Securities Market.

Overseas Corporate Bonds

Since 1989, the Securities and Futures Commission (now the Securities and Futures Bureau, or the SFB) has approved a series of overseas corporate bond issues by ROC companies listed on the Taiwan Stock Exchange and traded on the GreTai Securities Market. Under current ROC laws, these overseas corporate bonds (if their terms so provide), with Securities and Futures Bureau approval, may be converted by non-ROC persons, other than mainland Chinese persons, into shares of ROC companies or may be converted into depositary receipts issued under the sponsorship of the same ROC company or the shares of other companies, in the case of exchangeable bonds. Public issuing companies may issue corporate debt in offerings outside Taiwan.

A non-ROC converting bondholder, when exercising the conversion right to convert the bonds into shares of a ROC company, is required to register with the Taiwan Stock Exchange for purposes of making investments in the ROC securities market, and to appoint a qualified local agent to:

- open a securities trading account with a local brokerage firm;
- remit funds;
- exercise shareholders' rights; and
- perform other actions as may be designed by such converting bondholder.

In addition, the converting bondholder is also required to appoint a custodian bank to hold the securities and cash proceeds in safekeeping, make confirmations and settle trades and report all relevant information. Without making this appointment and opening these accounts, the converting bondholder would be unable to subsequently hold or sell the shares converted from the bonds on the Taiwan Stock Exchange or otherwise. The converting bondholder is also required to appoint a tax guarantor for filing tax returns and making tax payments. Without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of Taiwan, the issuing company may convert NT dollars into other currencies for redemption of the bonds or the repayment of the principal or interest on the bonds. In addition, a converting bondholder may through its local agent convert NT dollars into other currencies for net proceeds realized from the sale of shares or any stock dividends on the shares. In addition, a bondholder may also convert through its local agent any cash distributions relating to the shares and, after becoming a shareholder, inward remittances of subscription payments in connection with a rights offering.

In addition, any funds received by the converting bondholder may be used for reinvestment in Taiwan securities listed on the Taiwan Stock Exchange or traded on the GreTai Securities Market.

The ROC Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated by MOF (currently, the FSC) and the Central Bank of China to handle foreign exchange transactions. Current regulations favor trade-related foreign exchange transactions. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters. All foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Aside from trade-related foreign exchange transactions, ROC companies and individual residents of the ROC may, without foreign exchange approval, remit to and from Taiwan foreign currencies of up to US$50 million, or its equivalent, and US$5 million, or its equivalent, respectively, each calendar year. These limits apply to remittances involving a conversion between NT dollars and U.S. dollars or other foreign currencies. In addition, all private enterprises are required to register all medium- and long-term foreign debt with the Central Bank of China.

In addition, a foreign person may, subject to certain requirements but without foreign exchange approval, remit to and from Taiwan foreign currencies of up to US$100,000 per remittance if the required documentation is provided to the ROC authorities. This limit applies only to remittances involving a conversion between NT dollars and U.S. dollars or other foreign currencies.

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Printed by ROMAN 9314-1