

Jih Sun Financial Holding Co., Ltd.
Financial Statements for the Years Ended December 31,
2004 and 2003
And
Independent Auditors' Report

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Jih Sun Financial Holding Co., Ltd.

Financial Statements

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Independent Auditors' Report

The Board of Directors
Jih Sun Financial Holding Co., Ltd.:

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

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

As described in Note 4, in accordance with the Law Governing Merger of Financial Institutions and SFC Ruling Letter (3) 0913000051, Jih Sun International Bank, Ltd., the Company's long-term investment accounted for under the equity method, amortized loss on sale of non-performing loans over 5 years, with the unamortized remaining balance reflected as deferred expense. If the loss on sale of non-performing loans were recognized currently, due to tax effects, long-term investments would be decreased by \$6,863,373 and accumulated deficit would be increased by \$3,976,610, as of December 31, 2004 and 2003. Additionally, net loss would be decreased by \$2,946,492 and would be increased by \$1,015,306, respectively, for the years then ended.

In our opinion, except for the effects of not recognizing currently the loss on non-performing loans as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Jih Sun Financial Holding Co., Ltd. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with the "Regulations Governing the Preparation of Financial Statements for Financial Holding Companies" and generally accepted accounting principles of the Republic of China.

Jih Sun Financial Holding Co., Ltd. has prepared consolidated financial statements, on which we have expressed a qualified opinion.

Taipei, Taiwan, R.O.C.
January 27, 2005

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

JIH SUN FINANCIAL HOLDING CO., LTD.
BALANCE SHEETS
December 31, 2004 and 2003
(New Taiwan Dollars in Thousands)

	December 31, 2004		December 31, 2003	
	Amount	%	Amount	%
ASSETS				
Current assets:				
Cash (Note 3)	\$ 621,069	2	2,715	-
Other receivables (Note 15)	196,749	1	167,450	1
Prepayments and others	231	-	1	-
	<u>818,049</u>	<u>3</u>	<u>170,166</u>	<u>1</u>
Long-term equity investments (Notes 4 and 16)	<u>32,109,664</u>	<u>97</u>	<u>29,853,298</u>	<u>99</u>
Other financial assets - non-current	<u>1,738</u>	<u>-</u>	<u>978</u>	<u>-</u>
Refundable deposits				
Properties-net (Note 5)	<u>3,681</u>	<u>-</u>	<u>1,239</u>	<u>-</u>
Other assets				
Deferred expense	2,667	-	4,340	-
Deferred pension cost	1,514	-	-	-
	<u>4,181</u>	<u>-</u>	<u>4,340</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 32,937,313</u>	<u>100</u>	<u>30,030,021</u>	<u>100</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Short-term borrowings (Note 6)	\$ 1,168,000	3	351,000	1
Commercial paper payable (Note 7)	1,211,804	4	4,993	-
Income tax payable	181,141	1	-	-
Payables (Note 15)	69,604	-	168,692	-
Other current liabilities	695	-	-	-
Customer deposits	24,952	-	-	-
Total current liabilities	<u>2,656,196</u>	<u>8</u>	<u>524,685</u>	<u>1</u>
Long-term liabilities:				
Long-term borrowings (Note 8)	-	-	200,000	1
Other Liabilities:				
Pension payable liabilities	1,514	-	-	-
Total liabilities	<u>2,657,710</u>	<u>8</u>	<u>724,685</u>	<u>2</u>
Stockholders' equity				
Capital stock				
Common stock (Note 11)	22,532,732	68	22,532,732	75
Capital surplus (Note 11)	10,127,045	31	10,147,555	34
Retained earnings				
Accumulated deficit (Note 12)	(649,225)	(2)	(1,401,274)	(5)
Other adjustments to stockholders' equity:				
Cumulative translation adjustments (Note 4)	(138,833)	-	(31,748)	-
Net loss not recognized as pension cost (Note 4)	-	-	(34)	-
Treasury stock - common stock (Note 11)	(1,592,116)	(5)	(1,941,895)	(6)
Total stockholders' equity	<u>30,279,603</u>	<u>92</u>	<u>29,305,336</u>	<u>98</u>
Significant commitments and contingencies				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 32,937,313</u>	<u>100</u>	<u>30,030,021</u>	<u>100</u>

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

JIH SUN FINANCIAL HOLDING CO., LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(New Taiwan Dollars in Thousands, Except for EPS)

	2004		2003	
	Amount	%	Amount	%
Operating revenues:				
Gain on trading of securities	\$ -	-	404	-
Investment income accounted for under the equity method, net (Note 4)	1,199,625	100	233,874	100
	<u>1,199,625</u>	<u>100</u>	<u>234,278</u>	<u>100</u>
Operating costs				
Investment loss accounted for under the equity method, net (Note 4)	1,259	-	642,341	274
Gross margin	1,198,366	100	(408,063)	(174)
Operating expense	98,094	9	43,668	19
Operating income (loss)	<u>1,100,272</u>	<u>91</u>	<u>(451,731)</u>	<u>(193)</u>
Nonoperating income				
Interest income	62	-	1,059	1
Other income	-	-	9,016	4
Gain on sale of premises and property	-	-	110	-
	<u>62</u>	<u>-</u>	<u>10,185</u>	<u>5</u>
Nonoperating expense				
Interest expense	17,162	1	3,901	2
Income before income tax	1,083,172	90	(445,447)	(190)
Income tax benefit (expense) (Note 10)	37,676	3	(10,000)	(4)
Net income	<u>\$ 1,120,848</u>	<u>93</u>	<u>(455,447)</u>	<u>(194)</u>

	Before income tax	After income tax	Before income tax	After income tax
Basic EPS (Note 13)	<u>\$ 0.52</u>	<u>0.54</u>	<u>(0.22)</u>	<u>(0.22)</u>

Pro forma data assuming Company shares in which subsidiaries trade or invest are not considered treasury stock:

	2004		2003	
	Before income tax	After income tax	Before income tax	After income tax
Net income	<u>\$ 1,183,034</u>		<u>(425,544)</u>	
Basic EPS	<u>\$ 0.54</u>	<u>0.56</u>	<u>(0.20)</u>	<u>(0.21)</u>

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

JIH SUN FINANCIAL HOLDING CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(New Taiwan Dollars In Thousands)

	Common stock	Capital surplus	Accumulated deficit	Cumulative translation adjustments	Net loss not recognized as pension cost	Treasury stock - common stock	Total
Balance, January 1, 2003	\$ 21,947,600	10,079,903	(945,017)	(7,797)	-	(2,063,909)	29,010,780
Net loss for 2003	-	-	(455,447)	-	-	-	(455,447)
Recognition of translation adjustment of subsidiaries	-	-	-	(23,828)	-	-	(23,828)
Net loss not recognized as pension cost of subsidiaries	-	-	-	-	(34)	-	(34)
Treasury stock transactions of subsidiaries	-	2,861	(810)	-	-	131,228	133,279
Second stock conversion on July 15, 2003	623,778	64,287	-	(123)	-	(47,356)	640,586
Retirement of treasury stock	(38,646)	504	-	-	-	38,142	-
Ending balance - December 31, 2003	\$ 22,532,732	10,147,555	(1,401,274)	(31,748)	(34)	(1,941,895)	29,305,336
Net income for 2004	-	-	1,120,848	-	-	-	1,120,848
Recognition of translation adjustment of subsidiaries	-	-	-	(107,085)	-	-	(107,085)
Net loss not recognized as pension cost of subsidiaries	-	-	-	-	34	-	34
Treasury stock transactions of subsidiaries	-	(430)	(4,058)	-	-	897,524	893,036
Disposal of treasury stock by subsidiaries	-	(20,080)	(364,741)	-	-	653,835	269,014
Purchase of treasury stock	-	-	-	-	-	(1,201,580)	(1,201,580)
Ending balance - December 31, 2004	\$ 22,532,732	10,127,045	(649,225)	(138,833)	-	(1,592,116)	30,279,603

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

JIH SUN FINANCIAL HOLDING CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(New Taiwan Dollars in Thousands)

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income (loss)	\$ 1,120,848	(455,447)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss (gain) on investments recognized under the equity method including of cash dividends received	(1,198,366)	1,216,341
Depreciation	527	913
Amortization	1,673	700
Gain on sale of property	-	(110)
Changes in operating assets and liabilities:		
Other receivables	138,574	(166,554)
Deferred income tax assets	-	10,000
Other prepayments	(230)	47
Customer deposits	24,952	-
Other payables	(85,819)	166,170
Other current liabilities	694	(517)
Net cash provided by operating activities	<u>2,853</u>	<u>771,543</u>
Cash flows from investing activities:		
Increase in long-term equity investments	(3,000)	(1,000,000)
Purchase of property	(2,969)	(1,349)
Sale of property	-	12,619
Increase in deferred expense	-	(5,040)
Decrease (increase) in refundable deposits	(760)	978
Net cash flow used in investing activities	<u>(6,729)</u>	<u>(992,792)</u>
Cash flow from financing activities:		
Short-term borrowings	817,000	151,000
Change in commercial paper	1,206,811	(289,515)
Change in long-term borrowings	(200,000)	200,000
Purchase of treasury stock	(1,201,581)	-
Net cash provided by financing activities	<u>622,230</u>	<u>61,485</u>
Net increase (decrease) in cash and cash equivalents	618,354	(159,764)
Cash and cash equivalents, beginning of the period	2,715	162,479
Cash and cash equivalents, end of the period	<u>\$ 621,069</u>	<u>2,715</u>
Supplemental disclosures of cash flow information:		
Interest paid (excluding capitalized interest)	<u>\$ 18,308</u>	<u>3,104</u>
Tax paid	<u>\$ 38,586</u>	<u>642</u>

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

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004 AND 2003
(New Taiwan Dollars in Thousands, Unless Otherwise Stated)

1. OVERVIEW

Jih Sun Financial Holding Co., Ltd. (the "Company") was established to comply with the trend in global financial development, respond to government financial reforms, achieve greater economies of scale, extend management efficiency, and strengthen financial cross-industry market competitiveness. In order to cross-sell across industries, share client sources, raise management efficiency and enjoy tax benefits, Jih Sun International Bank, Ltd. and Jih Sun Securities Co., Ltd. held special shareholders' meetings on December 14, 2001, and resolved to establish Jih Sun Financial Holding Co., Ltd. through a stock conversion. The date record of was February 5, 2002, and the Company was established on the same date.

The Company conducts business in the following areas:

- (1) The Company is approved to invest in the following businesses:
 - A. Investment banking.
 - B. Bills financing.
 - C. Credit cards.
 - D. Trusts.
 - E. Insurance.
 - F. Securities.
 - G. Futures.
 - H. Venture capital.
 - I. Investments in overseas financial institutions as approved by the MOF.
 - J. Other related financing as approved by the MOF.
- (2) Management of the above businesses.
- (3) Other related businesses as approved by the MOF.

On May 21, 2002, the Board of Directors Meeting resolved to approve the merger between the Company, the Company's subsidiary Jih Sun Securities Co., Ltd. and Yuan Xin Securities Co., Ltd. According to the terms and conditions stipulated in the merger agreement, Jih Sun Securities Co., Ltd., as the surviving entity, first merged with Yuan Xin Securities Co., Ltd. (conversion ratio of 1.2997 shares of Yuan Xin Securities Co., Ltd. exchanged for 1 share of Jih Sun Securities Co., Ltd.). The date of record for the merger was October 10, 2002. Shares of Jih Sun Securities Co., Ltd. acquired by shareholders of Yuan Xin Securities Co., Ltd. were exchanged for shares of the Company at a conversion ratio of 1.444 shares of the Company exchanged for one share of Jih Sun Securities Co., Ltd. as approved by SFC Ruling Letter No. (1) No. 0920130277 dated July 15, 2003. The above merger was in effect as of July 15, 2003.

As of December 31, 2004, the number of Company and subsidiary employees was 5,217.

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements were prepared in accordance with the Regulations Governing the Preparation of Financial Statements for Financial Holding Companies, the Regulations Governing the Preparation of Financial Statements for Security Issuers, and generally accepted accounting principles of the Republic of China. A summary of significant accounting policies is as follows:

(1) Cash

Cash includes cash on hand, savings accounts, checking accounts, unrestricted time deposits, negotiable time deposits, and cash equivalents.

(2) Short-Term Investments

Marketable securities are valued at the lower of total cost or market at period-end. The moving-average method is used to compute cost upon sale of such investments. Upon receiving stock dividends due to capitalization of capital surplus or earnings of investees, only the number of incremental shares is recorded in a memo entry to reflect new cost per share calculated by the moving-average method. Losses due to market decline are valued at the lower of total cost or market, with market price based on the average closing price in the last month of the accounting period. Market prices of open-end mutual funds are their net worth at the balance sheet date.

(3) Long-Term Equity Investments

Long-term equity investments in common stock of companies where the Company has no influence are accounted for under the cost method. Stock dividends received from capitalization of capital surplus or retained earnings are not recorded as investment income, and only memo entries are made regarding the increase in number of shares, with cost per share or book value recalculated.

- a. Investments in listed (or OTC) company stocks are stated at the lower of cost or market value. When the cost exceeds market value, an allowance for investment loss account is established and recorded as a deduction from stockholders' equity.
- b. Investment loss is recognized currently for investment in non-listed (non-OTC) company stocks when there is sufficient evidence indicating that the investment value is impaired and the possibility of recovery is slim, and the new carrying value of the investment is recognized as the new cost.

Investments in invested companies in which the Company can exercise significant influence or has controlling interest are accounted for by using the equity method. According to SFAS No. 20, when compiling quarterly financial statements, invested in which ownership is from 20% to 50% are not accounted for under the equity method. Invested companies which ownership exceeds 50% are accounted for under the equity method.

Investments in invested companies in which the Company can exercise significant influence or has controlling interest are accounted for by using the equity method. The Company prepares consolidated financial statements to incorporate the accounts of the Company and the invested companies in which the Company has significant controlling interest. According to the Regulations Governing the Preparation of Financial Statements for Financial Holding Companies, bank subsidiaries, insurance subsidiaries, and securities subsidiaries are required to be consolidated. However, should the subsidiary meet one of the conditions set forth below, then its accounts would not be consolidated.

- a. The business nature of the subsidiary is different from that of the Company; hence, consolidation is not appropriate.
- b. The subsidiary has declared insolvency, or has been ordered by the court to undertake reorganization.
- c. The subsidiary is prohibited from remitting dividends to the Company due to foreign exchange control exercised by the country in which the subsidiary engages in business.
- d. The subsidiary has negative net worth, but if the Company guarantees the subsidiary's debt or makes financial commitments to its subsidiary, or if the loss suffered by the subsidiary is temporary in nature and there is sufficient evidence indicating that the subsidiary will be profitable in the near future,

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

then the accounts of the subsidiary would be consolidated.

e. Total assets and total operating revenues of the subsidiary are less than 10% of the Company's respective accounts.

f. The financial statements of those invested companies whose total assets and operating revenue do not exceed 10% of those of the Company can be excluded from the consolidated financial statements. Additionally, if the combined assets or combined operating revenue of these subsidiaries does not exceed 30% of that of the Company, the financial statements of these subsidiaries will also not be included in the consolidated financial statements; however, once the combined assets or combined operating revenue of these subsidiaries exceeds 30% of that of the Company, the financial statements of any of these subsidiaries whose total assets or total operating revenue exceeds 3% of that of the Company must be included in the consolidated financial statements until the combined assets or combined operating revenue of the remaining unconsolidated subsidiaries does not exceed 20% of that of the Company.

When invested companies accounted for under the equity method issue new shares, if the shareholders do not subscribe according to ownership, resulting in a change in ownership and a change in equity net worth, then capital surplus and long-term investments are adjusted accordingly. If a debit is made to capital surplus but the remaining balance of capital surplus is deficient, then retained earnings is debited instead.

(4) Properties

Premises and equipment are stated at cost. Major additions, improvements, and replacements are capitalized, while maintenance and repairs are charged to current earnings. Interest incurred in acquisition of premises and until they are ready for use is capitalized as part of the acquisition costs.

Depreciation is applied by the straight-line method with economic lives stipulated by the government. Leasehold improvements are amortized over the lease period or estimated useful lives, whichever is shorter. Assets still in use after full depreciation may continue to be depreciated over estimated remaining economic lives. Economic lives of major premises and equipment are the following: equipment, 3 to 10 years; leasehold improvements, 3 to 15 years.

Gain or loss on disposal of property and equipment are reflected as non-operating income or expense based on their nature.

(5) Deferred Charges

Deferred charges such as computer software costs are amortized using the straight-line method over three years.

(6) Treasury Stock

The Company adopted SFAS No. 30 "Accounting for Treasury Stock" to account for repurchase of its outstanding shares, carried at cost. Upon disposition, the excess of sales price over book value is recorded as "capital surplus—treasury stock." Should sales price be lower than book value, the difference is charged against capital surplus from treasury stock in the same category, and any deficit is debited to retained earnings. The book value of treasury stock is separately computed by reason for purchase, and the weighted-average method is used.

Upon retirement, "capital surplus—additional paid-in capital and capital stock" shall be debited on a pro rata basis. If the book value exceeds premium on stock issuance and capital stock, the difference will offset "capital surplus—treasury stock" in the same category, and any deficit will be charged against retained earnings. If the book value is lower than the total of capital stock and additional paid-in capital, the difference will be credited to "capital surplus— treasury stock" in the same category.

Parent shares held by subsidiaries are treated as treasury stock according to SFAS No. 30 "Accounting for Treasury Stock" effective 2002. Therefore, when recognizing investment income or loss and compiling financial statements, the Company accounted for shares held by subsidiaries as treasury stock.

(7) Pension Plan

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

The Company has a retirement plan for its employees. The Labor Standards Law governs the Company, and its pension fund payment is in compliance with the Labor Standards Law.

The Company adopted SFAS No.18 "Accounting for Pensions." Net pension costs recognized each period include the following:

- ① Service cost
- ② Interest cost
- ③ Projected return on plan assets
- ④ Amortization of unrecognized prior period service cost
- ⑤ Amortization of unrecognized gain or loss on pension plan
- ⑥ Amortization of unrecognized transitional net asset or obligation

If the pension fund amount is less than the net pension cost, the difference will be recognized as "accrued pension liability." If the amount funded is greater than the net pension cost, the difference will be recognized as "prepaid pension cost." The minimum pension liability recognized in the balance sheet is the lowest amount of pension liability.

(8) Income Taxes

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 22 "Accounting for Income Taxes" to make inter- and intra-period income tax allocation. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Tax effects of deductible temporary differences, unused investment tax credits, and operating loss carry-forwards are treated as deferred tax assets, whereas those of taxable temporary differences are accounted for as deferred tax liabilities. A valuation allowance is provided for deferred tax assets by assessing whether it is more likely than not such assets will not be realized.

After adopting the imputation tax method, the 10% surtax on unappropriated earnings is recorded as current expense on the date of the stockholders' meeting to declare earnings distribution.

Further, the Company and the subsidiary Jih Sun International Bank Ltd. adopted the consolidated tax filing return principle to file the annual income tax return. According to Accounting Research and Development Foundation Explanation (92) No. 240 issued on October 3, 2003, the total income tax expense and deferred income tax should be allocated reasonably and consistently to individual companies. The accrued receivable and payable are based on the consolidated tax filing return principle and should be recorded as "receivable (payable)."

(9) Recognition of Revenue

Revenue is recognized when realized or deemed realizable, and recognized on an accrual basis and recorded over the respective period. Furthermore, revenues are classified into the proper accounts based on the nature of the business.

3. CASH AND CASH EQUIVALENTS

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Savings account	\$ 1,962	2,599
Checking deposits	107	116
Investments in bonds with resale agreements		
-ccommercial paper	<u>619,000</u>	<u>-</u>
Total	<u>\$ 621,069</u>	<u>2,715</u>

The securities purchased under resale agreements were sold by the end of January 2005 at the approximate price of \$619,046.

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

4. LONG-TERM EQUITY INVESTMENTS

Invested Company	From January 1 to December 31, 2004				
	Amount	Direct Shareholding Ratio (%)	Original Investment	Cumulative Translation Adjustments	Gain (Loss) on Long-Term Equity Investments
Jih Sun International Bank, Ltd.	\$ 13,497,775	100.00	14,405,297	-	747,133
Jih Sun Securities Co., Ltd.	18,610,148	100.00	19,101,701	(107,085)	452,492
Jih Sun Product Insurance Agent Co., Ltd.	1,741	100.00	3,000	-	(1,259)
	<u>\$ 32,109,664</u>		<u>33,509,998</u>	<u>(107,085)</u>	<u>1,198,366</u>

Invested Company	From January 1 to December 31, 2003				
	Amount	Direct Shareholding Ratio (%)	Original Investment	Cumulative Translation Adjustments	Gain (Loss) on Long-Term Equity Investments
Jih Sun International Bank, Ltd.	\$ 12,427,581	100.00	14,405,297	-	233,874
Jih Sun Securities Co., Ltd.	17,425,717	100.00	19,101,701	(23,828)	(642,341)
	<u>\$ 29,853,298</u>		<u>33,506,998</u>	<u>(23,828)</u>	<u>(408,467)</u>

- 1) The Company was established through a stock conversion between Jih Sun Securities Co., Ltd and Jih Sun International Bank, Ltd. on February 5, 2002. The original investment is the book value of the above two subsidiaries on the conversion date. The above two companies became subsidiaries of the Company after the conversion in which the Company has controlling interest and therefore are accounted for under the equity method. Jih Sun International Bank, Ltd. sold non-performing loans to an asset management company in 2004 and 2002, resulting in a loss of \$5,282,396 and \$6,768,699, respectively. In accordance with Article 15 of Paragraph 5, the Bank amortized the loss over 60 months, reflected as deferred expense. Amortization for the period amounted to \$1,433,378 and \$1,353,741, respectively. If the loss on non-performing loans were recognized currently, deferred assets would be decreased by \$9,151,164 and \$5,302,147 as of December 31, 2004 and 2003, respectively. Net income (loss) would be decreased by \$3,928,656 and increased by \$1,353,741, respectively for the years then ended. In accordance with the Financial Holding Company Law, if the Bank files its tax returns as a financial holding company, the loss on disposal of non-performing loans would result in effect on accumulated earnings of \$3,976,610 and \$4,991,916. The disposal of non-performing loans would have a tax effect on net loss of \$2,946,492 and \$1,015,306, respectively.
- 2) On August 9, The Company's subsidiary Jih Sun Product Insurance Agent Co. increased capital by \$3,000, with the Company subscribing to the full amount. Therefore ownership was still 100%.
- 3) The Company's subsidiary Jih Sun Securities Co., Ltd. increased capital by issuing new shares with October 10, 2002, as the date of record and acquired Yuan Xin Securities Co., Ltd. After the capital increase and merger, the Company's ownership in the subsidiary decreased to 96.43%. On July 15, 2003, SFC Ruling Letter (1) No. 09200130277 approved the exchange of 1.444 shares of the Company for 1 share of Jih Sun Securities Co., Ltd. and the Company increased capital by issuing 62,377,766 shares to purchase 43,197,899 shares of Jih Sun

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

Securities Co., Ltd., After the conversion, the Company's ownership in the subsidiary was 100%, resulting in an increase in long-term investment of \$640,586.

- 4) In October 2004 and December 2003, the Company's subsidiary Jih Sun International Bank, Ltd. increased capital by \$1,000,000, with the Company subscribing to the full amount. Therefore, ownership was still 100%.
- 5) The Company's subsidiary Jih Sun International Bank, Ltd. transferred treasury stock to employees from 2004 and 2003 to December 31, resulting in an increase in long-term investment of \$323,061 (transfer of treasury stock cost of \$323,491 and transfer loss of \$430) and an increase in long-term investment of \$42,640 (transfer of treasury stock cost of \$39,779 and transfer gain of \$2,861).
- 6) The Company's subsidiary Jih Sun Securities Co., Ltd. transferred treasury stock to employees from December 31, 2004 and 2003, resulting in an increase in long-term investment of \$569,975 (transfer of treasury stock cost of \$574,033 less transfer loss of \$4,058) and \$90,639 (transfer of treasury stock cost of \$91,449 less transfer loss of \$810), respectively.
- 7) The Company's subsidiary Jih Sun Securities Co., Ltd. disposed of treasury stock from 2004; resulting in an increase in long-term investment of \$269,015 (transfer of treasury stock cost of \$653,835 less loss of \$384,820).
- 8) In 2003, the shareholders' meeting of the Company's subsidiary Jih Sun Securities Co., Ltd. resolved to distribute cash dividends. The Company received \$807,874, in cash dividends according to ownership
- 9) In 2003, the Company's subsidiary Jih Sun Securities Co., Ltd. recognized according to ownership net pension loss of unrecognized pension cost of investee totaling \$34.

5. PROPERTY

	Cost	Accumulated depreciation	Net
<u>December 31, 2004</u>			
Other equipment	\$ 2,420	532	1,888
Leasehold improvement	1,263	105	1,158
Prepayments for equipment	635	-	635
	<u>\$ 4,318</u>	<u>637</u>	<u>3,681</u>
<u>December 31, 2003</u>			
Other equipment	<u>\$ 1,349</u>	<u>110</u>	<u>1,239</u>

6. SHORT-TERM BORROWINGS

Nature	Period	Interest rate	Ending balance	Credit line	Collateral
<u>December 31, 2004</u>					
Collateralized loan	December 03, 2003 ~ March 31, 2005	1.30%~1.68%	\$ 823,000	2,550,000	Marketable securities
Credit loan	November 19, 2004 ~ January 18, 2005	1.45%~1.55%	<u>345,000</u>	900,000	-
			<u>\$ 1,168,000</u>		
<u>December 31, 2003</u>					
Collateralized loan	November 28, 2003 ~ January 30, 2004	1.3%~1.35%	<u>\$ 351,000</u>	1,000,000	Marketable securities

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

7. COMMERCIAL PAPER PAYABLE

	December 31, 2004		December 31, 2003	
	Interest rate	Amount	Interest rate	Amount
Commercial paper payable	0.912%~1.22%	\$ 1,213,000	0.91%~1.49%	\$ 5,000
Less: Unamortized discount		(1,196)		(7)
		\$		
Net		1,211,804		\$ 4,993

The issuance period for commercial paper payable is within 365 days. The annual interest rates ranged from 0.912% to 1.22% and 0.91% to 1.49% during the years ended December 31, 2004 and 2003, respectively.

8. LONG-TERM BORROWINGS

Nature	Period	Interest rate	Ending balance	Repayment of principal
December 31, 2003				
Collateralized loan	2003.12 ~ 2005.1	1.68%	\$ 200,000	Repaid at maturity. Interest is paid month' s.

9. PENSION PLAN

The Company has a contributory retirement plan covering all regular employees.

Upon adoption of the Labor Standards Law, the Company refunded the employee contribution under the previous pension plan to its employees in full. The employee pension payments under the Labor Standards Law are computed on the basis of 2 units for each of the first 15 years of service, and 1 unit for each year thereafter, up to a maximum of 45 units. Any fraction of a year less than 6 months is counted as half a year and any fraction of a year equal to more than 6 months is counted as one year of service. Each unit of retirement payment is equal to the average monthly salary at the time of approved retirement.

Actuarial assumptions used to compute projected benefit obligation and reconciliation between year-end pension funded status and accrued pension liabilities per books were as follows:

	2004
Discount rate	3.50%
Future salary increase rate	2.00%
Estimated long-term investment rate of return on pension plan assets	2.50%
Net pension cost	\$ 1,514
December 31, 2004	
Benefit obligation	
Vested benefit obligation	\$ 152
Non-vested benefit obligation	1362
Accumulated benefit obligation	1514
Effect from future salary increase	377
Projected benefit obligation	1891
Fair value of pension fund assets	-
Funded status	1891
Unrecognized net transitional obligation	(1,891)
Unrecognized gain or loss	1,514

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

Accrued pension liabilities

\$ 1,514

As of December 31, 2004, the Bank's vested benefits were approximately \$170.

10. INCOME TAXES

According to regulations stipulated by Ruling Letter No. 910458039 dated February 22, 2003, "Principles and regulations of profit seeking businesses filing joint tax returns in accordance to Article 49 of the Financial Holding Company Law and Article 40 of Enterprise Merger Law", when a financial holding company holds more than 90% of the shares of a domestic subsidiary, the financial holding company and the subsidiary can file a joint tax return once the financial holding company holds more than 90% of the subsidiary for 12 months during a taxable year. The Company jointly filed income tax returns for 2003 and earnings distribution for 2002 for the Company, Jih Sun Securities Co., Ltd., and Jih Sun International Bank, Ltd.

Joint filing of the tax returns of the Company, Jih Sun Securities Co., Ltd, and Jin Sun International Bank, Ltd. resulted in a lowered tax burden due to tax incentives received, and since each individual company's tax burden was fairly distributed, management efficiency was raised.

1) Income taxes for 2003 and 2002 were the following:

	<u>2004</u>	<u>2003</u>
Current income tax payable	\$ 181,141	-
Income tax payable resulting from tax incentives	43,100	166,185
Income tax receivable resulting from tax incentives	(167,873)	(141,786)
Income tax refund	-	(25,041)
Securities temporary credit	(123,753)	-
Income tax prepayment and withholding	38,586	642
Decrease in current deferred income tax assets	-	10,000
Adjustment of prior year's income tax expense	(8,877)	-
	<u>\$</u>	
Income tax expense (benefit)	<u>(37,676)</u>	<u>10,000</u>
Current income tax payable	\$ (37,676)	-
Decrease in current deferred income tax assets	-	10,000
10% surtax on undistributed earnings	-	-
	<u>\$</u>	
Income tax expense benefit	<u>(37,676)</u>	<u>10,000</u>

As of December 31, 2004, the tax authorities had yet to approve the income tax return for year 2002 of the Company.

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

	<u>2004</u>	<u>2003</u>
Current income tax payable	\$ 270,793	(111,362)
Add (less): Tax effects of temporary differences		
Investment income accounted for under the equity method	(299,592)	102,117
Other income	-	(101)
Others	-	9,346
Adjustment of prior year's income tax expense	(8,877)	-

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

	\$	
Income tax expense benefit	(37,676)	-
3) Income tax returns for 2004 and earnings distribution for 2003 for the Company, Jih Sun Securities Co., Ltd., and Jih Sun International Bank, Ltd. were jointly filed by the Company and resulted in tax refund receivable of \$181,141.		
4) Information regarding tax incentives resulting from joint filing of tax:		
	December 31, 2004	December 31, 2003
Income tax payable resulting from tax incentives	\$ (61,841)	(166,185)
Income tax receivable resulting from tax incentives	167,873	141,786
	\$ 106,032	(24,399)
5) Related information on imputation tax system:		
	December 31,	
	2004	2003
Balance of stockholders' imputation credit account	\$ 427,752	314,280
	2004 (estimated)	2003 (actual)
Estimated (actual) imputation credit ratio of earnings distribution	- %	- %
6) Related information on undistributed earnings:		
	2004	2003
Undistributed earnings of 1998 and after	\$ (649,225)	(1,401,274)

11. STOCKHOLDERS' EQUITY

(1) Capital stock

The Company was established through a stock conversion between Jih Sun Securities Co., Ltd. and Jih Sun International Bank, Ltd. on February 5, 2002. The conversion ratio was 1.44403 shares and 0.57759 shares, respectively, for a total of 2,194,760,000 shares issued at par value of \$10. On August 20, 2003, Jih Sun Securities Co., Ltd. shares were converted at a ratio of 1.444 shares for a total of 62,377,766 shares converted at par value of \$10. On December 8, 2003, 3,864,579 shares of treasury stock were retired at par value of \$10. As of December 31, 2004 and 2003, the Company's authorized capital was \$50,000,000 and paid-in capital was \$22,532,732, totaling 2,253,273,187 shares.

(2) Capital surplus

Pursuant to Accounting Research and Development Foundation of the Republic of China Ruling Letter No. (90) 182 dated October 29, 2001, investment cost of the subsidiaries involved in the stock conversion between Jih Sun Securities Co., Ltd. and Jih Sun International Bank, Ltd. is based on the difference between the book values of assets and liabilities of the subsidiaries, with par value reflected as capital stock and additional paid-in capital reflected as capital surplus. Additional paid-in capital resulting from the stock conversion amounted to \$10,061,508 with unappropriated earnings originally belonging to subsidiaries prior to conversion of \$2,472,392 required to be distributed as cash dividends in accordance to Article 47, Paragraph 4 of the Financial Holding Company Law. Unappropriated earnings transferred to increase capital are allowed during the year the conversion occurred, and Article 8 of the Securities Exchange Law Implementation Rule does not restrict the capitalization ratio.

On August 20, 2003, shares of Jih Sun Securities Co., Ltd. were converted, resulting in an increase in long-term investments of \$640,586 and decrease in accumulated earnings of \$123. After an adjustment of

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

\$47,356 was made to treasury stock, capital surplus-issue premium of \$64,287 was recorded. On December 8, 2003, Jih Sun Securities Co., Ltd. retired treasury stock and the Company decreased capital surplus-issue premium in accordance to retire ratio by \$17,227 and recognized capital surplus-treasury stock transactions of \$17,731.

On November 2004, and December, 2004, shares of Jih Sun Securities Co., Ltd. were converted, resulting in an increase in long-term investments of \$269,015 and decrease in capital surplus-issue of \$20,080 and increase in retain earnings of \$364,741.

(3) Treasury stock

- a. On December 31, 2004 and 2003, in accordance with Article 28-2 of the Securities Exchange Law, treasury stock transferred to employees repurchased was 160,000,000 shares and 40,000,000 shares, respectively.
- b. According to the requirements under the Securities Exchange Law, the ratio of the number of treasury shares repurchased shall not exceed 10% of the total shares issued; the total amount of the shares repurchased shall not exceed the sum of retained earnings, premium on stock issuance, and realized capital surplus. The Company's highest amount of treasury shares held during the year was 160,000,000 shares, and the total amount of treasury stock repurchased was \$1,532,161, which complies with the requirements under the Securities Exchange Law. Using financial statements as of March 31, 2004, the maximum amount of treasury stock repurchased was 225,327,000 shares for a total of \$8,604,823. As of December 31, 2004 and 2003, the amount of treasury stock repurchased was 160,000,000 shares and 40,000,000 shares, respectively. As of December 31, 2004 and 2003, the amount of treasury stock repurchased was \$1,532,161 and \$330,581, respectively. According to the Securities Exchange Law, treasury stock cannot be pledged, nor does it have stockholder rights prior to transfer.
- c. Jih Sun Securities Co., Ltd and Jih Sun International Bank, Ltd. became subsidiaries of the Company on February 5, 2002, after completing the stock conversion. In accordance with Article 31 of the Financial Holding Company Law and SFAS 30, when the parent company recognizes investment income and compiles financial statements, parent shares held by the subsidiary should still be treated as shares repurchased by the parent company. Therefore, the Company accounts for treasury stock converted from Jih Sun Securities Co., Ltd. and Jih Sun International Bank, Ltd. as treasury stock, with a deduction made to stockholders' equity.

In 2004 and 2003, changes in parent treasury stock held by the subsidiaries were as follows:

From January 1 to December 31, 2004				
	Jih Sun Securities Co., Ltd		Jih Sun International Bank, Ltd	
	Shares	Amounts	Shares	Amounts
Beginning balance	74,351,639	\$ 633,988	43,666,367	\$ 323,491
Transfer during the period	68,091,229	574,033	43,666,367	323,491
		\$		
Ending balance	6,260,410	59,955	-	-
Transfer price		\$ 569,975		323,062
From January 1 to December 31, 2003				
	Jih Sun Securities Co., Ltd		Jih Sun International Bank, Ltd	
	Shares	Amounts	Shares	Amounts
Beginning balance	90,686,478	\$ 739,708	50,647,712	363,270
Adjustment due to stock conversion	-	23,871	-	-

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

Retirement of stock	3,864,579	38,142	-	-
Transfer during the period	<u>12,470,260</u>	<u>91,449</u>	<u>6,981,345</u>	<u>39,779</u>
		\$		
Ending balance	<u><u>74,351,639</u></u>	<u><u>633,988</u></u>	<u><u>43,666,367</u></u>	<u><u>323,491</u></u>
		\$		
Transfer price		<u><u>90,639</u></u>	(Note)	<u><u>42,640</u></u>

Note: Computed based on the Company's ownership of the subsidiary

- d. The Company's subsidiary Jih Sun Securities Co., Ltd. originally held 43,143,000 shares of Jih Sun International Bank, Ltd. But due to the stock conversion, the shares were converted to shares of the Company totaling 24,919,000 shares, reflected as short-term investments (the Company estimated a conversion cost of \$653,835). These shares were reflected as a deduction to stockholders' equity in accordance with SFAS 30 "Accounting for Treasury Stock." On December 31, 2004, resulting in a loss of \$443,427 and valuations gain of \$505,613. These shares were re-issued to the employees in 2004.
- e. According to SFC regulations, effective January 1, 2002, the Company's treasury stock held by subsidiaries is treated as treasury stock. If the market price of the Company's stock is less than the book value, the Company should calculate short-term investment devaluation loss or unrealized long-term investment devaluation loss according to ownership, and an equal amount of special reserve should be provided for which cannot be distributed. Any recovery in market value should be used to reverse special reserve according to ownership. If the subsidiary recognizes the shares of the Company as short-term investments, then the amount of recovery cannot exceed the amount of short-term investment devaluation loss on January 1, 2002. The above recovery of special reserve should be reflected with other non-treasury stock as a deduction to stockholders' equity. According to the above regulations, since the Company incurred losses in 2004 and 2003, there was no requirement to recognize short-term investment devaluation loss for special reserve.
- f. As of December 31, 2004 and 2003, the amount of treasury stock held by the Company and its subsidiaries was \$1,592,116 and \$1,941,895, respectively. According to "Statements of Financial Accounting Standards for Financial Holding Companies", information regarding shares of the parent company held by the subsidiaries is as follows:

Name of subsidiary	Shares	Amount	Repurchase reasons	Restriction on earnings distribution	Legal period	Estimated treatment approved by the Board of Directors
Jih Sun Securities Co., Ltd	6,260	<u>59,955</u>	Transferred to employees	No stockholder rights prior to transfer	3 years	Transferred to employees

12. EARNINGS DISTRIBUTION AND DIVIDEND POLICY

After-tax earnings, if any, shall pay for taxes and offset cumulative losses, and 10% of the remainder will be set aside as legal reserve. Then, special reserve will be provided for according to related regulations. Any remaining balance will be distributed as employee bonus. Employee bonus distributed cannot be less than 0.01%. The total amount of remuneration to directors and supervisors and any adjustments are made in accordance with the resolution of the shareholders' meeting. Special reserve may be reversed and transferred to unappropriated earnings due to changes in regulations or laws.

The Company adopted the residual dividend policy. In consideration of the Company's capital budget, essential funds needed for operations and investing are retained, and the remainder is distributed as stock or cash dividends. The cash dividends shall not be less than 10% of total dividends. When employee bonuses are distributed as stock dividends, employees of affiliate companies also receive employee bonuses.

According to SFC Ruling Letter (1) No. 100116 dated January 3, 2000, and other related regulations, prior to any

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

distribution of earnings, if there are any deductions made to stockholders' equity, then an equal amount of special reserve must be provided for based on net income and unappropriated earnings. If there are any subsequent reversals to the deduction from stockholders' equity, then the reversed portion may be distributed.

The Company incurred a loss for 2004, and therefore no employee bonuses and remuneration to directors and supervisors were distributed. Information regarding earnings distribution can be found on the Market Observation Post System.

13. EARNINGS PER SHARE

Earnings per share are calculated based on the weighted-average number of common shares outstanding during each period, except for capitalization of retained earnings or capital surplus, for which the computation of shares outstanding is retroactively adjusted. The weighted-average number of shares outstanding for the years ended December 31, 2004 and 2003 was 2,092,361,606 and 2,029,626,955, respectively.

14. FINANCIAL INSTRUMENTS

- (1) Financial derivatives: None.
(2) Fair value of derivative financial instruments

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
<u>Non-Derivative Financial Instruments</u>				
Financial Assets:				
Book value equal to fair value	\$ 819,556	819,556	171,143	171,143
Long-term equity investments	32,109,664	-	29,853,298	-
Financial Liabilities:				
Book value equal to fair value	2,630,549	2,630,549	524,685	524,685
Long-term debt	-	-	200,000	200,000

Methods and assumptions used by the Company for evaluation of financial instruments are as follows:
The book value of long-term investments is based on their market prices, if available. The Company's long-term investments are non-listed companies, and therefore it is impossible to determine their fair value. As of December 31, 2004 and 2003, original investment of the above long-term investments amounted to \$33,509,998 and \$33,506,998, respectively, and their carrying amounts were \$32,109,664 and \$29,853,298, respectively.

15. RELATED-PARTY TRANSACTIONS

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

<u>Name of Related Party</u>	<u>Relationship with the Company</u>
Jih Sun Securities Co., Ltd.	A subsidiary in which the Company has controlling interest
Jih Sun International Bank, Ltd.	"

(2) Significant Transactions with Related Parties

- a. Transactions between the Company and Jih Sun Securities Co., Ltd.:

	<u>2004</u>		<u>2003</u>	
	<u>Expenses</u>	<u>Accounts Payable</u>	<u>Expenses</u>	<u>Accounts Payable</u>
Service agent fee (including	\$ 13,522	-	13,798	1,103

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

computer printing expense) _____

b. The Company's deposits at Jih Sun International Bank, Ltd. were as follows:

2004					
	<u>Maximum Balance</u>	<u>Ending Balance</u>	<u>Interest Rate</u>	<u>Interest Revenue</u>	<u>Interest Receivable</u>
Deposits	\$ 349,619	2,005	0~2%	43	-
2003					
	<u>Maximum Balance</u>	<u>Ending Balance</u>	<u>Interest Rate</u>	<u>Interest Revenue</u>	<u>Interest Receivable</u>
Deposits	\$ 801,428	2,689	0~2.2%	1,075	7

In May 2003, the Company sold equipment to Jih Sun International Bank, Ltd. for \$12,620, resulting in a gain of \$110.

c. Tax incentive receivables (payables)

	December 31, 2004		December 31, 2003	
	<u>Book Value</u>	<u>%</u>	<u>Book Value</u>	<u>%</u>
Jih Sun International Bank, Ltd.	\$ 167,873	85	141,786	85
Jih Sun Securities Co., Ltd.	(61,841)	89	(166,185)	99

16. PLEDGED ASSETS

	<u>December 31, 2004</u>	<u>December 31, 2003</u>
Long-term equity investments		
Jih Sun Securities Co., Ltd.	\$ 3,042,366	2,883,114

17. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

(1) The Company: None.

(2) Jih Sun International Bank Ltd.:

- ① As of December 31, 2004 and 2003, contracts for equipment purchase and office renovations were approximately \$453,048 and \$404,381, respectively, of which \$111,981 and \$121,990, respectively, were paid.
- ② As of December 31, 2004 and 2003, the Bank acted as an agent for various collections amounting to approximately \$683,381 and \$644,079, respectively.
- ③ As of December 31, 2004 and 2003, the Bank handled several guarantees (including joint handling of foreign exchange transactions); the related outstanding guarantee deposits were approximately \$5,863,062 and \$3,51,105, respectively.
- ④ As of December 31, 2004 and 2003, the Bank had outstanding bank acceptance liabilities, which amounted to approximately \$364,368 and \$599,204, respectively, and letters of credit, which amounted to approximately \$2,075,410 and \$2,502,183, respectively.
- ⑤ As of December 31, 2004 and 2003, the Bank acted as custodian of post-dated checks for its clients (excluding next day's checks for clearing) which amounted to approximately \$23,293,377 and \$21,381,073, respectively.
- ⑥ As of December 31, 2004 and 2003, the Bank received escrow government bonds in connection with repurchase agreements with approximate face value of \$0 in both years.

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

- ⑦ As of December 31, 2004 and 2003, the Bank was entrusted with the sale of U.S. dollar traveler's checks of \$188,598 and \$228,931, respectively.

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

- ⑧ As of December 31, 2004, the Bank paid rent on a monthly or quarterly basis according to the rental contract. The estimated future rent payable and accrued interest on deposits treated as rent for the next five years are as follows:

<u>Year</u>	<u>Interest on deposits treated as rent</u>	<u>Rent payable</u>	<u>Present value</u>
2005	Note	\$ 241,813	229,477
2006	Note	139,969	118,155
2007	Note	83,888	62,895
2008	Note	29,729	19,821
2009	Note	7,532	4,543

Note: Amount is less than \$1,000.

As of December 31, 2004, the above interest on deposits treated as rent is based upon rent-free deposits and deposits in excess of 3 months' rent of \$46,217 and at 1.0% per annum interest for the rental period.

- ⑨ According to SFAS No. 28 "Financial Disclosures for Financial Institutions", major commitments and contingencies required to be disclosed by the Bank are as follows:

a) The Bank's credit commitments can be cancelled due to accelerated terms', therefore, as of December 31, 2004 and 2003, the Bank had no non-cancelable credit commitments, and credit commitments can only be canceled upon significant payment.

b) As of December 31, 2004 and 2003, the Bank had direct credit guarantees, which consisted of general guaranteed bonds (corporate bonds) which amounted to \$241,983 and \$218,493, respectively, and guarantee letters for financial guarantees of loans and securities (commercial paper), which amounted to \$2,440,934 and \$1,447,837, respectively.

c) As of December 31, 2004 and 2003, the Bank had performance guarantee bonds of \$1,329,425 and \$1,044,785, respectively. Auction deposits were \$7,500 and \$0, respectively, and guarantee letters issued for specified transactions were \$13,180,145 and \$1,848,775, respectively. As of December 31, 2004 and 2003, the Bank still had financial undertakings of \$5,461,400 and \$3,211,153, respectively.

d) Resale or repurchase agreements

Securities transactions under resale or repurchase agreements (including bonds, commercial paper, bank acceptances, and negotiable time deposits which are used for financing transactions) are separately recorded as securities purchased under resale agreement or securities sold under repurchase agreements. Upon execution of such agreements, the difference between the securities' resale price and the lending amount is recorded as interest revenue, whereas the difference between the securities' repurchase price and the borrowing amount is recorded as interest expense.

e) As of December 31, 2004 and 2003, the Bank had financial undertakings of \$0 and \$200,000, respectively.

(3) Jih Sun Securities Co., Ltd.:

The Company's significant commitments and contingencies at December 31, 2004 and 2003, are summarized as follows:

- ① As of December 31, 2004 and 2003, the Company had issued post-dated checks for future rental payments, which amounted to \$93,333 and \$97,059, respectively.
- ② As of December 31, 2004 and 2003, in connection with its securities financing activities, the Company held client-owned stocks which amounted to approximately 1,112,994,307 shares and 1,035,181,435 shares, respectively; stocks loaned out to clients amounted to approximately 74,903,000 shares and 37,843,000 shares, respectively, for which the Company received guarantee deposits in full from the clients.
- ③ During 1990, the Company sold entrusted shares of Cathay Life Insurance Co., Ltd. which were subsequently falsely reported as stolen shares by Mr. Guan, San Lang. According to the regulations,

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

the Company replaced these shares by purchasing shares from the market for \$27,171. The court subsequently ruled in favor of the Company, and the original shares were returned to the Company and sold for \$8,623, which resulted in a loss of \$18,548. The Company has filed for damages with the court.

- ④ During 1998, a client of the Company's Pan Chiao Branch filed a lawsuit against a Company employee for unauthorized stock sale of approximately \$40,010. The Company has applied to the court for sequestration to avoid a loss from employer responsibility. The Company made guarantee deposits of \$14,000 to the court (recorded as guarantee deposits-out) and seized the debtor's assets.
- ⑤ The Company was entrusted to act as the co-underwriter for Jeng-Yih Company's application for government approval to trade over the counter. Subsequently, Jeng-Yih Company was not permitted to trade over the counter because of a significant amount of bad checks. Therefore, the investors have sued the Company's directors and supervisors, the independent auditors, and the underwriters of Jeng-Yih Company for total damages of \$7,102. The litigation procedure is currently in process.
- ⑥ As of December 31, 2004 and 2003, the Company had applied to the court for provisional seizure in connection with protection of its breach penalty for securities margin transactions. Therefore, the Company made guarantee deposits of \$13,526 and \$5,042, respectively (recorded as guarantee deposit-out) and seized the debtor's assets.
- ⑦ A client of the Company's Tai-Chung Branch alleged that the prior responsible person of the Company's Tai-Chung Branch sold his stock without permission, which amounted to approximately \$7,512 with interest. Therefore, the client requested the Company to be jointly responsible for such claim. The litigation procedure is in process.
- ⑧ Three customers of the Tai-Chung Branch alleged that a former employee at the Tai-Chung Branch had sold their stock without permission, and stolen their bank savings. Therefore, the client requested the Company to be jointly responsible and claimed for \$132,378 thousand with interest. The litigation procedure is in process. While the case in which the client Yang sued the Company for \$22,403 was a controversial issue, the other two clients' claims in the early part should be judged the debt dispute between the client and the employee, and the Company should not be responsible for any compensation liability.

(4) Jih Sun Product Insurance Agent Co., Ltd.: None.

18. SUBSEQUENT EVENTS

(1) The Company: None.

(2) Jih Sun International Bank Ltd.:

To expand the Bank's business and enhance its operating efficiency, the Board of Directors of Jih Sun International Bank, Ltd. resolved to acquire the department of TAIWAN DEVELOPMENT & TRUST CORPORATION on January 26, 2005, and approved this proposal at an acquisition price of NT\$6,000, 000.

(3) Jih Sun Securities Co., Ltd.: None

(4) Jih Sun Product Insurance Agent Co., Ltd.: None.

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

19. OTHER

1) Condensed balance sheets

	December 31, 2004			December 31, 2003	
	Jih Sun International Bank, Ltd.	Jih Sun Securities Co., Ltd.	Jih Sun Product	Jih Sun International Bank, Ltd.	Jih Sun Securities Co., Ltd.
			Insurance Agent Co., Ltd.		
Current assets	\$ 72,014,838	42,555,761	1,939	52,751,831	32,088,304
Discounted bills and loans, net	177,907,629	-	-	161,983,290	-
Long-term equity investments	3,161,428	3,761,777	-	2,739,822	3,273,542
Properties	4,861,845	2,352,671	178	4,497,147	2,223,468
Intangible assets and others	11,461,792	1,997,980	195	6,883,794	1,822,803
Securities brokerage debit account-net	-	42,849	-	-	38,998
Customer deposits	220,782,392	-	-	189,927,387	-
Other current liabilities	25,903,521	26,685,637	571	20,813,414	21,524,601
Long-term debt	9,162,570	5,118,505	-	5,159,690	5,000
Other liabilities	61,274	296,748	-	527,811	284,969
Common stock	13,247,600	12,072,127	3,000	13,247,600	12,072,127
Capital surplus	2,431	2,298,456	-	2,861	2,298,456
Retained earnings	247,744	4,342,558	(1,259)	(499,388)	3,831,939
Total assets	269,407,532	50,711,038	2,312	228,855,884	39,447,116
Total liabilities	255,909,757	32,100,890	571	216,428,302	21,814,570
Total stockholders' equity	13,497,775	18,610,148	1,741	12,427,582	17,632,546

2) Condensed statements of income

	2004			2003	
	Jih Sun International Bank, Ltd.	Jih Sun Securities Co., Ltd.	Jih Sun Product Insurance Agent Co., Ltd.	Jih Sun International Bank, Ltd.	Jih Sun Securities Co., Ltd.
Operating Revenues	\$ 12,164,442	6,495,976	34	9,341,133	4,269,723
Operating Costs	7,512,098	1,882,393	2	6,296,507	1,506,946
Gross Margin	4,652,344	4,613,583	32	3,044,626	2,762,777
Operating Expenses	4,048,747	3,346,983	1,294	3,033,324	2,915,915
Income from Operations	603,597	1,266,600	(1,262)	11,302	(153,138)
Non-Operating Revenues and Benefits	349,495	349,558	3	580,722	303,379
Non-Operating Expenses and Loss	210,058	220,480	-	409,175	276,772
Income before Income Taxes	743,034	1,395,678	(1,259)	182,849	(126,531)
Net Income (Loss)	747,132	514,678	(1,259)	233,874	(569,531)

JIH SUN FINANCIAL HOLDING CO., LTD.
NOTES TO FINANCIAL STATEMENTS (CONT' D)

Earnings per Share	0.57	0.32	(4.20)	0.20	(0.49)
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3) The Company's personnel, depreciation, and amortization expenses were as follows:

	2004	2003
Nature	Operating Expense	Operating Expense
Personnel Expense	\$ 43,885	9,541
Amortization Expense	2,200	1,613

4) Account Reclassification:

Certain prior year accounts of the financial statements were reclassified to conform to the presentation in these financial statements.