

**FUHLWA FINANCIAL HOLDING CO., LTD.  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

**June 30, 2003 and 2002**

**(With Independent Auditors' Report Thereon)**

## **Independent Auditor's Report**

The Board of Directors  
Fuhwa Financial Holding Co., Ltd.

We have audited the accompanying consolidated balance sheets of Fuhwa Financial Holding Co., Ltd. (the Company) and its subsidiaries as of June 30, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the half-year ended June 30, 2003, and the period from February 4, 2002 (date of establishment) to June 30, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the Republic of China Guidelines for Certified Public Accountants' Examinations and Reports on Financial Statements of Financial Institutions. 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Fuhwa Financial Holding Co., Ltd. and its subsidiaries as of June 30, 2003 and 2002, and the results of their operations and their cash flows for the half-year ended June 30, 2003, and the period from February 4, 2002 (date of establishment) to June 30, 2002, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the "Rules Governing the Preparation of Financial Reports by Financial Holding Companies", Republic of China generally accepted accounting principles, the "Criteria Governing the Preparation of Financial Reports by Securities Firms", and the "Criteria Governing the Preparation of Financial Reports by Futures Firms".

Due to the change in subsidiaries comprising the group of companies for which consolidated financial statements as of June 30, 2003, are presented, the Company restated the consolidated financial statements as of June 30, 2002, to give effect to the change for comparative analysis.

August 5, 2003

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.

FUHW FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2003 and 2002  
(expressed in thousands of New Taiwan dollars)

Assets	June 30, 2003		June 30, 2002		Liabilities and Stockholders' Equity	June 30, 2003		June 30, 2002	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (note 3)	\$ 28,450,902	10	30,282,583	13	Short-term debts (notes 17, 25 and 26)	\$ 40,911,925	15	44,318,225	19
Due from Central Bank (note 4)	3,460,956	1	3,114,347	1	Deposits by Central Bank	11,024	-	8,953	-
Short-term investments (notes 5, 25 and 26)	4,122,431	2	5,951,314	2	Deposits by banks	17,691,211	6	4,284,819	2
Bonds purchased under agreements to resell (notes 6 and 26)	1,933,663	1	4,930,297	2	Stock warrant liabilities (note 24)	27,720	-	35,200	-
Futures trading margins (note 7)	1,070,569	-	953,071	1	Put option liabilities (note 24)	584	-	3,684	-
Margin deposits for futures contracts (note 24)	79,004	-	68,859	-	Payable to customer	1,476,898	1	953,071	-
Derivative financial instruments—assets, OTC (note 24)	52,581	-	34	-	Derivative financial instruments—liabilities, OTC	51,041	-	-	-
Interest receivable	1,509,608	1	1,951,856	1	Guarantee deposits received (note 8)	3,295,907	1	3,169,800	1
Margin loans (note 8)	25,635,704	10	33,857,207	14	Short sales proceeds payable (note 8)	4,296,689	2	4,090,248	2
Other receivables (notes 10, 22, 25 and 26)	3,552,540	1	2,914,511	1	Other notes and accounts payable (notes 22 and 23)	4,613,404	2	4,623,854	2
Other financial assets—current (notes 22, 24 and 26)	963,981	-	852,457	1	Advance receipts and other current liabilities (note 24)	136,379	-	98,864	-
Deferred income tax assets—current (note 22)	840,531	-	502,318	-	<b>Total current liabilities</b>	<u>72,512,782</u>	<u>27</u>	<u>61,586,718</u>	<u>26</u>
Trading securities (notes 5, 9 and 26)	28,614,298	10	20,047,588	8	<b>Deposits and remittances (notes 18 and 25)</b>	161,383,627	60	140,782,578	62
Prepaid expense	169,099	-	289,108	-	<b>Financial debentures (note 19)</b>	3,534,000	1	-	-
<b>Total current assets</b>	<u>100,455,867</u>	<u>36</u>	<u>105,715,550</u>	<u>44</u>		<u>164,917,627</u>	<u>61</u>	<u>140,782,578</u>	<u>62</u>
<b>Loans and advances to customers, net (notes 10, 24 and 25)</b>	<u>143,300,220</u>	<u>53</u>	<u>109,332,975</u>	<u>46</u>	<b>Long-term liabilities:</b>				
<b>Funds and long-term investments (notes 5, 11 and 26):</b>					Accrued pension liabilities (note 20)	287,396	-	228,375	-
Funds	-	-	300,000	-	Other long-term borrowings (note 21)	399,302	-	-	-
Long-term equity investments under equity method	3,010,276	1	379,244	-		<u>686,698</u>	<u>-</u>	<u>228,375</u>	<u>-</u>
Long-term equity investments under cost method	1,556,822	1	1,670,482	1	<b>Other liabilities:</b>				
Long-term investments in bonds	6,661,090	2	4,212,886	2	Reserve for guarantee liabilities	46,139	-	41,412	-
Prepayments for long-term investments in stocks	100,000	-	-	-	Reserve for default losses	200,731	-	200,731	-
<b>Total funds and long-term investments, net</b>	<u>11,328,188</u>	<u>4</u>	<u>6,562,612</u>	<u>3</u>	Reserve for trading losses	56,512	-	432	-
<b>Property and equipment (notes 12, 25, 26 and 27):</b>					Reserve for bad debt	257,721	-	169,950	-
Cost:					Other liabilities	288,050	-	245,547	-
Land	1,800,288	1	1,769,823	1	Minority interests	18	-	10,348,644	4
Buildings	1,671,951	1	1,510,513	1	<b>Total other liabilities</b>	<u>849,171</u>	<u>-</u>	<u>11,006,716</u>	<u>4</u>
Machinery and equipment	626,935	-	496,171	-	<b>Total liabilities</b>	<u>238,966,278</u>	<u>88</u>	<u>213,604,387</u>	<u>92</u>
Computer equipment	121,906	-	113,331	-	<b>Stockholders' equity:</b>				
Transportation equipment	76,783	-	62,686	-	Common stock, par value \$10, authorized 5,000,000 thousand shares				
Other facilities	1,469,958	1	1,279,172	1	in 2003 and 2002 and issued 2,826,829 thousand shares and				
	5,767,821	3	5,231,696	3	2,091,000 thousand shares in 2003 and 2002, respectively	28,268,294	10	20,910,000	9
Less: accumulated depreciation	1,662,293	1	1,465,302	1	Stock dividend to be distributed	676,151	-	-	-
Prepayments for building and equipment	227,226	-	75,993	-		<u>28,944,445</u>	<u>10</u>	<u>20,910,000</u>	<u>9</u>
<b>Net property, plant and equipment</b>	<u>4,332,754</u>	<u>2</u>	<u>3,842,387</u>	<u>2</u>	Capital surplus:				
<b>Other intangible assets—operating rights</b>	<u>481,029</u>	<u>-</u>	<u>343,750</u>	<u>-</u>	Capital surplus—additional paid-in capital	7,891,572	3	8,787,508	-
<b>Other assets:</b>					Capital surplus—treasury stock transactions	483,519	-	-	-
Operating guarantee deposits (notes 13 and 26)	1,010,000	-	885,000	-		<u>8,375,091</u>	<u>3</u>	<u>8,787,508</u>	<u>-</u>
Settlement and clearing funds (note 14)	449,599	-	371,012	-	Retained earnings:				
Non-operating assets (notes 12 and 26)	1,746,355	1	1,094,570	-	Legal reserve	3,323	-	-	-
Refundable deposits (notes 15 and 26)	1,653,741	1	1,417,519	1	Special reserve	29,911	-	-	-
Non-performing loans and overdue receivables (notes 8, 10 and 24)	6,003,516	2	8,193,966	3	Unappropriated retained earnings	1,163,171	-	514,048	-
Deferred charges	333,383	-	61,283	-		<u>1,196,405</u>	<u>-</u>	<u>514,048</u>	<u>-</u>
Deferred pension cost	24,441	-	-	-	Equity adjustments:				
Deferred income tax asset—noncurrent (note 22)	1,507,700	1	1,386,941	1	Cumulative foreign currency translation adjustments	(865)	-	(6,784)	-
<b>Total other assets</b>	<u>12,728,735</u>	<u>5</u>	<u>13,410,291</u>	<u>5</u>	Net loss from unrecognized pension cost	(10,240)	-	-	-
<b>Brokering transaction debit balance, net (note 16)</b>	<u>24,477</u>	<u>-</u>	<u>19,651</u>	<u>-</u>		<u>(11,105)</u>	<u>-</u>	<u>(6,784)</u>	<u>-</u>
					Treasury stock	(4,819,844)	(1)	(4,581,943)	(1)
<b>Total assets</b>	<u>\$ 272,651,270</u>	<u>100</u>	<u>239,227,216</u>	<u>100</u>	<b>Total stockholders' equity</b>	<u>33,684,992</u>	<u>12</u>	<u>25,622,829</u>	<u>8</u>
					<b>Commitments and contingent liabilities (notes 8, 12, 22, 24 and 27)</b>				
					<b>Total liabilities and stockholders' equity</b>	<u>\$ 272,651,270</u>	<u>100</u>	<u>239,227,216</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the half-year ended June 30, 2003, and the period from February 4, 2002 (date of establishment) to June 30, 2002  
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2003.1.1~2003.6.30		2002.2.4~2002.6.30	
	Amount	%	Amount	%
<b>Operating revenues:</b>				
Interest revenue (note 25)	\$ 4,296,283	64	5,546,242	72
Fees and commissions (note 25)	1,226,903	18	1,649,131	22
Underwriting commission	26,708	-	60,356	1
Profit from trading securities—dealing	241,693	4	-	-
Profit from trading securities—underwriting	29,283	-	149,140	2
Gain on bills trading, net	416,862	6	2,441	-
Investment income under equity method	106,897	2	76,217	1
Gain on issuance of stock warrants (note 24)	51,100	1	118,284	1
Gain on futures contracts (note 24)	47,279	1	43,055	-
Clearing and settlement service income—future	185	-	51	-
Gain on option rights (note 24)	9,574	-	33,695	-
Gain on derivative financial instruments—OTC (note 24)	53,346	1	36	-
Gain on market value recovery of trading securities	28,753	-	-	-
Gain on reversal of reserve for trading losses	-	-	21,126	-
Other operating revenue (note 25)	173,284	3	66,133	1
	<u>6,708,150</u>	<u>100</u>	<u>7,765,907</u>	<u>100</u>
<b>Operating cost:</b>				
Interest expense (note 25)	1,697,186	25	2,620,309	35
Fees and commission expense	94,773	1	198,832	2
Provisions for bad and doubtful accounts (note 10)	525,552	8	4,346,374	58
Loss from trading securities—dealing	-	-	53,655	-
Loss from trading securities—hedge	43,782	1	17,622	-
Loss from devaluation of trading securities	-	-	15,883	-
Commission expenses for introducing futures contracts	21,889	1	20,941	-
Loss from futures contracts (note 24)	96,808	1	62,818	-
Settlement and cleaning brokerage commission	9,136	-	4,802	-
Loss on option transactions (note 24)	16,121	-	21,868	-
Loss from derivative financial instruments—OTC (note 24)	40,755	1	-	-
Other operating loss	4,656	-	4,479	-
	<u>2,550,658</u>	<u>38</u>	<u>7,367,583</u>	<u>95</u>
<b>Gross profit</b>	4,157,492	62	398,324	5
<b>Operating expenses (notes 20 and 25)</b>	<u>3,184,468</u>	<u>47</u>	<u>2,807,188</u>	<u>37</u>
<b>Operating income (loss)</b>	<u>973,024</u>	<u>15</u>	<u>(2,408,864)</u>	<u>(32)</u>
<b>Non-operating income:</b>				
Interest income from deposits, bonds, and bills	77,394	1	117,421	2
Rental income	8,440	-	6,170	-
Investment income (notes 5 and 25)	293,580	4	74,652	1
Gain on disposal of property and equipment	83	-	-	-
Other income	49,834	1	101,852	1
	<u>429,331</u>	<u>6</u>	<u>300,095</u>	<u>4</u>
<b>Non-operating expense:</b>				
Interest expense	35,232	1	11,588	-
Foreign exchange loss, net	-	-	40	-
Unrealized loss on short-term investments	-	-	49,372	1
Loss on disposal of property and equipment	10,787	-	2,609	-
Miscellaneous expenses	12,337	-	8,992	-
	<u>58,356</u>	<u>1</u>	<u>72,601</u>	<u>1</u>
<b>Income (loss) before income tax</b>	1,343,999	20	(2,181,370)	(29)
<b>Income tax expense (benefit) (note 22)</b>	<u>180,827</u>	<u>3</u>	<u>(74,277)</u>	<u>(1)</u>
<b>Comprehensive net income (loss)</b>	<u>1,163,172</u>	<u>17</u>	<u>(2,107,093)</u>	<u>(28)</u>
<b>Minority interest loss (income)</b>	(1)	-	2,959,462	38
<b>Pre-acquisition income</b>	-	-	(338,321)	(4)
<b>Consolidated net income</b>	<u>\$ 1,163,171</u>	<u>17</u>	<u>514,048</u>	<u>6</u>
			<b>Before</b>	<b>After</b>
<b>Earnings per share (expressed in New Taiwan dollars)</b>			<b>income tax</b>	<b>income tax</b>
			\$ <u>0.48</u>	<u>0.48</u>
			<u>0.30</u>	<u>0.29</u>
Proforma data – Shares of Fuhwa Financial Holding Co., Ltd. held by its subsidiaries are not deemed as treasury stock:				
			<b>Before</b>	<b>After</b>
<b>Net income</b>			<b>income tax</b>	<b>income tax</b>
			\$ <u>1,399,451</u>	<u>1,399,498</u>
			<u>10,149</u>	<u>9,507</u>
<b>Earnings per share (expressed in New Taiwan dollars)</b>			<u>0.52</u>	<u>0.52</u>
			<u>0.005</u>	<u>0.005</u>

See accompanying notes to consolidated financial statements.

FUHWА FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the half-year ended June 30, 2003, and the period from February 4, 2002 (date of establishment) to June 30, 2002

(expressed in thousands of New Taiwan dollars)

	Common stock	Stock dividend to be distributed	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Cumulative foreign currency translation adjustments	Net loss from unrecognized pension cost	Treasury stock	Total
<b>Balance as of February 4, 2002 (date of establishment)</b>	\$ 20,910,000	-	8,787,508	-	-	-	-	-	(866,823)	28,830,685
Purchase of treasury stock (note 23)	-	-	-	-	-	-	-	-	(333,132)	(333,132)
The stock of the Company held by subsidiaries (note 23)	-	-	-	-	-	-	-	-	(3,381,988)	(3,381,988)
Recognition of cumulative foreign currency translation adjustments from subsidiaries	-	-	-	-	-	-	(6,784)	-	-	(6,784)
Net income for the period from February 4 to June 30, 2002	-	-	-	-	-	514,048	-	-	-	514,048
<b>Balance as of June 30, 2002</b>	<u>\$ 20,910,000</u>	<u>-</u>	<u>8,787,508</u>	<u>-</u>	<u>-</u>	<u>514,048</u>	<u>(6,784)</u>	<u>-</u>	<u>(4,581,943)</u>	<u>25,622,829</u>
<b>Balance as of January 1, 2003</b>	\$ 28,268,294	-	10,295,803	-	-	33,234	1,657	(10,240)	(4,908,614)	33,680,134
Appropriation of retained earnings (note 23):										
Appropriation of retained earnings to legal reserve	-	-	-	3,323	-	(3,323)	-	-	-	-
Appropriation of retained earnings to special reserve	-	-	-	-	29,911	(29,911)	-	-	-	-
Cash dividends distributed from capital surplus (note 23)	-	-	(1,222,294)	-	-	-	-	-	-	(1,222,294)
Capital surplus transferred to common stock (note 23)	-	676,151	(676,151)	-	-	-	-	-	-	-
Purchase of treasury stock (note 23)	-	-	-	-	-	-	-	-	(160,252)	(160,252)
Treasury stock transferred to employees by subsidiaries (note 23)	-	-	14,667	-	-	-	-	-	212,088	226,755
Recognition of cumulative foreign currency translation adjustments from subsidiaries	-	-	-	-	-	-	(2,522)	-	-	(2,522)
Reversal of the effect of change in percentage of ownership in investee under equity method due to reclassification from long-term investments to short-term investments	-	-	(36,934)	-	-	-	-	-	36,934	-
Net income for the half-year ended June 30, 2003	-	-	-	-	-	1,163,171	-	-	-	1,163,171
<b>Balance as of June 30, 2003</b>	<u>\$ 28,268,294</u>	<u>676,151</u>	<u>8,375,091</u>	<u>3,323</u>	<u>29,911</u>	<u>1,163,171</u>	<u>(865)</u>	<u>(10,240)</u>	<u>(4,819,844)</u>	<u>33,684,992</u>

See accompanying notes to consolidated financial statements.

**FUHW FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

**For the half-year ended June 30, 2003, and the period from February 4, 2002 (date of establishment) to June 30, 2002**  
(expressed in thousands of New Taiwan dollars)

	<b>2003.1.1~ 2003.6.30</b>	<b>2002.2.4~ 2002.6.30</b>
<b>Cash flows operating activities:</b>		
Net income	\$ 1,163,171	514,048
Adjustment to reconcile net income to net cash provided by operating activities:		
Pre-acquisition income	-	338,321
Minority interest income (loss)	1	(2,959,462)
Depreciation and amortization	233,955	210,652
Allowance for bad debts	481,376	414,720
Provision for bad and doubtful accounts	525,552	4,346,374
Loss on (gain on market value recovery of) valuation of short-term investments	(20,857)	49,372
Loss on (recovery in) market value of trading securities	(28,753)	15,883
(Reversal of) provision for reserve for trading losses	56,512	(21,131)
Reserve for operating losses	-	1,298
Reserve for bad debt	35,011	44,092
Cash dividends from long-term investments under equity method	-	14,625
Gain on long-term equity investments under equity method	(106,897)	(76,217)
Gain on sale of long-term investments	(223,370)	-
Loss on disposal of property, plant and equipment and non-operating assets	10,704	2,609
Allowance for loss on decline in net realizable value of securities foreclosed	1,593	1,766
Loss (gain) on disposal of securities foreclosed, net	4,468	(936)
Loss on obsolescence of deferred charges	183	-
Decrease (increase) in bonds purchased under agreements to resell	513,423	(3,087,797)
Decrease (increase) in futures trading margins	76,941	(69,942)
Decrease (increase) in margin deposits for futures contracts	(427)	27,560
Decrease (increase) in interest receivable	305,740	(157,730)
Decrease (increase) in margin loans	4,679,284	(1,791,735)
Increase in other receivables	(615,285)	(281,657)
Increase in trading securities	(932,272)	(2,110,720)
Decrease (increase) in prepayments and other current financial assets	7,791	(436,048)
Increase in derivative financial instruments—assets, OTC	(52,581)	-
Decrease (increase) in deferred income tax asset	163,517	(500,968)
Decrease (increase) in brokering transaction debit balance, net	(6,992)	11,441
Decrease in issued warrant payable	(29,572)	(25,022)
Increase in put option liabilities	584	-
Increase in payable to customers	329,388	69,942
Increase in derivative financial instruments—liabilities, OTC	51,041	-
Decrease in guarantee deposit received	(1,052,228)	(1,338,103)
Decrease in short sales proceeds payable	(1,082,821)	(1,010,228)
Increase (decrease) in other payable	(443,879)	283,798
Increase in advance receipts and other current liabilities	46,252	95,226
Increase in pension payable	9,315	11,310
<b>Net cash provided by (used in) operating activities</b>	<u>4,099,868</u>	<u>(7,414,659)</u>
<b>Cash flows from investing activities:</b>		
Increase in due from Central Bank	-	(48,035)
Decrease (increase) in short-term investments for the purpose of investment	983,365	(1,347,580)
Increase in loans and advances to customers (including charges on non-performing loans)	(28,687,036)	(3,396,751)
Increase in funds and long-term investments	(1,920,325)	(642,369)
Proceeds from disposal of long-term investments and disinvestments	352,487	-
Acquisition of property, equipment and non-operating assets	(1,048,650)	(107,747)
Proceeds from disposal of property, equipment and non-operating assets	1,312	50,007
Purchase of intangible assets	(39,242)	(99,741)
Proceeds from disposal of deferred charges	36	-
Decrease in prepaid signatory fund	-	40,000
Decrease (increase) in operating guarantee deposits	(25,000)	15,000
Decrease (increase) in settlement and clearing funds	(38,386)	28,549
Sale of foreclosed assets	184,076	-
Increase in refundable deposits	(50,964)	(8,606)
Increase in deferred charges	(46,536)	(13,031)
Decrease in other assets	8,665	-
<b>Net cash used in investing activities</b>	<u>(30,326,198)</u>	<u>(5,530,304)</u>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in short-term debts	(2,258,083)	9,380,363
Decrease in deposits by Central Bank	(280,974)	(5,589)
Decrease in deposits by banks	12,543,547	2,186,085
Increase (decrease) in deposits and remittances	13,033,313	(37,263)
Increase in other long-term borrowings	399,302	-
Increase in other liabilities	137,234	-
Payment of cash dividend by subsidiaries	-	(315)
Remuneration of directors and supervisors by subsidiaries	-	(315)
Treasury stock transferred to employees	226,755	-
Payment from decrease in capital of subsidiaries	(33)	-
Purchase of treasury stock	(177,930)	(626,538)
<b>Net cash provided by financing activities</b>	<u>23,623,131</u>	<u>10,896,428</u>
<b>Net decrease in cash and cash equivalents for the half-years ended June 30, 2003 and 2002</b>	<u>(2,603,199)</u>	<u>(2,048,535)</u>
<b>Decrease in subsidiaries' cash and cash equivalents at the date of acquiring subsidiaries' majority interests</b>	<u>-</u>	<u>(6,690,029)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(2,603,199)</u>	<u>4,641,494</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>31,054,101</u>	<u>-</u>
<b>Cash and cash equivalent at the date of acquiring subsidiaries' majority interests</b>	<u>-</u>	<u>25,641,089</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 28,450,902</u>	<u>\$ 30,282,583</u>
<b>Supplemental disclosure of cash flow:</b>		
Cash payment of interest	<u>\$ 1,830,725</u>	<u>\$ 3,078,819</u>
Cash payment of income tax	<u>\$ 536,539</u>	<u>\$ 66,825</u>
<b>Financing and investing activities not affecting cash flow:</b>		
Reversal of effect on long-term investments from the Company's stock held by subsidiaries	<u>\$ 33,252</u>	<u>-</u>
Decrease in cumulative foreign currency translation adjustments	<u>\$ (2,522)</u>	<u>\$ (6,784)</u>
<b>Reconciliation of cash payment for purchase of property, equipment and non-operating assets:</b>		
Increase in purchase of property, equipment and non-operating assets	\$ 1,043,698	95,434
Decrease in balance payable—machinery and equipment	4,322	12,313
Cash paid	<u>\$ 1,048,020</u>	<u>\$ 107,747</u>
<b>Reconciliation of cash payment for purchase of treasury stock:</b>		
Increase in purchase of treasury stock	\$ 160,252	642,965
Decrease (increase) in payable	17,678	(16,427)
Cash paid	<u>\$ 177,930</u>	<u>\$ 626,538</u>
<b>Reconciliation of cash dividends and declaration of employees' bonuses of the parent and its subsidiaries</b>		
Declaration of dividends and employees' bonuses	\$ 1,234,596	23,337
Increase in dividend and employees' bonuses payable	1,234,596	23,022
Cash paid	<u>\$ -</u>	<u>\$ 315</u>

See accompanying notes to consolidated financial statements.

# FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2003 and 2002

(amounts expressed in new Taiwan dollars, unless otherwise specified)

### (1) Organization and Business Scope

Fuhwa Financial Holding Co., Ltd. (the Company) was incorporated in February 2002 pursuant to the Financial Holding Company Act. In connection with the formation of the Company, the shares of Fuhwa Securities Finance Co., Ltd. (Fuhwa Securities Finance) and Fuhwa Securities Co., Ltd. (Fuhwa Securities) were exchanged for shares of the Company. The regulatory procedure for the share exchange was completed on the exchange date of February 4, 2002, and the Company was listed on the Taiwan Stock Exchange on the same date.

On May 24, 2002, the shareholders' meetings of the Company and Asia Pacific Bank agreed that shares of Asia Pacific Bank would be exchanged for shares in the Company, and Asia Pacific Bank became a entirely owned subsidiary of Fuhwa Financial Holding Co., Ltd. on August 1, 2002. Furthermore, Asia Pacific Bank was authorized to be renamed Fuhwa Commercial Bank on September 17, 2002.

In the year 2002 and the first and second quarters of 2003, the Company acquired Fuhwa Futures Co., Ltd. (Fuhwa Futures), Fuhwa Capital Management Co., Ltd. (originally named Fuhwa Cheng Ching Capital Management Co., Ltd. and renamed Fuhwa Capital Management in November 2002), Fuhwa Securities Investment Trust Co., Ltd. (originally named Asia Pacific Securities Investment Trust and renamed Fuhwa Securities Investment Trust in September 2002), Fuhwa Venture Capital Co., Ltd. (Fuhwa Venture Capital), Fuhwa Asset Management Co., Ltd. (Fuhwa Asset Management), and Fuhwa Finance Consulting Co., Ltd. (Fuhwa Finance Consulting) one after another in order to boost the competitive ability of the Company, follow government policies, and face the changes and developments in the prospective market. The share ownership percentages of Fuhwa Futures, Fuhwa Capital Management, Fuhwa Securities Investment Trust, Fuhwa Venture Capital, Fuhwa Asset Management, and Fuhwa Finance Consulting were 99%, 99%, 100%, 100%, 100%, and 100%, respectively; accordingly, these companies were subsidiaries of Fuhwa Financial Holding.

The Company engages in the business of a financial holding company, and the operations of the Company are limited to the fields of investing and investment management. According to the Financial Holding Company Act, the businesses in which the Company can invest are banking, bills finance, credit cards, trusts, insurance, securities, futures, venture capital, foreign financial institutions that are authorized by the government authority, and other related financial businesses that are recognized by the government authority.

Fuhwa Securities Finance was incorporated on January 17, 1980, by special permission of the government. The Company directly owns 100% of the shares of Fuhwa Securities Finance. The operations of Fuhwa Securities Finance include securities financing and refinancing, securities underwriting, and related businesses that are approved by the Securities and Futures Commission of the Ministry of Finance (SFC).

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Fuhwa Securities was established on June 26, 1996. The Company directly owns 100% of the shares of Fuhwa Securities. Fuhwa Securities is primarily engaged in the business of stock brokerage, futures trading support, and futures brokerage. (All areas of business must be approved by the government authorities.) As of June 30, 2003, Fuhwa Securities indirectly owned 100% of the shares of Fuhwa Securities (H.K.) Co., Ltd. and Fuhwa (BVI) Investment Management Co., Ltd. through its wholly owned financial holding company, Fuhwa Holding (BVI) Co., Ltd. The main operations of the above-mentioned subsidiaries are in the securities and consulting businesses, respectively.

Fuhwa Commercial Bank started operating on February 12, 1992, and is 100% owned by the Company. Fuhwa Bank primarily engages in all commercial banking operations allowed by the Banking Law and regular commercial operations approved by the government authorities. As of June 30, 2003, the subsidiaries of Fuhwa Bank were Fuhwa Lease Co., Ltd., Fuhwa Property Insurance Agency Co., Ltd., and Fuhwa Life Insurance Agent Co., Ltd. The shareholding ratios of the abovementioned subsidiaries are 98%, 80%, and 100%, respectively. The main operations of Fuhwa Lease Co., Ltd. are the purchase, sale, and lease of various real estate and movable properties. Fuhwa Property Insurance Agency Co., Ltd. primarily engages in the business of property insurance agent. Fuhwa Life Insurance Agent Co., Ltd. primarily engages in the business of life insurance agent.

Fuhwa Futures was established on August 6, 1998, and is 99% owned by the Company. Fuhwa Futures is primarily engaged in the local and foreign futures brokerage, futures trading, futures clearing, and other futures-related businesses approved by the government authorities.

Fuhwa Capital Management was established on April 18, 1997, based on the Rules Governing Securities Investment Consulting Enterprises and the laws of the ROC. The Company directly owns 99% of the shares of Fuhwa Capital Management so far. Fuhwa Capital Management primarily engages in providing research and analysis of any investment related to securities, offering suggestions, exercising discretionary account investment consigned by clients, issuing publications related to securities investment, holding investing seminars, and other related investing businesses approved by the SFC.

Fuhwa Securities Investment Trust was established on December 23, 1997, and is 100% owned by the Company. Fuhwa Securities Investment Trust primarily engages in raising securities investment trust funds through issuance of beneficiary certificates to invest in securities and related products, and exercising discretionary account investment consigned by clients.

Fuhwa Venture Capital was established on December 13, 2002, and is 100% owned by the Company. Fuhwa Venture Capital primarily invests in local and foreign technology businesses, other local and foreign venture capital businesses, and local and foreign manufacturing businesses. As of June 30, 2003, Fuhwa Venture Capital had invested in Fuhwa I Venture Capital Co., Ltd., with 97% share ownership. Fuhwa I Venture Capital Co., Ltd. mainly operates in the business of venture capital.

(Continued)

**FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Fuhwa Asset Management was established on April 16, 2003, and is 100% owned by the Company. Fuhwa Asset Management primarily engages in purchasing account receivables, purchasing monetary debts of financial institutions, and conducting valuation, auction, and management of monetary debts of financial institutions.

Fuhwa Finance Consulting was established on April 14, 2003, and is 100% owned by the Company. The operations of Fuhwa Finance Consulting include investments, and consulting on corporation operation and management.

The Consolidated Company had approximately 3,670 employees on June 30, 2003.

**(2) Summary of Significant Accounting Policies**

The consolidated financial statements of the Consolidated Company have been prepared in the local currency and in Chinese. These consolidated financial statements have been translated into English. The translated information is consistent with the Chinese language consolidated financial statements from which it is derived.

The consolidated financial statements are based on generally accepted accounting principles of the R.O.C., the Regulations Governing Financial Reporting for Financial Holding Companies, the Regulations Governing Financial Reporting for Issuers of Stock Certificates, the Criteria Governing the Preparation of Financial Reports by Securities Firms, and the Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants. The consolidated financial statements are based on historical cost.

A summary of significant accounting policies and principles is as follows:

**1. Principles of Consolidation**

According to the Regulations Governing Financial Reporting for Financial Holding Companies, a financial holding company must not only present annual and quarterly financial statements, but the Company must also present consolidated financial statements. While the consolidated entities of the consolidated financial statements should include those subsidiaries whose main business is in banking, insurance, and securities, the other included subsidiaries should be in accord with R.O.C. SFAS No. 7.

The consolidated financial statements includes Fuhwa Financial Holding, Fuhwa Securities Finance, Fuhwa Securities, Fuhwa Bank, Fuhwa Futures, Fuhwa Captial Management, and Fuhwa Securities Investment Trust (the Consolidated Company). The Company acquired 100% of the shares of Fuhwa Bank on August 1, 2002, and it acquired 100% of the shares of Fuhwa Securities Investment Trust on August 30, 2002. The total assets and operating revenues of Fuhwa Bank and Fuhwa Securities Investment Trust approached 10% of the non-consolidated total assets and operating revenues of the Company on June 30, 2003; therefore, both subsidiaries' financial statements should be included in the consolidated financial statements for comparison with the

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

consolidated financial statement of June 30, 2002. All inter company transactions have been eliminated in the consolidated financial statements.

Because the respective total assets and operating revenues of Fuhwa Venture Capital, Fuhwa Asset Management and Fuhwa Finance Consulting, which were 100% owned by the Company, were less than 10% of the non-consolidated total assets and operating revenues of the Company, and the sum of the total assets and operating revenues of the above subsidiaries were less than 30% of the non-consolidated total assets and operating revenues of the Company, these subsidiaries have not been consolidated.

In addition, the total assets and operating revenues of the subsidiaries in which Fuhwa Securities, Fuhwa Bank, and Fuhwa Venture Capital owned more than 50% of the shares did not reach 10% of the non-consolidated total assets and operating revenues of Fuhwa Securities, Fuhwa Bank, and Fuhwa Venture Capital, respectively. Therefore, Fuhwa Securities, Fuhwa Bank, and Fuhwa Venture Capital did not prepare consolidated financial statements, and their subsidiaries have not been included in the consolidated financial statements.

**2. Revenue Recognition**

For Fuhwa Securities, revenue from trading securities and rendering services, such as brokerage fees, underwriting commissions, and futures commissions, is recognized on the trading date. Interest revenue and fees and commissions are recognized as income on an accrual basis.

**3. Foreign Currency Transactions**

Except for accounts in the Offshore Banking Unit of Fuhwa Bank that are maintained in US dollars, accounts in all other subsidiaries are maintained in New Taiwan dollars. For those transactions denominated in foreign currencies, assets and liabilities are recorded in their original foreign currencies, interest denominated in original foreign currencies is translated into New Taiwan dollars monthly at end-of-month closing exchange rates, and all other remaining income and expense accounts denominated in original foreign currencies are translated into New Taiwan dollars at the spot rate as of the date such transactions occurred. At the balance sheet date, the financial statements of all foreign currencies are translated into New Taiwan dollars at the exchange rates assigned on that date. Differences from translation are recorded as gains or losses for the current period.

**4. Cash Equivalents**

The Consolidated Company considers short-term investments that are readily convertible to cash and for which interest rate fluctuations have little or no effect on the value, as well as all highly liquid debt instruments with a maturity of three months or less, which include government bonds, bank acceptances, and commercial paper purchased under agreements to resell, as cash equivalents.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 5. Deposit Reserve

Deposit reserve is calculated based on the monthly average balance of the various deposit accounts, using specific reserve ratios as promulgated by the CBC. The deposit reserve–demand account is placed with the CBC and is subject to change only when the monthly reserve requirement is adjusted.

## 6. Short-term Investment

Short-term investments include listed stocks, open-end funds, convertible bonds, financial debentures, government bonds, and so on. The investments are recorded at cost when acquired and are evaluated by the lower-of-total-cost-or-market-value method on the balance sheet date. The market prices of listed stocks are determined by the average closing price for the last month of the reported accounting period. The market prices of open-end funds are the net asset value on the balance sheet date. The market prices of convertible bonds are determined by the average trading price for the last month of the reported accounting period. The market prices of financial debentures are determined by the last trading price of the reported accounting period. The market prices of government bonds are determined by the value on the balance sheet date. The cost of short-term investments sold is determined by the moving-average-cost or the weighted-average-cost method.

## 7. Bonds Purchased Under Agreements to Resell and Bonds Sold Under Agreements to Purchase

Bonds purchased under agreements to resell and bonds sold under agreements to purchase are the sale or purchase of a bond coupled with an agreement to repurchase or resell the same or substantially identical bond at a stated price. Such transactions are treated as collateral for financing transactions. Transactions involving bonds sold under agreements to purchase are based on the actual obtained amount, and recorded as liabilities for bonds sold under agreements to purchase. Transactions involving investment in bonds purchased under agreements to resell are based on the actual borrowed amount, and recorded as investment in bonds purchased under agreements to resell. The difference between the selling and purchase prices during the holding period for investment in bonds purchased under agreements to resell and liabilities for bonds sold under agreements to purchase is treated as interest expense or interest income.

## 8. Futures Trading Margins

The deposits and premiums from futures traders and differences which are calculated from clearing market prices daily are recorded as futures trading margins.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 9. Margin Deposit for Futures Contracts

In order to engage in futures business, the Consolidated Company paid initial margin and entered contracts that are valued by marking to market. Regardless of being realized or unrealized, the positions of futures contracts are recognized as a gain or loss from dealing in futures contracts.

## 10. Pecuniary and Securities Financing, and Allowance for Doubtful Accounts

According to the Rules Governing Securities Finance Enterprises (RGSFE), margin loans primarily represent pecuniary financing to investors or refinancing to securities firms. Such loans are secured by the securities purchased by the investors, and the Consolidated Company records these securities at par value under the memorandum accounts "securities held for collateral" and "liability for holding collateral securities", and they are not included in the balance sheets. According to Article 12 of the RGSFE, margin loan investors must pay a certain percentage of the related stock market price themselves.

Short sale stock loans represent securities financing effected by lending securities in custody that are received from margin loans, guarantee effects, or borrowed securities, to investors. When the securities are lent to investors, the Consolidated Company records the par value of the securities lent under the memorandum account "short sale stock loans". Additionally, according to Article 12 of the RGSFE, the investors need to deposit an amount equal to a certain percentage of the proceeds from short sale stock financing as collateral with the Consolidated Company. The proceeds are accounted for as "stock deposits". The Consolidated Company deals with these securities at par value under the memorandum account "guarantee effects". The proceeds from sale of securities loaned, less any dealer's commission, financing commission, and securities exchange tax, are held by the Consolidated Company as collateral and recorded under "short sale proceeds payable".

In accordance with SFC Ruling Tai-Tsai-Chang (4) No. (88) 03452, when the securities financed by borrowers terminate trading, are delisted from the stock market, or are the securities of the borrowers' credit accounts, the securities are unable to be disposed of. These margin loans will be recorded as other receivables or overdue receivables according to the results of negotiation or collection. When the maintenance of secured accounts is less than the regulatory standard and the borrower does not pay a portion of the remaining loans after offsetting the proceeds from disposal of securities, the related margin loans shall be recorded as overdue receivables.

Allowance for doubtful accounts is based on the margin loans and pecuniary transaction, considering the collectibility of margin loans.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 11. Trading Securities

Trading securities include securities and stock warrants purchased by the Dealer Department and securities purchased for resale by the Underwriting Department. Trading securities are stated at the lower of cost or market value. The market price is the closing price on the balance sheet date. Cost is determined using the weighted-average or moving-average methods when disposing of trading securities. Stock dividends are not recognized as investment income, but accounted for as increases in the number of shares held. When the trading securities are emerging stocks listed on the OTC, these securities are recorded as securities held for operations—proprietary, and they are valued at fair value at the end of the year. When the securities are ready to be listed on the stock market, the Underwriting Department will record them as securities held for operations—underwriting, and the securities are valued by the lower-of-cost-or-market-value method after listing on the stock market.

## 12. Loans and Allowance for Doubtful Accounts

Credit terms are decided by the term to maturity of loans. The loan period of short-term loans is within one year, the loan period of medium-term loans is one to seven years, and the loan period of long-term loans is more than seven years. Loans with pledged assets, and qualified guarantees are recorded as secured loans.

All loans are recorded initially as the actual amount lent out and reported at their outstanding principal balances net of any provisions for doubtful accounts. An allowance for doubtful accounts is determined by an evaluation of the collectibility of loans, receivables (including overdue receivables and interest receivables), and advance accounts. Doubtful accounts are written off when the recovery possibility is remote.

Principal which is overdue over three months or interest which is overdue over six months is categorized as overdue accounts. When principal or interest has not been paid for over six months, the said principal and interest are transferred to non-performing loans. When this event occurs, interest will not be calculated and booked to the memo account accordingly.

In accordance with Bureau of Monetary Affairs, Ministry of Finance, Ruling Tai-Tsai-Rong No. 88733168, banks should provide 3% of operating revenue as allowance for bad debt with a view to writing off the default accounts for the four years beginning July 1, 1999.

The aforementioned allowance is recognized as operating cost in provision for bad and doubtful accounts, and charged to current operations.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 13. Long-term Investments

Long-term equity investments in listed companies where the Consolidated Company owns less than 20% of the voting stock and lacks significant influence over the investee are valued by the lower-of-cost-or-market-value method. Unrealized loss thereon is recorded as a reduction in stockholders' equity. Long-term equity investments in non-listed companies are stated at cost. However, when there is evidence showing that a decline in the market value of such investment is other than temporary, the investment is written down to reflect the market value, and the resulting loss is recognized in the period of such write-down. Stock dividends are not recognized as income but treated as increases in the number of shares held. Cost is determined by the weighted-average method when disposing of long-term investments.

Long-term investments are accounted for by the equity method when the Consolidated Company owns 20% or more of an investee's voting stock and has significant influence over the investee. Stock dividends are not recognized as investment income but treated as increases in the number of shares held. Cost is determined by the weighted-average method when disposing of long-term investments.

When long-term investments are accounted for under the equity method and there is a difference between the investment cost and the investee's net equity, the difference may be because the par value of the assets is higher or lower than the fair value. When this reason for the difference does not exist, the other related differences shall all be immediately amortized. On the other hand, the difference between the investment cost and the investee's net equity is amortized on a straight-line basis over 20 years and is recorded as investment profits/losses when the cause of the difference is uncertain. The aforementioned difference shall be netted and recorded under deferred expenses in consolidated financial statements.

The Consolidated Company's overseas subsidiaries accounted for under the equity method use their local currencies as their functional currencies, while their foreign currency financial statements are translated into New Taiwan dollar financial statements. Resulting translation differences are accounted for as translation adjustments and are included in the financial statements as a component of stockholders' equity. The foreign currency financial statements are translated into New Taiwan dollar financial statements as follows:

- Assets and liabilities are translated at the current exchange rate prevailing at the balance sheet date.
- Stockholders' equity is translated at the historical rate with the exception of the beginning retained earnings in New Taiwan dollars, which are brought forward.
- Dividends are translated at the exchange rate prevailing at the declaration date.
- Income statement accounts are translated at the average exchange rate of the year involved.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The long-term bond investment is stated at cost, and the discount or the premiums are amortized by the interest method.

14. Property, Equipment, Non-operating Assets, and Related Depreciation

Fixed assets are stated at cost, and major purchases, renewals, and improvements are capitalized. Interest expense on acquisition of assets is capitalized and is categorized in related asset accounts. Apart from land, depreciation of fixed assets is calculated on a straight-line basis over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the terms of the leases or useful lives of such improvements. Gains or losses on the disposal of fixed assets are recorded as non-operating income or losses.

Property and equipment under operating leases have been reclassified as non-operating assets— lease assets and recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the lease assets, and is recorded as non-operating expenses. Idle assets that are not utilized for operating or any other purpose are transferred as non-operating assets, and are stated at their net realizable value. Any shortfalls in book values on the balance sheet date will be recognized as non-operating losses.

Securities foreclosed are stated at their net realizable value. Any difference from the original value of the loans and advances is recognized as bad debts. Unsold securities foreclosed are revalued on the balance sheet date, and any shortfalls are recognized as non-operating expenses for the period. Losses or gains on the disposal of securities foreclosed are recorded as non-operating losses or gains.

Useful lives for depreciation which is calculated on the straight-line method are as follows:

Buildings and structures	5 to 55 years
Machinery and equipment	3 to 5 years
Computer equipment	3 years
Transportation equipment	3 to 5 years
Other facilities	3 to 15 years

15. Operating Rights

Operating rights are recognized as the excess of the actual payment amount over the book value of the net assets of the acquired securities firms, and they will be amortized on a straight-line basis over 10 years.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 16. Deferred Charges

Deferred charges have material amounts and have prospective economic benefits, as such deferred charges included net values of consolidated debt and credit accounts, costs of computer software, and telephone installation. The net values of the consolidated debt and credit accounts are amortized on the straight-line method over twenty years, and the other accounts are amortized over the prospective benefit periods.

## 17. Stock Warrant Liabilities

Cash received from issuing stock warrants is recorded as stock warrant liabilities when stock warrants are not exercised before they expire. The Consolidated Company is allowed to repurchase those warrants as a reduction of stock warrant liabilities. Stock warrant liabilities are valued at the market value on the balance sheet date.

If the market value is below the book value of the stock warrant liabilities, the decrease in stock warrant liabilities should be recognized as a gain on issuance of stock warrants in the current period. On the other hand, if the market value exceeds the book value of the stock warrants liabilities and such increase is less than the unrealized gain on market value of trading securities—hedge position, the increase in stock warrant liabilities should be deferred and not recorded as a loss in the current period. If the increase in stock warrant liabilities exceeds the unrealized gain on evaluation of trading securities—hedge position, the excess amount is recognized as a loss in the accompanying income statements.

## 18. Options

The premium generated from the transactions involving put options is recognized as put option-liabilities, while the premium generated from call options is recorded as call option-non-hedge. The profits or losses which result from their exercise are recognized as realized option profits or losses-non-hedge. Because an option can be exercised any time before the expiration date, it can be evaluated by the market price of the option contract on the balance sheet date, and a loss can be recorded as unrealized losses on option transactions-non-hedge.

The premium generated from a call option which is not for trading purposes is recognized as an adjustment of a call option-hedge. Provided that the option can be exercised before the expiration date, the deferred option losses could be offset by a gain resulting from the recovery on decline in market value of the hedged stocks on the balance sheet date. However, a gain in market value in excess of the book value of the stock shall not be recognized. Put options are not for the purpose of hedging.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 19. Payable to Customer

In order to engage in futures transactions, futures traders deposit margins and premiums; these margins and premiums are valued by market price daily and the spreads are treated as payable to customer. The margins, premiums, and spreads cannot offset each other unless the client has the same types of accounts. If a debt balance occurs, it shall be recorded as deposits paid to futures receivables and the Consolidated Company shall claim the receivables from the futures traders.

## 20. Deposit by Banks, and Deposits and Remittances

Deposits are recorded at the contracted principal amount or the expected value on maturity.

## 21. Financial Debentures

Financial debentures are issued and stated as face value, and the interest expenses are computed and recorded at face value multiplied by the stated interest rate every month. The annual fee paid to the OTC is recognized as operating expense.

## 22. Reserve for Default Losses

According to the Rules Governing Administration of Securities Firms (RGASF), 0.0028% of security transaction trading value must be provided as a contract failure loss provision until the balance of such provision reaches \$200,000,000. Such provision can only be used to offset contract losses or other losses as approved by the SFC.

According to the Rules Governing Administration of Futures Firms (RGAFF), 2% of futures transaction trading value must be provided as a contract failure loss provision until the balance of such provision reaches the amount of minimum capital, the funds for managing, or the funds for operating. Such provision can only be used to offset contract losses or other losses as approved by the SFC. In accordance with SFC Ruling Tai-Tsai-Cheng No. 108957, futures brokerages did not need to record reserve for default based on the Regulations Governing Futures Brokerages from July 1, 1999, to June 30, 2003.

## 23. Reserve for Trading Losses

According to the RGASF, 10% of the monthly excess of securities trading gains over losses must be provided as a reserve by utilizing the total amount method until the accumulated balance of such provision reaches \$200,000,000. Such reserve can only be used to offset a loss from trading securities.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

According to the RGAFF, 10% of the monthly net income of the trading business must be provided as a reserve until the accumulated balance of such provision reaches the amount of minimum capital, the funds for managing, or the funds for operating. Such reserve can only be used to offset a loss from trading securities.

**24. Reserve for Bad Debt**

In accordance with an SFC ruling, the subsidiaries of the Company that engage in banking, securities, futures, and securities investment trust business must provide 3% of operating revenue as reserve for doubtful accounts. The reserve can be used to write off overdue debt; to write off allowance for devaluation, which is reserved for irregular significant loss caused by holding unprofitable company bonds or shares of publishers with other types of investments; or other situations approved by the SFC for the four consecutive years beginning July 1, 1999. If the aforementioned situations do not occur, the allowance provided is recorded as reserve for bad debt.

**25. Reserve for Guarantee Liabilities**

Reserve for guarantee liabilities is based on the ending balances of guarantees and acceptances considering the possible loss. According to the above-mentioned regulation, the Consolidated Company records reserve for guarantee liabilities as operating cost—provision expense and other liabilities—reserve for guarantee liabilities.

**26. Pension Plan**

The Consolidated Company has established a retirement plan providing for lump-sum retirement benefits to employees who meet retirement requirements. For Fuhwa Financial Holding's pension plan, contributions to the retirement fund equal to 2% of salaries and wages paid and have been deposited in the Central Trust of China since February 2003. The plan is funded by Fuhwa Securities Finance at 8% of basic salaries, and the contribution is deposited with the Central Trust of China and China United Trust Investment Co. Payments of retirement benefits to employees are charged to the pension fund. The plan is funded by Fuhwa Securities, Fuhwa Futures, and Fuhwa Capital Management at 2% of monthly salaries, and the contribution is deposited in a designated account with the Central Trust of China. The plan is funded by Fuhwa Bank at 6.9% of salaries, and the contribution is deposited in a designated account with the Central Trust of China. The plan was funded by Fuhwa Securities Investment Trust at 2% of monthly salaries, and the contribution was deposited in a designated account with the Central Trust of China. In May 2002, the contribution rate was boosted from 2% to 4%. In February 2003, the contribution rate has been increased to 6%. Payment of retirement benefits to employees is charged to the pension fund.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The ending date of the year is the measurement date of the actuarial report. A minimum pension liability is recognized when the accumulated benefit obligation exceeds the fair value of retirement plan assets. The Company recognized the unrecognized net transition obligation and the prior service cost as net periodic pension cost in 2002. Fuhwa Securities Finance recognized the unrecognized net transition obligation and the prior service cost as net periodic pension cost in 1995. The unrecognized net transition obligation and gain/loss of the pension plan of Fuhwa Securities, Fuhwa Bank, Fuhwa Futures, and Fuhwa Capital Management are amortized over 15 to 22 years, which is the average remaining service period, by using the straight-line method.

The minimum pension liability results from prior service costs and unrecognized net transition asset or obligations. If the minimum pension liability is less than the total amount of unrecognized prior service costs and net transition assets or obligations, it shall be recognized as deferred pension cost and recorded as other assets. If the minimum pension liability is more than the above-mentioned total amount, the portion which is over the total amount shall be recognized as unrecognized net loss of pension cost, and treated as a deduction from stockholders' equity.

Effective in 2002, Fuhwa Securities Investment Trust accounts for its pension liability, in conformity with ROC SFAS No. 18, "Accounting for Pensions". The measurement date for the actuarial determination is the balance sheet date. A minimum pension liability is recognized when the accumulated benefit obligation exceeds the fair value of the retirement plan assets. In accordance with SFC regulations, Fuhwa Securities Investment Trust recognized net periodic pension costs on January 1, 2003. Prior to 2002, contributions to the retirement fund were charged to expenses. Actual payments of benefits are offset against the fund, and any payment in excess of the fund shall be charged to expenses when paid. However, this change in accounting principle does not have any major influence on the current financial statements.

**27. Income Tax**

Estimation of income tax expense is based on accounting income. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities, using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects due to taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects due to deductible temporary differences, utilization of loss carry forwards, and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and a valuation allowance is recognized accordingly. Deferred tax assets and liabilities are classified as current or non-current based on the classification of the related assets and liabilities. If no assets or liabilities are related, deferred tax assets and liabilities are classified based on the expected period of realization.

The 10% surtax on undistributed earnings, computed according to the ROC Income Tax Law, is charged to current income tax expense in the year of earnings distribution following a resolution at the shareholders' meeting.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 28. Derivative Financial Instruments

Derivative financial instruments are foreign exchange forward contracts, currency swaps, interest rate swaps, etc., entered into by the Consolidated Company in foreign exchange, interest rate and capital markets. The financial instruments are held for “trading purposes” or “non-trading purposes”. Trading purposes include market creation, customer services and other relevant activities. Non-trading purposes are hedging, which is a tool of risk management for assets, liabilities, positions, and cash flows in accordance with the accrual method.

Financial instruments for trading purposes are stated at fair market value on the balance sheet date, and gains and losses are credited or charged to current exchange gains or losses. The evaluation and reorganization of profits and losses of the financial instruments for non-trading purposes are stated using the same method as hedging assets, liabilities, or positions.

The foreign currency contracts, which are stated at fair market value, are settled depending on their transacting character and objective. The assets from evaluation of net gains are recorded as other assets, and the liabilities from evaluation of net losses are recorded as other liabilities.

## 29. Stock-index Futures

The Consolidated Company has to pay a premium and record futures profits or losses as the market value of stock-index futures increases or decreases. The premium will increase or decrease when the price of the futures goes up or down.

## 30. Interest Rate Swaps

Interest rate swaps do not involve exchanges of the notional principals, which are recorded by memorandum entries on the contract dates.

For interest rate options, net interest received or paid upon each settlement, or accrued on the balance sheet date, is recorded as an adjustment to interest income or expense—interest rate options. The Consolidated Company evaluates swaps by utilizing the market value method. The market value method is based on the market price, and the gains or losses which are caused by the market value method are recognized in the current period.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 31. Asset Swaps—Convertible Bonds

The Consolidated Company sells corporate bonds or options from the convertible bonds to investors. When the ownership of bonds is transferred, it is recorded and stated on the balance sheet based on the disposal of ordinary bonds. Asset swaps are activities off the balance sheet and are recorded by memorandum entries. Interest rate swaps are evaluated by the settlement of the IRS contract or the fair market value on the balance sheet date, and interest rate swaps are recorded as interest income or expense—asset swaps and IRS contracts. If the swap contracts are terminated before the expiration date, the differentials are recorded as interest expense. The interest exchange payments are made as a net amount. Options are evaluated by the settlement of the convertible bond option transactions or the fair market value on the balance sheet date, and options are recorded as interest income or expense—asset swap options. As the options are exercised, they are recorded as exercise income or expense—asset swap options. The Consolidated Company applies the fair market value method. The fair market value is based on the market price, and the profits or losses which result from the evaluation of market price are recorded in the current period.

## 32. Treasury Stock

When the Company buys back issued stock, the Company uses the provisions of Statement of Financial Accounting Standards (SFAS) No. 30, “Accounting for Treasury Stock”, to debit the treasury stock account in the amount of cost paid. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus—treasury stock; otherwise, the excess of the cost over the price is debited to capital surplus generated from the same type of treasury stock transactions. If the capital surplus—treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average cost and is calculated by each group according to the cause for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus generated from the same type of treasury stock transactions. If the capital surplus—treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus generated from similar treasury stock transactions.

According to the SFC regulations, the treasury stock purchased by the subsidiaries of the Company which was converted into the Financial Holding Company’s stock should be deemed to be treasury stock and deducted from the shareholders’ equity account. The Company should treat the stock held by the subsidiaries as treasury stock. Therefore, the treasury stock held by the subsidiaries of the Company which was converted into stock of Fuhwa Financial Holding Company is still deemed to be treasury stock.

(Continued)

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

## Notes to Consolidated Financial Statements

In accordance with the SFC regulations, the Company's stock held by its subsidiaries should be deemed to be treasury stock under SFAS No. 30, "Accounting for Treasury Stock", when the Company recognizes investment income or losses and applies the related accounting treatment.

## 33. Earnings per Share of Common Stock

Earnings per share are computed as net income divided by the weighted-average number of issued shares of common stock. The increase in number of issued shares resulting from issuance of stock dividends from retained earnings or capital surplus is adjusted retroactively. Furthermore, if the designated date of record for a stock dividend is proposed before publishing the financial statements, the earnings per common share are adjusted retroactively.

The weighted-average number of outstanding shares of common stock was 2,420,715 thousand shares as of June 30, 2003, and 1,742,628 thousand shares as of June 30, 2002. The weighted-average number of outstanding shares of common stock would be 2,714,526 thousand shares as of June 30, 2003, and 2,007,777 thousand shares as of June 30, 2002, if the Company's stock which held by the subsidiaries were not treated as treasury stock.

## (3) Cash and Cash Equivalents

	June 30, 2003	June 30, 2002
Cash	\$ 2,810,518,345	2,429,283,675
Due from other banks	4,620,576,294	4,128,325,745
Placement to other banks due within 90 days	66,386,000	2,637,116,000
Negotiable certificates of deposit	750,000,000	1,373,152,206
Due from Central Bank of China:		
Deposit reserve — checking account	2,904,845,529	2,523,837,710
Certificates of deposit	<u>13,013,000,000</u>	<u>6,983,000,000</u>
Subtotal	<u>15,917,845,529</u>	<u>9,506,837,710</u>
Short-term securities		
Commercial paper	4,270,711,141	9,923,589,302
Banker's acceptances	-	284,278,386
Treasury bills	<u>14,864,900</u>	<u>-</u>
Subtotal	<u>4,285,576,041</u>	<u>10,207,867,688</u>
Total	<b>\$ <u>28,450,902,209</u></b>	<b><u>30,282,583,024</u></b>

As of June 30, 2003 and 2002, the composite banking insurance amounted to \$153,500,000.

(Continued)

**FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(4) Due from Central Bank**

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Deposit reserve—demand account	\$ <u><b>3,460,956,000</b></u>	<u><b>3,114,347,000</b></u>

**(5) Long-term and short-term investments**

1. Short-term investments

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Beneficiary certificates	\$ 2,964,318,191	4,396,623,290
Listed stocks	413,293,943	569,485,718
Financial debentures	699,950,855	-
Government bonds	-	1,112,374,072
Convertible bonds	45,312,685	-
Others	-	900,000
Subtotal	<u>4,122,875,674</u>	<u>6,079,383,080</u>
Less: allowance for devaluation	<u>444,564</u>	<u>128,068,866</u>
Total	<u><b>\$ 4,122,431,110</b></u>	<u><b>5,951,314,214</b></u>

2. Long-term investments

	June 30, 2003			June 30, 2002		
	Percentage of ownership	Investment cost	Amount	Percentage of ownership	Investment cost	Amount
Equity method:						
Fuh-hwa Securities Investment Trust Co., Ltd.	-	\$ -	-	25.00	75,000,000	95,421,045
Fuhwa Holding (BVI) Limited Company	100.00	641,479,000	839,996,324	100.00	101,436,300	158,203,483
Fuhwa Lease Co., Ltd.	98.56	197,000,000	108,867,682	98.56	197,000,000	113,700,614
Fuhwa Property Insurance Agency Co., Ltd. (Forone Insurance Agency Co., Ltd.)	80.00	2,880,000	4,676,384	80.00	2,880,000	6,345,906
Fuhwa Life Insurance Agent Co., Ltd. (Asia Pacific Life Insurance Agent Co., Ltd.)	99.99	1,999,940	15,636,492	99.99	1,999,940	5,573,288
Fuhwa Venture Capital Co., Ltd.	100.00	1,000,000,000	990,673,215	-	-	-
Fuhwa Asset Management Co., Ltd.	100.00	1,000,000,000	999,206,802	-	-	-
Fuhwa Finance Consulting Co., Ltd.	100.00	50,000,000	51,219,392	-	-	-
Subtotal		<u>2,893,358,940</u>	<u>3,010,276,291</u>		<u>378,316,240</u>	<u>379,244,336</u>

(Continued)

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

## Notes to Consolidated Financial Statements

	Percentage of ownership	June 30, 2003		Percentage of ownership	June 30, 2002	
		Investment cost	Amount		Investment cost	Amount
Lower-of-cost-or-market-value method:						
Mega Financial Holding Co., Ltd. (International Securities Co., Ltd.)	-	\$ -	-	-	<u>358,800,000</u>	<u>358,800,000</u>
Cost method:						
Taiwan Securities Central Depository Co., Ltd.	15.50	166,795,700	172,170,402	15.27	166,795,700	172,170,402
Taiwan Futures Exchange Co., Ltd.	7.33	145,940,000	145,940,000	7.24	144,800,000	144,800,000
Ho Tin Venture Capital Co., Ltd.	10.00	100,000,000	100,000,000	10.00	100,000,000	100,000,000
Hwa Chen Venture Capital Co., Ltd.	6.00	60,000,000	60,000,000	-	-	-
Len Tin Venture Capital Co., Ltd.	10.00	100,000,000	100,000,000	-	-	-
Sin Shen Venture Capital Co., Ltd.	9.00	100,000,000	100,000,000	-	-	-
En Tie Securities Finance Co., Ltd.	0.12	6,221,875	6,221,875	0.12	6,221,875	6,221,875
Taiwan Stock Exchange Corporation	1.15	297,345,000	297,345,000	1.21	297,345,000	297,345,000
Li Tin Venture Capital Co., Ltd.	8.70	100,000,000	100,000,000	8.70	100,000,000	100,000,000
Chin Fu Venture Capital Co., Ltd.	10.00	4,000,000	4,000,000	10.00	20,000,000	20,000,000
Chen Yu Venture Capital Co., Ltd.	3.00	60,000,000	60,000,000	3.00	60,000,000	60,000,000
Shengtung Venture Capital Co., Ltd.	9.23	60,000,000	60,000,000	9.23	60,000,000	60,000,000
Chachen Cha I Venture Capital Co., Ltd.	10.00	20,000,000	20,000,000	10.00	20,000,000	20,000,000
Fubon Securities Finance Co., Ltd.	1.97	119,890,000	119,890,000	1.97	119,890,000	119,890,000
Grand Bills Finance Co., Ltd.	1.36	64,800,000	64,800,000	1.36	64,800,000	64,800,000
Financial Information Service	1.14	45,500,000	45,500,000	1.14	45,500,000	45,500,000
Taipei Forex Inc.	0.40	800,000	800,000	0.40	800,000	800,000
Ornatube Enterprise Co., Ltd.	0.05	154,444	154,444	0.05	154,444	154,444
Taiwan Asset Management Co., Ltd.	0.57	<u>100,000,000</u>	<u>100,000,000</u>	0.57	<u>100,000,000</u>	<u>100,000,000</u>
Subtotal		<u>1,551,447,019</u>	<u>1,556,821,721</u>		<u>1,306,307,019</u>	<u>1,311,681,721</u>
Long-term bond investments		<u>6,661,090,002</u>	<u>6,661,090,002</u>		<u>4,212,885,912</u>	<u>4,212,885,912</u>
Prepayments for stocks						
Kun Ki II Venture Capital Co., Ltd. Preparation Office		<u>100,000,000</u>	<u>100,000,000</u>		-	-
Total		\$ <u>11,205,895,961</u>	<u>11,328,188,014</u>		<u>6,256,309,171</u>	<u>6,262,611,969</u>

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The investee International Securities Co., Ltd., measured by the cost method, became a subsidiary of Mega Financial Holding Company (CTB Financial Holding Company) through share exchange on February 4, 2002, so that the 36,030,800 shares of International Securities Co., Ltd. held by the Consolidated Company were exchanged for 17,576,000 shares of Mega Financial Holding Company in accordance with the share exchange rate of 2.05:1 and were then measured by the lower-cost-or-market-value method. Because the term of the board of directors appointed by International Securities Co., Ltd. expired and the stock transferred from Mega Financial Holding Company had obvious market value, the Consolidated Company reclassified those shares as trading securities on December 31, 2002.

The investee Chin Fu Venture Capital Co., Ltd. was liquidated on January 18, 2003, and had returned \$16,000,000 of investments to the Consolidated Company as of June 30, 2003.

As of March 31, 2003, the Consolidated Company had sold the 7,500,000 shares of Fuh-hwa Securities Investment Trust Co., Ltd. to Zun-Tai Global Co., Ltd. and Hon Fu Investment Co., Ltd. The total amount was \$336,487,500, and the disposal gain was \$223,370,778 after the necessary expenses had been deducted from the sales price.

**(6) Bonds Purchased Under Agreements to Resell**

	<b>June 30, 2003</b>		
	<b>Amount</b>	<b>Period to resell</b>	<b>Interest rate (%)</b>
Bonds purchased under agreements to resell	\$ <u>1,933,663,023</u>	Jul. 1~Aug. 29, 2003	0.925~ 1.075
	<b>June 30, 2002</b>		
	<b>Amount</b>	<b>Period to resell</b>	<b>Interest rate (%)</b>
Bonds purchased under agreements to resell	\$ <u>4,930,297,311</u>	Jul. 1~Oct. 16, 2002	1.35~ 2.500

**(7) Futures Trading Margins**

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Bank deposits for clients' margins	\$ 635,330,516	747,802,757
Clearing balance of futures clearing institutions	380,264,112	200,831,582
Clearing balance of other futures brokerage	<u>54,974,623</u>	<u>4,436,751</u>
Total	\$ <u>1,070,569,251</u>	<u>953,071,090</u>

(Continued)

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

## Notes to Consolidated Financial Statements

## (8) Margin Loans and Short Sale Stock Loans

	June 30, 2003	June 30, 2002
Margin loans	\$ 25,661,365,741	33,891,097,782
Less: allowance for bad debts	<u>25,661,366</u>	<u>33,891,098</u>
	<b>\$ <u>25,635,704,375</u></b>	<b><u>33,857,206,684</u></b>

For the half-years ended June 30, 2002 and 2003, the percentage of margin loans for listed stock ranged from 20% to 60% and 10% to 60%, respectively. Interest rates for pecuniary financing to securities firms ranged from 4.40% to 5.50% and 5.10% to 6.00% per annum for the half-years ended June 30, 2003 and 2002, respectively. Interest rates for pecuniary financing to investors ranged from 5.95% to 6.95% and 7.50% to 8.43% per annum for the half-years ended June 30, 2003 and 2002, respectively.

The stipulated percentage of deposits from the proceeds of short sale stock financing was 90% for the half-years ended June 30, 2003 and 2002. As of June 30, 2003 and 2002, the balance of stock deposits was \$3,264,525,422 and \$3,145,811,505, respectively. The interest rates on the short sale proceeds payable and stock deposits to investors were 0.40% and 1.75% per annum for the half-years ended June 30, 2003, and 2002, respectively.

Due to the downturn of the global economy, there was a large fall in Taiwan's stock market during the fourth quarter of 1998, which caused some of the margin loan investors to not settle their securities financing transactions with some listed companies. In addition, owing to the financial difficulty among these companies, stocks in some of them were temporarily suspended from trading on Taiwan Stock Exchange (TSE), or ceased trading on the TSE, or were currently tradable on the TSE but unable to be sold due to the continuous decline in the stock value. Due to the aforementioned events, it was difficult to recover the loans. Due to the insufficient margin percentage for collateral from a fall in stock price, the differentials which resulted from the disposal of the stocks were recorded as overdue receivables.

As of June 30, 2003 and 2002, the overdue receivables of pecuniary and securities were as follows:

	June 30, 2003	June 30, 2002
Overdue receivables	\$ 5,454,269,881	6,230,799,161
Less: allowance for bad debt	<u>3,319,059,425</u>	<u>2,381,779,777</u>
	<b>\$ <u>2,135,210,456</u></b>	<b><u>3,849,019,384</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

The memorandum accounts for pecuniary and securities financing transactions are summarized as follows:

Memorandum Account	June 30, 2003	June 30, 2002
Securities held for collateral	\$ 22,628,495,940	24,826,289,200
Short sale stock loans	<u>2,287,760,000</u>	<u>1,444,030,000</u>
	<b>\$ <u>24,916,255,940</u></b>	<b><u>26,270,319,200</u></b>
Liabilities for holding collateral securities	\$ 24,003,620,070	25,385,730,070
Guarantee effects	905,775,870	808,389,130
Securities borrowed	<u>6,860,000</u>	<u>76,200,000</u>
	<b>\$ <u>24,916,255,940</u></b>	<b><u>26,270,319,200</u></b>

The approximate market values of the above memorandum accounts were as follows:

Memorandum Account	June 30, 2003	June 30, 2002
Securities held for collateral	\$ 40,855,233,713	46,758,847,191
Short sale stock loans	<u>4,684,292,500</u>	<u>3,545,481,900</u>
	<b>\$ <u>45,539,516,213</u></b>	<b><u>50,304,329,091</u></b>
Liabilities for holding collateral securities	\$ 43,931,356,813	48,498,776,855
Guarantee effects	1,600,534,200	1,672,804,936
Securities borrowed	<u>7,625,200</u>	<u>132,747,300</u>
	<b>\$ <u>45,539,516,213</u></b>	<b><u>50,304,329,091</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

## (9) Trading Securities

	June 30, 2003	June 30, 2002
Dealing department:		
Listed stocks on the TSE	\$ 1,883,922,975	656,832,234
Listed stocks on the OTC	203,113,755	251,350,133
Emerging stocks	53,646,263	83,072,738
Listed bonds on the OTC	21,858,960,338	13,701,879,632
Beneficiary certificates	1,749,988,901	2,667,474,000
Others	<u>2,250,364,644</u>	<u>2,153,772,967</u>
	27,999,996,876	19,514,381,704
Less: allowance for devaluation	<u>2,291,729</u>	<u>-</u>
	<u>27,997,705,147</u>	<u>19,514,381,704</u>
Underwriting department:		
Listed stocks on the TSE	\$ 67,552,447	4,139,371
Listed stocks on the OTC	102,883,215	103,204,219
Listed bonds on the TOC	<u>267,700,000</u>	<u>286,100,000</u>
	<u>438,135,662</u>	<u>393,443,590</u>
Hedge:		
TSE listed stocks	178,457,297	155,645,392
Less: allowance for devaluation	<u>-</u>	<u>15,882,892</u>
	<u>178,457,297</u>	<u>139,762,500</u>
Total	<b>\$ <u>28,614,298,106</u></b>	<b><u>20,047,587,794</u></b>

## (10) Loans and Advances to Customers

	June 30, 2003	June 30, 2002
Bills purchased and discounts	\$ 298,519,474	249,311,788
Short-term loans and overdrafts	29,220,076,509	22,079,985,551
Short-term secured loans and overdrafts	10,500,611,319	10,509,123,673
Medium-term loans	31,818,527,790	20,634,403,164
Medium-term secured loans	23,868,869,767	19,531,867,850
Long-term loans	4,756,607,109	4,063,996,558
Long-term secured loans	<u>43,895,455,664</u>	<u>33,151,837,005</u>
	144,358,667,632	110,220,525,589
Less: allowance for bad and doubtful accounts	<u>1,058,447,837</u>	<u>887,550,258</u>
	<b>\$ <u>143,300,219,795</u></b>	<b><u>109,332,975,331</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

	<b>The half-year ended June 30, 2003</b>		
	<b>Specific provision</b>	<b>General provision</b>	<b>Total</b>
Beginning balance	\$ 1,942,474,986	610,649,105	2,553,124,091
Add: provision for doubtful accounts	107,390,819	387,181,878	494,572,697
recoveries	118,576,412	-	118,576,412
Less: write-offs	214,791,204	-	214,791,204
foreign exchange transaction adjustments	-	251,949	251,949
Ending balance	<u>\$ 1,953,651,013</u>	<u>997,579,034</u>	<u>2,951,230,047</u>

	<b>The half-year ended June 30, 2002</b>		
	<b>Specific provision</b>	<b>General provision</b>	<b>Total</b>
Beginning balance	\$ 790,458,264	776,597,600	1,567,055,864
Add: provision for doubtful accounts	3,893,508,405	452,866,000	4,346,374,405
Less: write-offs	221,375,451	-	221,375,451
foreign exchange transaction adjustments	-	2,624,233	2,624,233
Ending balance	<u>\$ 4,462,591,218</u>	<u>1,226,839,367</u>	<u>5,689,430,585</u>

Details of allowance for bad and doubt accounts are as follows:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Loans and advances	\$ 1,058,447,837	887,550,258
Non-performing loans	1,878,333,392	4,679,430,186
Account receivables	<u>14,448,818</u>	<u>122,450,141</u>
Total	<u>\$ 2,951,230,047</u>	<u>5,689,430,585</u>

For the half-years ended June 30, 2003 and 2002, the amount of allowance for bad debt generated from 3% of operating revenue was \$93,953,000 and \$106,997,000, respectively.

(Continued)

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

## Notes to Consolidated Financial Statements

The details of non-performing loans are as follows:

	June 30, 2003	June 30, 2002
Non-performing loans	\$ 5,746,638,902	9,024,376,442
Less: allowance for bad and doubtful accounts	<u>1,878,333,392</u>	<u>4,679,430,186</u>
	<b>\$ <u>3,868,305,510</u></b>	<b><u>4,344,946,256</u></b>

For the half-years ended June 30, 2003 and 2002, the interest receivables of loans and advances were \$126,383,150 and \$226,823,771, respectively.

**(11) Funds**

In accordance with SFC Ruling Tai-Tsai-Cheng (3) No. (82) 01893, the Company placed \$300,000,000 in certificates of time deposit as Securities Investors Protection Fund in order to enhance the development of the securities market and protect investors' rights. Since the Consolidated Company contributed to the establishment of the Securities Investors and Futures Traders Protection Institution in January 2003, deposits to the aforementioned fund have stopped and the fund was reclassified as cash equivalents.

**(12) Fixed Assets and Non-operating Assets**

The details of non-operating assets are as follows:

	June 30, 2003	June 30, 2002
Lease assets:		
Land	\$ 408,348,123	314,599,648
Buildings and constructures	<u>619,849,758</u>	<u>352,607,053</u>
	1,028,197,881	667,206,701
Less: accumulated depreciation	<u>100,831,748</u>	<u>77,544,637</u>
	<u>927,366,133</u>	<u>589,662,064</u>
Idle assets	<u>257,810,056</u>	<u>257,810,056</u>
Collateral assets:		
Cost	564,783,532	248,863,600
Less: allowance for devaluation	<u>3,604,803</u>	<u>1,765,551</u>
	<u>561,178,729</u>	<u>247,098,049</u>
	<b>\$ <u>1,746,354,918</u></b>	<b><u>1,094,570,169</u></b>

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

The major clauses in the lease contracts are as follows:

1. The lease terms of the contracts range from one to four years.
2. Within the lease term, the lessee has the right to use the leased promises. The lessee cannot sublet or mortgage the leased promises without the Consolidated Company's permission.
3. Rental revenues under the operating lease in future years are as follows:

<b>Year</b>	<b>Amount</b>
July 1 ~ December 31, 2003	\$ 18,494,886
2004	30,252,912
2005	<u>840,000</u>
	<b>\$ <u>49,587,798</u></b>

As of June 30, 2003 and 2002, the Consolidated Company had insured its fixed assets and non-operating assets for \$2,493,743,616 and \$2,467,173,570, respectively.

**(13) Operating Guarantee Deposits**

In accordance with the RGASF, the Rules Governing the operation of Auxiliary Futures Trading Services by Securities Firms, and the RGAFF, the Consolidated Company had provided time deposits as operating deposits amounting to \$1,010,000,000 and \$885,000,000 as of June 30, 2003 and 2002, respectively.

**(14) Settlement and Clearing Funds**

As stipulated in the RGASF and OTC Securities Exchange regulations, the Consolidated Company had deposited \$449,598,552 and \$371,012,466 with the Taiwan Stock Exchange and OTC Securities Exchange for settlement and clearing funds as of June 30, 2003 and 2002, respectively.

(Continued)

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

## Notes to Consolidated Financial Statements

## (15) Refundable Deposits

	June 30, 2003	June 30, 2002
Financial business guarantee deposits	\$ 634,624,928	831,245,906
Leasehold refundable deposits	429,724,859	421,288,686
Courthouse guarantee deposits	282,504,214	20,551,157
Operating guarantee deposits	10,000,000	50,000,000
Warrant guarantee deposits	60,000,000	40,000,000
Trust fund reserve	59,326,526	5,686,211
Credit card reserve	11,908,652	1,701,000
Trading refundable deposits	86,179,835	-
Computer link deposits	52,500,000	26,500,000
Securities firm funds	600,000	600,000
Others	26,371,474	19,946,363
Total	<b>\$ <u>1,653,740,488</u></b>	<b><u>1,417,519,323</u></b>

Financial business guarantee deposits are based on the RGSFE. A securities finance business must deposit cash or government bonds in the CBC in an amount equivalent to 5% of its capital.

Courthouse guarantee deposits are provided because the Consolidated Company has claims against the debtors and has applied for provisional seizure.

In accordance with the Regulations Governing the Operation of Discretionary Investment Services by Securities Investment Consulting Enterprises and Securities Investment Trust Enterprises, the Consolidated Company, which exercises discretionary account investment that is consigned by clients, must place operating deposits in a custodial financial institution.

In accordance with the regulations by the Taiwan Stock Exchange Corporation, a certain amount of deposit has to be placed when a warrant is issued; the deposit will be returned when the stock warrant expires.

For operating trust custodian business, trust fund reserves have to be deposited in the Central Bank of China.

For engaging in credit card business, credit card reserves have to be deposited in the National Credit Card Center of the ROC.

For engaging in trading securities business and the purchase/sale of government bonds, trader's guarantee reserves have to be deposited in the Central Bank of China and the OTC.

(Continued)

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

## Notes to Consolidated Financial Statements

Computer link deposits are based on the contract with Taiwan Stock Exchange Corporation for the use of a computer system for trading. The deposits are refundable when the Company has used the system more than two years.

**(16) Brokering Transaction Debit Balance, Net**

The details of debit (credit) items for consigned trades are as follows:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Debit balance:		
Cash in banks – settlement amount	\$ 4,666,081	10,853,729
Proceeds receivable from investors	2,636,676,446	2,333,053,533
Notes receivable – brokering	-	14,882,437
Accounts receivable – brokering	3,239,838,578	2,116,304,605
Credit transactions	<u>219,164,770</u>	<u>347,726,745</u>
	<u>6,100,345,875</u>	<u>4,822,821,049</u>
Credit balance:		
Proceeds payable to investors	\$ 2,399,962,874	2,174,448,592
Accounts payable – brokering	2,671,342,370	1,357,370,987
Clearance	<u>1,004,564,099</u>	<u>1,271,350,539</u>
	<u>6,075,869,343</u>	<u>4,803,170,118</u>
Brokering transaction debit balance, net	<u>\$ 24,476,532</u>	<u>19,650,931</u>

**(17) Short-term Borrowings**

## 1. Short-term loans:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Credit loans	\$ 8,110,000,000	9,120,000,000
Mortgage loans	<u>410,000,000</u>	<u>770,000,000</u>
	<u>\$ 8,520,000,000</u>	<u>9,890,000,000</u>

All short-term loans are due within one year, and the interest rates of the short-term loans were 1.05%~2.19% and 1.60%~3.50% for the half-years ended June 30, 2003 and 2002, respectively.

As of June 30, 2003 and 2002, the Consolidated Company had unused lines of credit of approximately \$24,846,300,000 and \$22,605,000,000, respectively.

(Continued)

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

## Notes to Consolidated Financial Statements

## 2. Short-term paper payable

	June 30, 2003	June 30, 2002
Commercial paper payable	\$ 13,180,000,000	14,250,000,000
Less: discount on commercial paper payable	<u>10,277,729</u>	<u>16,022,736</u>
	<b>\$ <u>13,169,722,271</u></b>	<b><u>14,233,977,264</u></b>

For the half-years ended June 30, 2003 and 2002, the interest rates for commercial paper payable ranged from 0.87% to 1.825% and from 1.70% to 4.82%, respectively. According to Article 7 of the RGSFE, the amount of commercial paper payable which is issued by Fuhwa Securities Finance cannot exceed six times its net equity.

## 3. Bonds sold under agreements to repurchase

	Amount	June 30, 2003 Period to repurchase	Interest rate (%)
Bonds sold under agreements to repurchase	\$ <u>19,222,202,780</u>	Jul. 1, 2003~ Jun. 24, 2004	0.80~ 3.00
	Amount	June 30, 2002 Period to repurchase	Interest rate (%)
Bonds sold under agreements to repurchase	\$ <u>20,194,247,454</u>	Jul. 1, 2002~ Jun. 23, 2003	1.20~ 4.00

According to Article 4 of the Regulations Governing Bank Financing to Securities Finance Companies and Securities Firms, the amount which is borrowed from banks cannot exceed six times net equity, and the amount of debts due to external entities cannot exceed 11.5 times net equity.

(Continued)

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

## Notes to Consolidated Financial Statements

## (18) Deposits and Remittances

	June 30, 2003	June 30, 2002
Checking deposits	\$ 1,417,820,359	1,242,517,662
Demand deposits	9,109,017,735	6,784,020,122
Time deposits	45,662,011,787	41,931,385,755
Time deposits transferred from post office	19,076,700,879	19,246,245,271
Demand savings deposits	30,251,036,246	22,507,954,707
Time savings deposits	55,847,859,064	49,064,128,463
Remittances	<u>19,181,369</u>	<u>6,325,651</u>
	<b><u>\$ 161,383,627,439</u></b>	<b><u>140,782,577,631</u></b>

As of June 30, 2003 and 2002, the time to maturity for the above time deposit and savings deposit accounts, except for demand savings deposits, was within three years.

## (19) Financial Debentures

In order to increase the regulatory capital ratio and raise medium-term and long-term operating funds, the board of directors resolved to issue financial debentures on August 22, 2002. The issuance of financial debentures was approved by the Bureau of Monetary Affairs in Ministry of Finance Ruling Tai-Tsai-Rong No. 0910042863 on September 24, 2002, and the period of issuance was five years and three months. The issued amount was \$4,500,000,000. The details were as follows:

	Floating Interest Rate	Fixed Interest Rate
Face value of issuance	\$ 3,100,000,000	1,400,000,000
Stated interest rate	6.15% less Libor (note)	3.50%
Period of issuance	Five years and three months	Five years and three months
Interest payment method	Repayable every half-year	Repayable every half-year
Principal payment method	Paid off on maturity date	Paid off on maturity date
Price of issuance	Priced at face value on issuing date	Priced at face value on issuing date

Note: The stated interest rates are recalculated every half-year according to the average six-month US Dollar Libor rate.

(Continued)

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

## Notes to Consolidated Financial Statements

\$966,000,000 was the difference between the issued amount of \$4,500,000,000 and the book value of \$3,534,000,000. The aforementioned difference was the amount of subordinated financial debentures which Fuhwa Securities Finance acquired and it was eliminated in the consolidated financial statements.

**(20) Pension**

As of June 30, 2003 and 2002, the pension fund was \$440,999,458 and \$430,031,165, respectively, in the Central Trust of China and China United Trust and Investment Co. As of June 30, 2003 and 2002, the accrued pension liabilities were \$287,395,911 and \$228,374,845, respectively.

For the half-years ended June 30, 2003 and 2002, the net pension costs were \$54,877,789 and \$51,227,550, respectively.

**(21) Other Long-term Borrowings**

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Commercial paper payables	\$ 400,000,000	-
Less: discount on long-term notes payable	<u>697,744</u>	<u>-</u>
Total	<b><u>\$ 399,302,256</u></b>	<b><u>-</u></b>

For the half-year ended June 30, 2003, the interest rates of long-term commercial paper payables ranged from 1.28% to 1.50%. The repayment terms were within two years according to the agreements with bills finance companies.

As of June 30, 2003, the unused lines of credit amounted to approximately \$100,000 thousand.

**(22) Income Tax**

The subsidiaries of the Company have to declare income taxes individually. They cannot combine their income taxes with each other and declare their income taxes unless they apply to combine their income taxes. The Consolidated Company is subject to ROC income tax at a maximum rate of 25%. The income tax expense (benefit) for the half-years ended June 30, 2003 and 2002, was as follows:

	<b>2003.1.1~ 2003.6.30</b>	<b>2002.2.4~ 2002.6.30</b>
Current income tax expense (benefit)	\$ (32,130,403)	424,566,920
10% surtax on undistributed earnings	49,440,682	2,123,482
Deferred income tax expense (benefit)	<u>163,516,517</u>	<u>(500,967,145)</u>
Income tax expense (benefit)	<b><u>\$ 180,826,796</u></b>	<b><u>(74,276,743)</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

The differences between “expected” income tax at statutory income tax rates and “estimated” income tax as reported in the accompanying consolidated financial statements are summarized as follows:

	2003.1.1~ 2003.6.30	2002.2.4~ 2002.6.30
“Expected” income tax expenses	\$ 335,999,701	(545,344,496)
Expenses disallowed for tax purposes	4,824,555	1,582,485
Gain on reversal of decline in market value of short-term investment	(5,214,351)	(131,227)
Adjustments of tax effect for separately taxable interest income from commercial paper	(5,124,889)	(11,564,101)
Tax-exempt loss (gain) on disposal of trading securities	(194,290,788)	30,834,694
Revenue from issuing stock warrant liabilities	65,812,500	63,250,000
Dividend income	(18,177,916)	(8,533,995)
Long-term investment income under equity method	(26,724,132)	(19,054,085)
Net loss on futures transactions	2,329,166	1,448,423
Reserve for trading losses	6,860,312	-
Loss on disposal of land	1,487,204	-
Adjustments of government bonds for tax report	(24,399,118)	(63,857,698)
Adjustments of tax on bond interest	-	35,714,000
Income of OBU exempt from tax	(24,688,500)	(16,055,487)
10% surtax on undistributed earnings	49,440,682	2,123,482
Investment tax credit	(581,372)	-
Overestimation of prior year’s loss carryforwards	116,587,035	36,430,209
Underestimation of prior year’s investment tax credit	1,875,447	436,128
Overestimation of prior year’s income tax	(74,361,453)	(45,155,841)
Adjustments of prior year’s allowance for bad debt	(80,961,250)	-
Adjustments of prior year’s income tax and assessment of additional tax requested by authorities	(60,507,127)	60,034,567
Adjustments of deferred income tax assets	-	5,394,223
Disallowed loss carryforwards	29,302,012	-
Valuation allowance for deferred income tax assets	81,336,610	383,377,611
Others	2,468	14,794,365
Income tax expenses (benefits)	<b>\$ <u>180,826,796</u></b>	<b><u>(74,276,743)</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

The major components of deferred income tax expense (benefit) were as follows:

	2003.1.1~ 2003.6.30	2002.2.4~ 2002.6.30
Deferred pension expense	\$ (2,733,011)	(2,345,658)
Reversal of provision for (provision for) trading losses	(6,048,228)	5,281,461
Deferred organization cost	90,096	354,588
Reversal of (allowance for) bad debt in excess of legal limitation	87,052,927	(1,103,167,481)
Deferred donation expense	5,000,000	-
Employee welfare expense in excess of legal limitation	300,000	300,000
Loss carryforwards utilized	82,325,555	232,184,926
Increase in investment tax credit	(581,372)	-
Allowance for loss on decline in net relizable value of securities foreclosed	(398,337)	(441,388)
Unrealized exchange loss	(3,757,430)	(31,962,889)
Adjustments of prior year's allowance for bad debt	(80,961,250)	-
Overestimation of prior year's investment tax credit	1,875,447	436,128
Valuation allowance for deferred income tax assets	81,336,610	383,377,611
Others	15,510	15,015,557
Deferred income tax expenses (benefits)	<b>\$ <u>163,516,517</u></b>	<b><u>(500,967,145)</u></b>

The components of deferred income tax assets and liabilities were as follows:

	June 30, 2003	June 30, 2002
Current:		
Deferred income tax assets	<b>\$ <u>840,530,988</u></b>	<b><u>502,318,076</u></b>
Non current:		
Deferred income tax assets	\$ 2,043,343,466	1,832,643,386
Valuation allowance for deferred income tax assets	<u>(526,277,121)</u>	<u>(445,702,026)</u>
Deferred income tax assets, net	1,517,066,345	1,386,941,360
Deferred income tax liabilities	<u>(9,366,221)</u>	<u>-</u>
Deferred income tax assets–non current, net	<b>\$ <u>1,507,700,124</u></b>	<b><u>1,386,941,360</u></b>
Total deferred income tax assets	<b>\$ <u>2,883,874,454</u></b>	<b><u>2,334,961,462</u></b>
Total deferred income tax liabilities	<b>\$ <u>9,366,221</u></b>	<b><u>-</u></b>
Total valuation allowance for deferred income tax assets	<b>\$ <u>526,277,121</u></b>	<b><u>445,702,026</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

The components of deferred income tax assets, including the temporary differences, loss carryforwards, and the respective income tax effect for each component, were as follows:

	June 30, 2003		June 30, 2002	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Allowance for bad debt in excess of tax limitation	\$ 5,042,459,351	1,260,614,839	6,653,764,739	1,663,441,186
Employee welfare expense in excess of tax limitation	1,200,000	300,000	3,600,000	900,000
Deferred pension expense	278,448,147	69,612,036	244,467,285	61,116,821
Reserve for default losses	200,730,712	50,182,678	200,730,712	50,182,678
Reserve for trading losses	24,192,910	6,048,228	432,068	108,017
Loss carryforwards	5,976,288,570	1,494,072,141	2,181,664,923	545,416,230
Unrealized exchange gain (loss)	(37,464,890)	(9,366,221)	33,721,318	8,430,330
Allowance for loss on decline in net realizable value of securities foreclosed	3,604,803	901,201	1,765,551	441,388
Investment tax credit	581,372	581,372	3,334,090	3,334,090
Others	6,247,836	1,561,959	6,362,999	1,590,722
		<b>\$ 2,874,508,233</b>		<b>2,334,961,462</b>

The components of the balance of tax payable (recorded as other payables) were as follows:

	June 30, 2003	June 30, 2002
Income tax expense	\$ 17,310,279	426,690,402
Separate taxation	(18,792,921)	(23,569,204)
Income tax withholding	(56,745,186)	(42,940,265)
Adjustments of prior year's income tax	-	(60,034,567)
Prior year's additional income tax assessed by the authorities	113,350,232	23,460,850
Estimation of income tax on expired stock warrants	63,250,000	-
Overestimation of prior year's income tax	74,361,453	45,155,841
Others	-	28,399,327
Income tax payable	<b>\$ 192,733,857</b>	<b>397,162,384</b>

As of June 30, 2003 and 2002, the prior year's refundable income tax was \$540,280,431 and \$518,392,461, respectively, recorded as other receivables.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

In accordance with the ROC Income Tax Law, assessed net losses can be carried forward for five consecutive years to reduce taxable income. As of June 30, 2003, the amount of losses and the year of expiry were as follows:

<b>Year incurred</b>	<b>June 30, 2003</b>	<b>Year of expiry</b>
2000	\$ 2,201,524,948	2005
2001	2,031,815	2006
2002	3,445,440,462	2007
The half-year ended June 30, 2003	<u>327,291,345</u>	2008
	<b>\$ <u>5,976,288,570</u></b>	

Pursuant to the ROC Statute for Upgrading Industries, the Consolidated Company's unused investment tax credit—staff training cost as of June 30, 2003, was as follows:

<b>Year incurred</b>	<b>June 30, 2003</b>	<b>Year of expiry</b>
The half-year ended June 30, 2003	\$ <u>581,372</u>	2007

Fuwha Financial Holding Company was established in the first quarter of 2002. Therefore, the tax authority did not assess its declaration of income tax in 2002. The income tax returns for all fiscal years through 2000 of Fuhwa Securities (excluding the year 1999), Fuhwa Bank, and Fuhwa Securities Investment Trust have been assessed by the tax authority. The income tax returns for all fiscal years through 1999 of Fuhwan Securities Finance and Fuhwa Capital Management have been assessed by the tax authority. Moreover, Fuhwa Futures' income tax returns for all fiscal years through 2001 have been assessed by the tax authority.

Fuwha Securities was requested by the tax authorities to pay additional tax and penalties for the years 1997, 1998 and 2000 totaling is \$52,843,105. Fuhwa Securities petitioned for a recheck and appeal with the Ministry of Finance (MOF). However, Fuhwa Securities disagreed with the assessment and petitioned the Administrative Court. Fuhwa Securities has paid part of the additional tax and accrued the income tax payable in the financial statements.

Referring to the above paragraph, Fuhwa Securities provided time deposits totaling \$11,730,425 as collateral and recorded them as restricted time deposits—current. Please refer to note 27.

Because Fuhwa Securities has paid the business tax for the period from 1997 to 2001, Fuhwa Securities made an application for a rebate of income tax amounting to a total of \$7,807,306.

Fuhwa Bank's annual income tax return for 1997 have been assessed by the tax authority, which determined that taxes withheld on interest of government bonds cannot be applied against income taxes payable.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

Fuhwa Bank's 10% surtax on undistributed earnings for the year 1998 has been assessed by the tax authority. The ROC tax authority determined that the unrealized exchange gains from 1997 accounted for in taxable income in 1998 cannot offset unappropriated earnings in 1998. In addition, Fuhwa Bank's annual tax return for 2000 has been assessed by the tax authority, which determined that the reserve for bad debt, which is based on the income tax benefit from VAT reduction amounting to a total of \$323,845,000, cannot be deductible as operating cost. However, Fuhwa Bank petitioned for a recheck regarding the above-mentioned issue.

Fuhwa Bank had provided allowance for the above-mentioned petition for a recheck and appeal with the MOF.

**(23) Stockholders' Equity**

## 1. Common stock

On February 4, 2002, pursuant to the Financial Holding Company Act, the Company was established by share exchange of Fuhwa Securities Finance and Fuhwa Securities. The statutory share exchange procedure was completed on February 4, 2002. The share exchange ratios of Fuhwa Securities Finance and Fuhwa Securities with the Company were 1.0173078927 shares and 0.9590296259 shares, respectively, and a total of 2,091,000 thousand shares of the Company with \$10 par value were issued.

On May 24, 2002, a special stockholders' meeting was held and resolved that Fuhwa Bank would be a subsidiary of the Company through share exchange. The statutory share exchange procedure was completed on August 1, 2002. The share exchange ratio of Fuhwa Bank with the Company was 1.387 shares, and a total of 873,478 thousand shares of the Company with \$10 par value were issued.

On August 7, 2002, a board of directors' meeting was held and resolved to decrease capital by 24,264 thousand shares, at \$10 per share, amounting to \$246,484 thousand to cooperate with subsidiaries in canceling treasury stock. The capital decrease was approved by the SFC on September 19, 2002, with Ruling Tai-Tsai-Cheng (4) No. 0910004872. The date of the capital decrease was designated as September 26, 2002, by the board of directors, and the related registration was also completed.

On November 26, 2002, the board of directors resolved that the Company eliminate treasury stock and decrease capital by 113,000 thousand shares, at \$10 per share, amounting to \$1,130,000,000. The capital decrease was approved by the SFC on December 6, 2002, with Ruling Tai-Tsai-Cheng (4) No. 0910164534. The date of the capital decrease was designated as December 6, 2002, by the board of directors, and the related registration was also completed.

(Continued)

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

## Notes to Consolidated Financial Statements

On June 6, 2003, the annual stockholders' meeting resolved to increase capital by transferring \$676,151,010 from capital surplus through the issuance of 67,615,101 shares of new common stock, and to distribute cash dividends of \$0.45 per share from capital surplus of subsidiaries' unappropriated earnings before share exchange. Total amount of cash dividends distributed was \$1,222,294,273, which was calculated based on 2,716,209,495 shares of outstanding common stock as of June 30, 2003. The capital increase was approved by the SFC on July 4, 2003, and the date of capital increase was designated as August 15, 2003, by the board of directors.

## 2. Treasury stock

The changes in the Company's treasury stock held by the Company and its subsidiaries for the half-years ended June 30, 2003 and 2002, were as follows:

Unit: thousands of New Taiwan dollars/thousands of shares

Reason for buyback of shares	Beginning shares	Shares increase	Shares decrease	For the half-year ended June 30, 2003		
				Due to change in reason for buyback of shares	Ending balance Shares	Ending balance Amount
Held by the Company:						
For transferring to employees	29,793	15,550	-	23,318	68,661	\$ 710,755
For maintaining the Company's reputation and shareholders' interest	22,909	409	-	(23,318)	-	-
Held by the subsidiary:						
Fuhwa Securities Finance:						
For transferring to employees prior to share exchange	41,959	-	-	-	41,959	559,434
Fuhwa Commercial Bank:						
For transferring to employees prior to share exchange	<u>27,155</u>	<u>-</u>	<u>27,155</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><b>121,816</b></u>	<u><b>15,959</b></u>	<u><b>27,155</b></u>	<u><b>-</b></u>	<u><b>110,620</b></u>	<u><b>\$ 1,270,189</b></u>

Fuhwa Bank has transferred to employees all the Company's treasury stock which was bought back as an incentive for employees prior to share exchange, totaling 27,155 thousand shares in the amount \$212,088 thousand. The total transfer price was \$226,775 thousand, and the difference of \$14,667 thousand was accounted for as capital surplus – treasury stock transaction.

(Continued)

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

## Notes to Consolidated Financial Statements

Unit: thousands of New Taiwan dollars/thousands of shares

For the half-year ended June 30, 2002

Reason for buyback of shares	Beginning shares	Shares increase	Shares decrease	Due to change in reason for buyback of shares	Ending balance	
					Shares	Amount
Held by the Company:						
For transferring to employees	-	29,793	-	-	29,793	\$ 333,132
Held by the subsidiary:						
Fuhwa Securities Finance:						
For transferring to employees prior to share exchange	41,959	-	-	-	41,959	559,434
Fuhwa Securities bought shares from dissenting shareholders prior to share exchange	<u>24,648</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,648</u>	<u>307,389</u>
	<u><b>66,607</b></u>	<u><b>29,793</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>96,400</b></u>	<u><b>\$ 1,199,955</b></u>

On February 4, 2002, treasury stock, which were bought back by above said subsidiaries prior to share exchange and were converted to the Company's shares, are considered and accounted for as treasury stock in accordance with the regulations. These treasury stock comprised the Company's repurchase of its own outstanding shares for transferring to employees and repurchase from those stockholders that objected to Fuhwa Securities being a subsidiary of the Company.

In accordance with the Securities and Exchange Law, a company's repurchase of its own shares can not exceed 10% of its total issued outstanding shares, and the total amount of the repurchase cannot exceed the retained earnings plus paid-in capital in excess of par value and realized capital surplus. Based on the Company's financial statements as of March 31, 2003 and 2002, the maximum number of shares that the Company could repurchase was 282,683 thousand shares and 209,100 thousand shares, respectively, and the maximum amount of the Company's repurchase was \$10,783,192 thousand and \$9,168,296 thousand, respectively. For the half-years ended June 30, 2003 and 2002, the maximum number of shares the Company had repurchased were 123,755 thousand shares and 96,400 thousand shares, respectively, and the maximum amount of repurchase was \$1,342,260 thousand and \$1,199,955 thousand, respectively, which complied with the Securities and Exchange Law. As of June 30, 2002, the related payable for repurchasing treasury stock, recorded in other payable account, amounted to \$16,427 thousand.

According to the Securities and Exchange Law, treasury stock held by the Company and its subsidiaries cannot be pledged, and cannot have any shareholders' rights until it is disposed of.

(Continued)

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

## Notes to Consolidated Financial Statements

In 2002, the shares of the subsidiaries were converted to shares of the Company in accordance with the Financial Holding Company Act. As a result, due to the cross-investment between the subsidiaries, the subsidiaries held the Company's shares as equity investments totalling to 293,810 thousand shares and 265,149 thousand shares, and the market price was \$3,006,372 thousand and \$2,877,447 thousand for the half-years ended June 30, 2003 and 2002, respectively.

As of June 30, 2003 and 2002, the subsidiaries held shares of the Company due to the above paragraph as follows:

## Unit: Thousands of shares/Thousands of dollars

Subsidiary	Reason for holding the Company's shares	June 30, 2003	
		Shares	Amounts
Fuhwa Securities Finance	Stock conversion of Fuhwa Securities	247,979	\$ 3,086,527
Fuhwa Securities Finance	Stock conversion of Fuhwa Bank	25,221	171,349
Fuhwa Securities	Stock conversion of Fuhwa Securities Finance	9,851	158,619
Fuhwa Futures	Stock conversion of Fuhwa Securities Finance	7,319	99,908
Fuhwa Lease Co., Ltd.	Stock conversion of Fuhwa Bank	3,440	33,252
		<u>293,810</u>	\$ <u>3,549,655</u>
Subsidiaries	Reason for holding the Company's shares	June 30, 2002	
		Shares	Amounts
Fuhwa Securities Finance	Stock conversion of Fuhwa Securities	247,979	\$ 3,123,460
Fuhwa Securities	Stock conversion of Fuhwa Securities Finance	9,851	158,619
Fuhwa Futures	Stock conversion of Fuhwa Securities Finance	7,319	99,909
		<u>265,149</u>	\$ <u>3,381,988</u>

Shares of the Company held by the subsidiaries due to the aforementioned situation should be disposed of within 3 years, according to Article 31 of the Financial Holding Company Act.

(Continued)

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

## Notes to Consolidated Financial Statements

For the half-years ended June 30, 2003 and 2002, the subsidiaries of the Company did not repurchase the Company's shares and held the Company's shares solely from the abovesaid situations and transferred to employees some of the Company's shares which were repurchased as an incentive for employees prior to share exchange. As of June 30, 2003 and 2002, total shares of the Company held by subsidiaries were 335,769 thousand shares and 331,756 thousand shares, respectively, and the market prices were \$3,435,611 thousand and \$3,600,802 thousand, respectively.

In accordance with SFC regulations, subsidiaries holding shares of their parent company should account for them as treasury stock. When the market value of the Company's shares is lower than book value, the loss on decline in market value of short-term investments should be calculated based on the percentage of shareholding and accounted for as special reserve. However, this special reserve can not be distributed. Any recovery of the market value to the extent of the original book value could be reversed based on the percentage of shareholding. For a subsidiary holding the shares of the Company as short-term investments, the allowance for loss on decline in market value could be recovered until that amounts equals the amount of the subsidiary's account on February 4, 2002, or when the Company obtained the subsidiary. The aforementioned reversal of or provision for the special reserve should follow the same procedures as for other non-treasury stock of shareholders' equity contra account.

In accordance with the aforementioned regulations, certain amounts of shareholders' equity contra account of the Company, which should be retained as special reserve, will not be equal to the amounts of shareholders' equity contra accounts stated in the Company's financial statements. As of June 30, 2003 and 2002, the calculated amounts of subsidiaries' allowance for valuation loss on short-term investments accounted for under the related shareholders' equity contra account were \$545,227 thousand and \$504,541 thousand, respectively. Consequently, for the half-years ended June 30, 2003 and 2002, the amount decreased \$236,327 thousand and increased \$504,541 thousand, respectively. In addition, the aforementioned allowance for valuation loss on short-term investments was not accounted for in the Company's shareholders' equity contra account in the financial reports for the half-years ended June 30, 2003 and 2002. However, as of June 6, 2003, the shareholders' meeting had resolved to provide special reserve amounting to \$29,911 thousand from unappropriated earnings in accordance with the aforementioned regulations.

## 3. Capital surplus

As of June 30, 2003 and 2002, the details of capital surplus were as follows:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Paid-in capital in excess of par value	\$ 7,891,571,371	8,787,507,617
Treasury stock transaction	<u>483,519,441</u>	<u>-</u>
	<b>\$ <u>8,375,090,812</u></b>	<b><u>8,787,507,617</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

The ROC Company Law requires that capital surplus only be used to offset an accumulated deficit or be transferred to capital and not be used to distribute cash dividends. Realized capital surplus mentioned above includes the proceeds received in excess of the par value of common stock issued and any amounts donated to the Company. The amount of capital surplus capitalized each year may not exceed a certain percentage of the Company's issued share capital. Issuance of new stock from capital surplus of cash subscription in excess of par value of common stock can be made only once per year, and cannot be made in the same year as cash subscription.

However, according to SFC regulations, capital surplus resulting from undistributed earnings absorbed from subsidiaries after share exchange of Fuhwa Financial Holding Company is permitted to be transferred to capital or used to distribute cash dividends in the current period. In addition, the amount of capital surplus to be transferred to capital or used to distribute cash dividends is not subject to the aforementioned limitations. The aforementioned capital surplus of Fuhwa Financial Holding resulting from undistributed earnings absorbed from subsidiaries was as follows:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Prior to 1997	\$ 1,037,720	1,037,720
1998 and after	<u>716,545,417</u>	<u>1,260,934,704</u>
	<b><u>\$ 717,583,137</u></b>	<b><u>1,261,972,424</u></b>

## 4. Legal reserve

In accordance with the ROC Company Law, 10% of annual net income after offsetting prior years' losses and paying tax liabilities must be retained as a legal reserve. Legal reserve can only be used to offset losses and cannot be distributed as cash dividends. Up to one-half of legal reserve can be converted to capital when it reaches an amount equal to one-half of issued capital.

## 5. Special reserve

In accordance with SFC regulations, in addition to the legal reserve retained, the Company should provide a special reserve of equal amount for any current year shareholders' equity contra account from current year's earnings after tax or prior years' unappropriated earnings. However, the special reserve of equal amounts for prior years' accumulated shareholders' equity contra accounts should only be provided from prior years' unappropriated earnings. If a reversal of shareholders' equity contra account occurs, the reversed portion of the special reserve could be distributed.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

6. Distribution of retained earnings

According to the Company's articles of incorporation, the annual net income will be distributed as follows:

- (a) Pay income tax.
- (b) Offset prior years' deficits.
- (c) Provide legal reserve.
- (d) The remaining amount is resolved by a shareholders' meeting. When the retained earnings are distributed, the bonus to employees should be 1% to 3% of the total appropriated earnings.

In order to continuously expand its operations and increase earning capacity, and to maintain the capital adequacy ratio, the Company has adopted the following dividend policy: 80% of the Company's annual net income, after paying all taxes as required by the law, offsetting prior years' losses first, and retaining legal reserve and employees' bonus, is to be distributed as dividends. Cash dividends shall be no less than 50% of the distributed amount, while stock dividends shall be no greater than 50% of the distributed amount.

The abovementioned distribution of dividends should be proposed by the board of directors and is subject to the stockholders' approval.

7. Imputation credit account (ICA)

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Imputation credit account balance	\$ <u><b>348,839,427</b></u>	<u><b>268,651,475</b></u>

When the Company distributed year 2002's retained earnings in 2003, the expected imputation tax credit ratio was 17.69%.

(Continued)

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

## Notes to Consolidated Financial Statements

## (24) Financial Instruments

## 1. Derivative financial instruments

## (a) Stock warrants

As of June 30, 2003 and 2002, stock warrant liabilities recorded in the accompanying balance sheets were as follows:

	June 30, 2003			Gain or (loss) on change in fair value
	Issued units	Issued amount	Market value	
Stock warrants:				
Fuh-Hwa 03	\$ 35,000,000	201,950,000	19,250,000	182,700,000
Fuh-Hwa 04	20,000,000	<u>194,800,000</u>	<u>39,000,000</u>	<u>155,800,000</u>
		<u>396,750,000</u>	<u>58,250,000</u>	<u>338,500,000</u>
Less: recognized gain on change in market value of stock warrant liabilities repurchased in last period				481,725,000
Add: revenue from royalties				262,575,000
Add: gain on non-exercise				<u>675,000</u>
				<u>120,025,000</u>
Stock warrant liabilities for repurchase:				
Fuh-Hwa 03	12,308,000	15,570,307	6,769,400	(8,800,907)
Fuh-Hwa 04	12,185,000	<u>22,399,669</u>	<u>23,760,750</u>	<u>1,361,081</u>
		<u>37,969,976</u>	<u>30,530,150</u>	<u>(7,439,826)</u>
Stock warrant liabilities, net			<b>\$ <u>27,719,850</u></b>	
Loss from trading stock warrant liabilities repurchased				<u>(61,485,574)</u>
<b>Gain on issuance of   stock warrants, net</b>				<b>\$ <u>51,099,600</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

The issuance terms of the stock warrants are as follows:

Stock warrants	Issued price per unit	Exercise price	Leverage effect	June 30, 2003 Market price per unit
Fuh-Hwa 03	5.77	24.86	3.92	0.55
Fuh-Hwa 04	9.74	65.65	5.18	1.95

Stock warrants	Variety	Maturity	Exercise period	Option for exercise
Fuh-Hwa 03	American style	One year after trading on the market	From listing date to expiry date	Cash clearing or purchase of the defined common stock is optional for the issuer.
Fuh-Hwa 04	American style	One year after trading on the market	From listing date to expiry date	Cash clearing or purchase of the defined common stock is optional for the issuer.

	June 30, 2002			Gain or (loss) on change in fair value
	Issued units	Issued amount	Market value	
Stock warrants:				
Fuh-Hwa 02	13,500,000	\$ 263,250,000	56,700,000	206,550,000
Less: recognized gain on change in market value of stock warrant liabilities repurchased in last period				190,000,000
Add: revenue from royalties				252,500,000
Add: gain on non-exercise				<u>500,000</u>
				<u>269,550,000</u>

(Continued)

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

## Notes to Consolidated Financial Statements

	June 30, 2002			Gain or (loss) on change in fair value
	Issued units	Issued amount	Market value	
Stock warrant liabilities for repurchase:				
Fuh-Hwa 02	5,119,000	\$ 58,669,998	<u>21,499,800</u>	<u>(37,170,198)</u>
Stock warrant liabilities, net			\$ <u>35,200,200</u>	
Loss from trading warrant liabilities repurchased				<u>(114,096,202)</u>
<b>Gain on issuance of stock warrants, net</b>				\$ <u>118,283,600</u>

The issuance terms of the stock warrants are as follows:

Stock warrants	Issued price per unit	Exercise price	Leverage effect	June 30, 2002 Market price per unit
Fuh-Hwa 02	\$ 19.5	124.71	4.74	4.20
<b>Stock warrants</b>	<b>Variety</b>	<b>Maturity</b>	<b>Exercise period</b>	<b>Option for exercise</b>
Fuh-Hwa 02	American style	One year after trading on the market	From listing date to expiry date	Cash clearing or purchase of the defined common stock is optional for the issuer.

(Continued)

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

## Notes to Consolidated Financial Statements

## (b) TAIEX index futures contracts and options

The Consolidated Company sells and buys TAIEX index futures contracts and options contracts for dealing.

- a. As of June 30, 2003, the Consolidated Company's outstanding TAIEX index futures and options contracts were as follows:

Item	Volume	Contract amount or royalty	Fair value
FITE Index futures	buys 49	\$ <u>40,954,600</u>	<u>41,013,000</u>
FITF Index futures	buys 6	\$ <u>4,226,200</u>	<u>4,234,800</u>
FITX Index futures	sell 257	\$ <u>252,355,600</u>	<u>251,089,000</u>
Option ABO 20	buys 10	\$ 19,000	1,100
Option ADO 46	buys 10	12,900	100
Option TAIEX index TXO 4,600	buys 10	17,250	11,500
Option TAIEX index TXO 4,700	buys 10	25,500	21,250
Option TAIEX index TXO 5,100	buys 11	30,150	34,650
Option TAIEX index TXO 4,900	buys 6	42,750	30,900
Option TAIEX index TXO 5,000	buys 2	8,800	7,000
Option TAIEX index TXO 5,100	buys 1	5,950	2,200
Option TAIEX index TXO 5,200	buys 26	67,725	31,850
Option TAIEX index TXO 5,300	buys 8	14,975	5,600
		\$ <u>245,000</u>	<u>146,150</u>
Option TAIEX index TXO 4,700	sell 5	\$ 9,875	10,625
Option TAIEX index TXO 4,800	sell 14	50,600	51,100
Option TAIEX index TXO 4,900	sell 1	5,000	5,750
Option TAIEX index TXO 5,000	sell 20	145,000	175,000
Option TAIEX index TXO 5,200	sell 5	86,200	84,000
Option TAIEX index TXO 5,300	sell 12	250,000	258,000
		\$ <u>546,675</u>	<u>584,475</u>

(Continued)

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

## Notes to Consolidated Financial Statements

- b. As of June 30, 2002, the Consolidated Company's outstanding TAIEX index futures contracts and options contracts were as follows:

Item	Volume	Contract amount or royalty	Fair value
FITE Index futures	buys 44	\$ <u>42,665,800</u>	<u>42,328,000</u>
FITE Index futures	buys 32	\$ <u>23,991,600</u>	<u>23,705,600</u>
FITE Index futures	buys 4	\$ <u>4,091,600</u>	<u>4,117,600</u>
FITE Index futures	sell 169	\$ <u>175,067,200</u>	<u>173,968,600</u>
FITE Index futures	sell 75	\$ <u>19,235,250</u>	<u>19,301,250</u>
Option TAIEX index TXO 5,000	buys 77	\$ 758,750	862,400
Option TAIEX index TXO 5,100	buys 96	851,250	792,000
Option TAIEX index TXO 5,200	buys 35	182,700	197,750
Option TAIEX index TXO 5,300	buys 92	620,000	340,400
Option TAIEX index TXO 5,400	buys 55	385,450	137,500
Option TAIEX index TXO 5,500	buys 82	426,850	123,000
Option TAIEX index TXO 5,600	buys 33	251,750	28,875
Option TAIEX index TXO 5,700	buys 15	96,200	7,275
Option TAIEX index TXO 5,800	buys 8	44,000	2,000
Option TAIEX index TXO 6,000	buys 4	17,600	220
Option TAIEX index TXO 6,300	buys 19	10,850	95
Option TAIEX index TXO 5,400	buys 10	59,000	63,000
Option TAIEX index TXO 5,900	buys 10	58,500	14,500
Option TAIEX index TXO 4,900	buys 10	342,500	212,000
Option TAIEX index TXO 5,900	buys 10	114,500	29,500
Option TAIEX index TXO 6,100	buys 10	85,500	17,750
Option TAIEX index TXO 6,300	buys 10	56,000	10,500
Option TAIEX index TXO 6,500	buys 10	44,000	6,000
Option TAIEX index TXO 5,100	buys 29	170,300	168,200
Option TAIEX index TXO 5,200	buys 45	254,450	389,250
Option TAIEX index TXO 5,300	buys 89	595,600	1,023,500
Option TAIEX index TXO 5,400	buys 11	78,300	168,300
Option TAIEX index TXO 5,000	buys 5	42,250	34,000
		\$ <u>5,546,300</u>	<u>4,628,015</u>
Option TAIEX index TXO 5,900	sell 27	\$ 170,000	3,240
Option TAIEX index TXO 6,100	sell 9	21,150	180
Option TAIEX index TXO 6,200	sell 1	4,350	5
Option TAIEX index TXO 6,400	sell 2	2,000	10
Option TAIEX index TXO 6,500	sell 10	11,750	50
Option TAIEX index TXO 4,900	sell 10	27,500	21,250
Option TAIEX index TXO 5,000	sell 8	31,350	28,800

(Continued)

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

## Notes to Consolidated Financial Statements

Item	Volume	Contract amount or royalty	Fair value
Option TAIEX index TXO 5,500	sell 34	\$ 706,200	622,200
Option TAIEX index TXO 5,600	sell 13	316,900	295,100
Option TAIEX index TXO 5,700	sell 13	134,400	354,250
Option TAIEX index TXO 5,800	sell 20	263,000	640,000
Option TAIEX index TXO 5,900	sell 1	24,000	37,000
Option TAIEX index TXO 6,000	sell 1	29,000	41,750
Option TAIEX index TXO 6,200	sell 10	252,500	515,000
Option TAIEX index TXO 6,300	sell 20	740,000	1,125,000
		<u>\$ 2,734,100</u>	<u>3,683,835</u>

- (i) The period of above outstanding TAIEX index futures and options contracts is from July to September in years 2003 and 2002.
- (ii) The fair value of derivative financial instruments are measured by reasonable estimate of receivables or payables on the balance sheet date, if the contracts are exercised at the end of the reported accounting period. Generally, the amounts include current unrealized gain or loss. The Consolidated Company measures fair value based on the quoted market price from financial institutions.

## (iii) Credit risk

This is the risk that a counter-party of a futures contract will fail to carry out the trading obligations at the expiry of a contract. The Consolidated Company places orders through the central exchange market and closes out the contract before the expiry; therefore, credit risk is low.

## (iv) Market risk

The Consolidated Company has established related internal rules of risk control and internal auditing, and according to the Regulations of the Taiwan Futures Exchange, the Company should declare to the SFC or other appointed institutions if the futures firm's stockholders' equity is below 60% of issued capital or adjusted capital is below 20% of the total deposits of the non-offset position. Therefore, market risk is low. The following methods are also applied to evaluate and control market risk.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## i. Limits on profit and capital risks

The Company set a limit on profit and capital risks based on the estimated profit or loss the amount of future with the permission of the board of directors. The above limits are based on the quality of information during the risk evaluation process.

## ii. Limit of transaction quantity

The Consolidated Company set a maximum quantity of transactions based on its capabilities in order to avoid growth of liquidity risk.

## iii. Limit of potential loss

The fluctuation of derivative financial instruments is more severe than normal financial instruments. As a result, the Consolidated Company set an upper limit on transactions and monthly potential loss for each dealer for the purpose of risk control.

## iv. Update of risk analysis

The Consolidated Company gathers daily information on risk positions, condition of profit and loss, and sensitivity analysis of risks and market price in order to control the latest level of risk and ensure no inappropriate and excessive risks have accrued.

## (v) Liquidity risk

The outstanding TAIEX index futures position held by the Consolidated Company can be closed out at a reasonable value through the open market. As a result, liquidity risk is low.

## (vi) Cash flow risk and requirements of outstanding contracts

The Consolidated Company pays initial margins for the TAIEX index futures and option contracts. Thereafter, the Consolidated Company pays maintenance margins based on the fair market value multiplied by a certain maintenance rate set by TAIEX. In addition, the Consolidated Company pays an initial obligation fee for the options. Thus, the cash flow requirement is low.

The Consolidated Company had excess margin deposits for such futures and option contracts amounting to \$79,003,846 and \$68,859,491 as of June 30, 2003 and 2002, respectively.

(Continued)

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

## Notes to Consolidated Financial Statements

- c. Net gains (loss) from dealing in TAIEX index futures and option contracts were as follows:

	For the half-year ended June 30, 2003	For the half-year ended June 30, 2002
Futures contract:		
Futures contract gain—realized	\$ 46,538,650	41,930,450
Futures contract gain—unrealized	740,400	1,124,600
Futures contract loss—realized	(96,215,050)	(62,128,150)
Futures contract loss—unrealized	<u>(593,200)</u>	<u>(689,800)</u>
Futures contract loss, net	<b><u>\$ (49,529,200)</u></b>	<b><u>(19,762,900)</u></b>
Option:		
Option transactions gain—realized	\$ 9,573,970	33,695,695
Option transactions loss—realized	(15,984,390)	(19,989,485)
Option transactions loss—unrealized	<u>(136,650)</u>	<u>(1,878,020)</u>
Option contract gain (loss), net	<b><u>\$ (6,547,070)</u></b>	<b><u>11,828,190</u></b>

- (c) Forward exchange contract, non-delivery forward exchange contract, currency swap contract, and interest rate swap contract

The outstanding contracts for derivative financial instruments are summarized as follows:

- a. Contract amount or notional amount, and fair value

	Notional amount	June 30, 2003	
		Fair value Gain	Loss
Trading purposes:			
Forward exchange contract	\$ 2,000,239,000	14,259,142	2,027,884
Non-delivery forward exchange contract	900,285,000	1,387,959	383,0000
Currency swap contract	4,017,439,281	57,492,338	15,164,286
Currency futures option	<u>1,424,308,000</u>	<u>8,882,088</u>	<u>7,423,216</u>
	<b><u>\$ 8,342,271,281</u></b>	<b><u>82,021,527</u></b>	<b><u>24,998,386</u></b>
Non-trading purposes:			
Interest rate swap contract	<b><u>\$ 3,100,000,000</u></b>	<b><u>98,833,500</u></b>	<u>-</u>

(Continued)

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

## Notes to Consolidated Financial Statements

	Notional amount	June 30, 2002	
		Fair value Gain	Loss
Trading purposes:			
Forward exchange contract	\$ 204,450,000	2,834,110	2,759,519
Non-delivery forward exchange contract	827,700,000	12,039,228	11,108,035
Currency swap contract	<u>2,778,159,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,820,309,000</u>	<u>14,873,338</u>	<u>13,867,554</u>
Interest rate swap contract	\$ <u>10,000,000</u>	<u>34,615</u>	<u>-</u>

The assets and liabilities relating to the revaluation gain or loss on the contracts for trading purposes were recorded under other assets and other liabilities, respectively.

As of June 30, 2002, net interest revenue and unrealized gains resulting from interest rate swap contracts for trading purposes were \$1,785 and \$34,615, respectively.

Interest rate swap contracts were in order to avoid cash flow risks by issuing financial debentures with floating interest rates, and were for non-trading purposes.

b. Credit risk

Credit risk is the risk that the counter-party will be unable to fulfill its contractual duty. When derivative financial instruments become profitable, credit risk is increased. Since all of the counterparts with which Fuhwa Securities entered into derivative financial instrument contracts are financial institutions with good credit, it was anticipated that no significant credit risk would occur from these transactions. In addition, in order to reduce credit risk, Fuhwa Bank utilized the same credit policy with loans and credit activities and set limitations on credit. In addition, Fuhwa Bank signed master netting agreements with the counter-party to reduce credit risk.

c. Market risk

Market risk is the risk that the Consolidated Company will suffer losses due to changes in market interest and exchange rates. Fuhwa Bank maintains all its foreign currency positions within prescribed limits in order to manage market risk. Moreover, in accordance with SFC regulations, the total notional amounts of outstanding NTD interest rate swap contracts of Fuhwa Securities can not be in excess of 400% of its net equity.

(Continued)

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

## Notes to Consolidated Financial Statements

## d. Liquidity risk, cash flow risk and future cash requirement

Liquidity risk is the risk that the Consolidated Company will be unable to settle its position on liability at the settlement date. In order to control the transacting risks of the financial instruments, Fuhwa Bank utilized the credit approval mentioned above, position limitation setting, stop loss point setting and a management control process. In addition, Fuhwa Bank maintains adequate current assets and utilizes money market and foreign exchange market instruments to support its future cash flow requirements. Furthermore, Fuhwa Securities makes a profit or loss on NTD Interest rate swap, and receives or pays the difference in the interest rate. Therefore, there are no significant cash flow risk and requirements for cash flows.

- e. The above amount of contracts only disclosed the outstanding transaction amount on the balance sheet date; it did not reflect the exposure under market and credit risk. Therefore, the management of the Consolidated Company estimated that the financial instruments mentioned above would not cause significant losses.

## (d) Convertible corporate bonds – asset swaps

- a. As of June 30, 2003, the Consolidated Company had entered into convertible corporate bonds – asset swap options contracts (one component of derivative financial instruments – liabilities, OTC) as follows:

	<b>Option Cost</b>	<b>Market Value</b>
Sell call options	\$ <u>11,051,250</u>	<u>51,041,138</u>

There was no such transaction during the half-year ended June 30, 2002.

(Continued)

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

## Notes to Consolidated Financial Statements

- b. As of June 30, 2003, the values of outstanding IRS contract–asset swaps were as follows:

Counter party	Trading item	Notinal principal	Payment date	Due date	Feature
B Commercial Bank	Paying fixed rate and receiving fixed rate	144,500,000	Quarterly	May 18, 2005	Trading
B Commercial Bank	Paying fixed rate and receiving fixed rate	150,000,000	Quarterly	May 30, 2005	Trading
C Commercial Bank	Paying fixed rate and receiving fixed rate	150,000,000	Quarterly	May 30, 2005	Trading
C Commercial Bank	Paying fixed rate and receiving fixed rate	20,000,000	Quarterly	May 30, 2005	Trading
D Corporation	Paying fixed rate and receiving fixed rate	20,000,000	Quarterly	Aug. 15, 2005	Trading

There were no such transactions during the half-year ended June 30, 2002.

- c. Transaction risk

- (i) Credit risk

Credit risk is the risk that the counter-party will be unable to fulfill its contractual duty upon maturity. As the Consolidated Company sells convertible bonds on the date of settlement, the pricing sources for execution of the right to purchase or sell are gathered from the OTC information systems, and all settlements are through Taiwan Securities Central Depository Co., Ltd.; hence, there is no significant credit risk for the transactions.

- (ii) Market risk

The Consolidated Company is a party to convertible bond asset swaps, sells convertible bonds, and exercises purchase rights and obligations. The dealing price and dealing methods are based on the contracts. Therefore, market risk is low.

(Continued)

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

## Notes to Consolidated Financial Statements

## d. Liquidity risk, cash flow risk, and future cash requirement

The Consolidated Company entered into convertible bond asset swaps contracts to manage against interest rate fluctuations. On every clearing day, the Consolidated Company receives or pays interest at the contract amount times the interest rate. There was no cash used in or provided by the contract when due. Therefore, the requirement for cash flow is low.

As of June 30, 2003, the Consolidated Company had entered into interest rate swaps and convertible bond asset swaps expressed on the balance sheets as follows:

	<b>June 30, 2003</b>	
	<b>Derivative financial instruments – assets, OTC</b>	<b>Derivative financial instruments – liabilities, OTC</b>
IRS contract value–asset swaps	\$ 755,658	-
Options–asset swaps	<u>51,825,793</u>	<u>51,041,138</u>
	<b>\$ <u>52,581,451</u></b>	<b><u>51,041,138</u></b>

For the half-year ended June 30, 2003, the related gains and losses from these transactions were as follows:

	<b>Gains on derivative financial instruments –OTC</b>	<b>June 30, 2003 Losses on derivative financial instruments –OTC</b>	<b>Unrealized gains (losses)</b>
Interest rate swaps	\$ 12	-	-
IRS contract value–asset swaps	1,520,396	764,738	755,658
Options–asset swaps	<u>51,825,793</u>	<u>39,989,888</u>	<u>11,835,905</u>
	<b>\$ <u>53,346,201</u></b>	<b><u>40,754,626</u></b>	<b><u>12,591,563</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

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

As of June 30, 2003 and 2002, the book value and fair value of non-derivative financial instruments comprised the following:

	Unit: thousands of New Taiwan dollars			
	June 30, 2003		June 30, 2002	
	Book Value	Fair Value	Book Value	Fair Value
Assets:				
Fair value equal to book value	\$ 217,420,262	217,420,262	197,708,141	197,708,141
Short-term investments	4,122,431	4,128,487	5,951,314	6,113,286
Trading securities	28,614,298	29,228,333	20,047,588	20,521,776
Funds	-	-	300,000	300,000
Long-term investments	11,328,188	12,834,274	6,262,612	7,301,292
Refundable deposits	1,653,741	1,722,066	1,417,519	1,446,589
Liabilities:				
Fair value equal to book value	233,968,081	233,968,081	202,459,923	202,459,923
Financial debentures	3,534,000	3,534,000	-	-
Other long-term liabilities	399,302	399,302	-	-

Methods and assumptions for estimating the fair value of financial instruments are as follows:

- (a) Short-term financial instruments are stated at their book value on the balance sheet. Because the maturity date of those kinds of instruments are very close to the balance sheet date, it is reasonable that their book values are equal to their fair values. That assumption is used in evaluation of the following accounts: cash and cash equivalents, due from Central Bank, bonds purchased under agreement to resell, futures trading margins, margin deposits for futures contracts, interest receivable, margin loans, other receivables, other financial assets—current, loans and advances to customers, net, operating guarantee deposits, settlement and clearing funds, non-performing loans and overdue receivables, short-term borrowings, deposits by Central Bank, deposits by banks, payable to customer, gurantee deposits received, short sales proceeds payable, other notes and accounts payable, deposits and remittance, and accrued pension liabilities.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

- (b) The fair market value of listed stock and closed-end funds are determined by the average closing price for the last month of the reported accounting period. The market prices of open-end funds are the net asset value on the balance sheet date. The market prices of convertible bonds are determined by the average trading price for the last month of the reported accounting period. The market prices of financial debentures are determined by the last trading price of the reported accounting period. The market prices of government bonds are determined by the value on the balance sheet date.
- (c) If trading securities and funds have a market value, it will be equal to their book value. If there is no market value, the fair value will be their book value on the balance sheet.
- (d) Since long-term investments are investments in non-listed stocks, the net book value is used as their fair value. Fair value of long-term investments in bonds is based on the trading price on balance sheet date.
- (e) If the items used for refundable deposits have a market value that will be their fair value. If there is no market value, the fair value equals the book value.
- (f) The fair value of long-term liabilities and financial debentures is estimated using the discounted amount of future cash flows. The discount rate is based on the interest rate of similar long-term debts that could be obtained by the Consolidated Company.

Market risk

Short-term investments and trading securities are investments in common stock of listed companies, open-end funds, convertible bonds, financial debentures, and government bonds. Thus, the market value of short-term investments and trading securities fluctuates with changes in market rate and stock price. In order to minimize market risk, the Consolidated Company engages in short-term investments and trading securities with professional brokerage agents with high credit ratings.

3. Financial instruments with off-balance-sheet credit risk

As of June 30, 2003 and 2002, the financial instruments with off-balance-sheet credit risk exposure were as follows:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Lines of credit provided but not used	\$ <u>101,787,148,341</u>	\$ <u>56,152,374,561</u>
Credit commitment on credit cards	\$ <u>20,879,898,000</u>	\$ <u>9,433,358,000</u>
Guarantees	\$ <u>6,628,011,316</u>	\$ <u>6,959,175,669</u>
Unused L/C balance	\$ <u>2,202,062,935</u>	\$ <u>980,773,838</u>

(Continued)

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

## Notes to Consolidated Financial Statements

The unused loan commitments to the Consolidated Company's customers are determined mainly by whether the credit customers can maintain a certain credit standing. The Consolidated Company only provides loans within the credit line. Except for loan commitments on credit cards, certain customers are required to provide collateral of equivalent value and guarantors. Loans with collateral made up 54.22% of the entire amount of loans. The percentage of guarantees and letters of credit with collateral varies from 0% to 100%. Collateral is usually property such as cash, real estate, and marketable securities with liquidity. When the customer defaults, the Consolidated Company will execute its right to the collateral or other guarantees.

Credit commitment for credit cards does not require collateral. However, the credit standing of cardholders is reviewed periodically, and credit lines are revised if deemed necessary. The highest interest rate on credit cards is 18.25%.

None of the above financial instruments will actually be paid in full before maturity. Therefore, amounts in such contracts do not necessarily represent future cash outflow, and thus the amount of future cash required is lower than the contracted amount. The maximum possible loss that the Consolidated Company may incur is the total amount of loss associated with the assumption that the credit lines have been fully used up and collateral or other pledged items have completely lost their value, with credit risk equivalent to the contracted amount.

## 4. Disclosure of significant concentration of credit risk

The Consolidated Company performs the credit activities in compliance with the principle of credit risk diversification. Comparison of total credit amounts shows there are no significantly concentrated transactions with a single client or a single transaction with clients. The Consolidated Company's credit composition is extensively diversified and spread over all types of industries, products and regions, etc. The Consolidated Company's contracted amounts with credit risk significantly concentrated were as follows:

## (a) Gross loans classified by geographical region

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Domestic	\$ 143,081,337,970	111,569,999,000
Overseas	<u>7,023,968,564</u>	<u>7,674,903,031</u>
Total	<b><u>\$ 150,105,306,534</u></b>	<b><u>119,244,902,031</u></b>

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(b) Gross loans classified by industry

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Manufacturing	\$ 31,171,689,020	25,529,500,000
General commercial	12,511,515,300	9,818,576,000
Construction	5,193,866,000	4,442,539,000
Private	65,163,433,000	54,168,380,000
Others	<u>36,064,803,214</u>	<u>25,285,907,031</u>
Total	<b><u>\$ 150,105,306,534</u></b>	<b><u>119,244,902,031</u></b>

(c) Credit card receivables classified by cardholder's age

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Under 20 years old	\$ 97,977	56,275
20 to 29 years old	141,573,643	75,395,299
30 to 44 years old	394,671,788	238,456,249
45 to 64 years old	185,216,302	93,043,928
Over 64 years old	<u>5,043,185</u>	<u>2,413,801</u>
Total	<b><u>\$ 726,602,895</u></b>	<b><u>409,365,552</u></b>

**(25) Related-Party Transactions**

1. Name and relationship of related party

<b>Name</b>	<b>Relationship</b>
Kuomingtang (KMT)	Influential investor of the Consolidated Company
Sheng-Hwa Securities Investment Trust Co., Ltd.	Affiliated company controlled by the same Company
Taiwan Bank Co., Ltd. (Taiwan Bank)	Major shareholder of the Consolidated Company
Fuhwa Venture Capital Co., Ltd. (Fuhwa Venture Capital)	Consolidated Company subsidiary

(Continued)

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

## Notes to Consolidated Financial Statements

Name	Relationship
Fuhwa Life Insurance Agent Co., Ltd. (formally known as Asia Pacific Life Insurance Agent Co., Ltd.) (Fuhwa Life Insurance Agent)	Consolidated Company subsidiary
Fuhwa Property Insurance Agency Co., Ltd. (formally known as Forone Insurance Agency Co., Ltd.) (Fuhwa Property Insurance Agency)	Consolidated Company subsidiary
Fuhwa I Venture Capital Co., Ltd. (Fuhwa I Venture Capital)	Consolidated Company subsidiary
Fuhwa Lease Co., Ltd. (formally known as Asia Pacific Leasing Co., Ltd.) (Fuhwa Lease)	Consolidated Company subsidiary
Fuhwa Fund	Security investment trust fund raised by the Consolidated Company
Fuhwa II Fund	Security investment trust fund raised by the Consolidated Company
Fuhwa Bond Fund	Security investment trust fund raised by the Consolidated Company
Fuhwa New Balance Fund	Security investment trust fund raised by the Consolidated Company
Others (each related party's deposits and loans are not over 1% of total deposits and loans)	The affiliated companies and their directors, supervisors, and managers and their relatives

## 2. Significant transactions between related parties

## (a) Deposits

Name	June 30, 2003		
	Balance	Percentage of deposits (%)	Interest rate (%)
Each related party's deposits are not over 1% of total deposits	<u>110,970,638</u>	<u>0.07</u>	0~13.00

(Continued)

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

## Notes to Consolidated Financial Statements

Name	June 30, 2002		
	Balance	Percentage of deposits (%)	Interest rate (%)
Each related party's deposits are not over 1% of total deposits	<u>247,248,272</u>	<u>0.18</u>	0~13.00

Apart from an interest rate limit on staff demand savings deposits of 13%, the interest rates and other terms provided to the above related parties are the same as the terms offered to the general public.

For the half-years ended June 30, 2003 and 2002, interest expense paid on the abovementioned deposits totaled \$3,865,819 and \$7,026,221, respectively.

## (b) Loans

Name	June 30, 2003		
	Balance	Percentage of loans (%)	Interest rate (%)
Each related party's loans are not over 1% of total loans	<u>97,950,709</u>	<u>0.07</u>	1.35~ 5.90

Name	June 30, 2002		
	Balance	Percentage of loans (%)	Interest rate (%)
Each related party's loans are not over 1% of total loans	<u>519,968,236</u>	<u>0.47</u>	2.675~8.00

For the half-years ended June 30, 2003 and 2002, the interest rate received on loans to the Consolidated Company's affiliates was 1.35%~1.70% and 2.75%~8.00%, respectively; the interest rate received on loans to the Consolidated Company's employees was 3.07%~5.90% and 2.675%~6.50%, respectively.

Loans to other related parties are the same as those offered to other customers.

For the half-years ended June 30, 2003 and 2002, interest received on the abovementioned loans totaled \$4,210,583 and \$2,153,201, respectively.

(Continued)

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

## Notes to Consolidated Financial Statements

## (c) Property transactions

- a. The Consolidated Company invested in open-end funds raised by Sheng-Hwa Securities Investment Trust Co., Ltd. and Fuhwa Securities Investment Trust as follows:

Name	Investment		Ending balance		Gains (losses) on disposal
	Unit	Amount	Unit	Amount	
<b>For the half-year ended June 30, 2003</b>					
Fuhwa Securities Investment Trust:					
Fuhwa Fund	-	\$ -	24,650,717.40	169,644,073	-
Fuhwa II Fund	-	-	34,351,039.20	184,828,528	-
Fuhwa Bond Fund	22,068,231.02	265,000,000	60,592,020.64	721,862,844	292,527
Fuhwa New Balance Fund	9,929,796.30	<u>100,000,000</u>	9,929,796.30	<u>100,000,000</u>	<u>-</u>
		<u>\$ 365,000,000</u>		<u>1,176,335,445</u>	<u>292,527</u>
Sheng-Hwa Securities Investment Trust Co., Ltd.:					
Sheng-Hwa 1699 Fund	12,153,523.00	<u>\$ 150,000.00</u>	13,315,585.15	<u>153,295,471</u>	<u>3,147,507</u>

Name	Investment		Ending balance		Gains (losses) on disposal
	Unit	Amount	Unit	Amount	
<b>For the half-year ended June 30, 2002</b>					
Sheng-Hwa Securities Investment Trust Co., Ltd.:					
Sheng-Hwa 2008 fund	2,000,000.00	\$ 20,030,000	2,000,000.00	20,030,000	-
Sheng-Hwa 1699 fund	-	-	49,372,410.23	<u>551,591,524</u>	<u>701,689</u>
		<u>\$ 20,030,000</u>		<u>571,621,524</u>	<u>701,689</u>

(Continued)

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

## Notes to Consolidated Financial Statements

- b. Related parties' investments in securities investment trust funds raised by the Consolidated Company were as follows:

Name of the related parties	For the half-year ended June 30, 2003			
	Investment		Ending balance	
	Unit	Amount	Unit	Amount
Fuhwa Fund:				
Taiwan Bank	-	\$ <u>          -</u>	10,000,000.00	<u>100,000,000</u>
Fuhwa Bond Fund:				
Fuhwa Venture	-	\$ -	2,085,279.59	25,000,000
Fuhwa I Venture	19,356,138.21	233,000,000	19,356,138.21	233,000,000
Fuhwa Leasing	911,361.48	11,000,000	1,329,258.43	16,000,000
Fuhwa Life				
Insurance Agent	-	-	839,750.45	10,068,272
Fuhwa Property				
Insurance				
Agency	-	<u>          -</u>	330,319.94	<u>3,960,404</u>
		\$ <u>244,000,000</u>		<u>288,028,676</u>

There were no such transactions for the half-year ended June 30, 2002.

- c. In the half-year ended June 30, 2003, the Consolidated Company signed a contract with the KMT to purchase an office building located in 4th Sec. 1 Chung-shao West Road, Taipei, including 8 floors and 47 underground parking spaces to be used as offices and for lease. The price stated in the contract totaled \$1,780,446,204. As of June 30, 2003, payment made for this transaction totaled \$727,881,826. Ownership transfer totaled \$610,930,228, and was recorded under fixed assets and non-operating assets. The remaining balance of \$116,951,598 was recorded as prepayment of property and equipment.
- d. Rental expenses

For the half-years ended June 30, 2003 and 2002, the Consolidated Company incurred rental expenses resulting from office lease from the KMT amounting to \$6,530,238 and \$2,678,074, respectively.

(Continued)

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

## Notes to Consolidated Financial Statements

## e. Handling fee revenue and related account receivables

The Consolidated Company handles fund investments in accordance with securities investment trust contracts, and charges each fund contracted handling fees, recorded under other operating revenue, as follows:

	<b>For the half- year ended June 30, 2003</b>	<b>For the half- year ended June 30, 2002</b>
Fuhwa Fund	\$ 5,138,406	3,731,870
Fuhwa Bond Fund	69,928,824	32,601,601
Fuhwa II Fund	5,499,605	4,358,862
Fuhwa New Balance Fund	<u>11,082,401</u>	<u>-</u>
Total	<b>\$ <u>91,649,236</u></b>	<b><u>40,692,333</u></b>

Account receivables from the abovementioned handling fees, recorded under other account receivable, were as follows:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Fuhwa Fund	\$ 816,288	593,997
Fuhwa Bond Fund	11,925,784	5,673,720
Fuhwa II Fund	882,037	759,365
Fuhwa New Balance Fund	<u>2,974,287</u>	<u>-</u>
Total	<b>\$ <u>16,598,396</u></b>	<b><u>7,027,082</u></b>

f. For the half-year ended June 30, 2003, the Consolidated Company received commission revenues resulting from promoting insurance business on behalf of Fuhwa Life Insurance Agent totaling \$4,846,964.

(Continued)

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

## Notes to Consolidated Financial Statements

- g. For the half-year ended June 30, 2003, securities investment trust funds raised by affiliates engaged in bond repurchase transactions. The details of such transactions are summarized as follows:

For the half-year ended June 30, 2003				
	Highest amount	Ending balance	Interest rate (%)	Interest expense
Fuhwa Securities				
Investment Trust:				
Fuhwa Bond Fund	\$ 3,830,961,939	2,783,884,512	0.8~2.5	20,401,343
Fuhwa Fund	30,003,719	-	0.925	3,801
Fuhwa New Balance Fund	1,497,989,252	<u>1,058,388,993</u>	0.88~3	<u>7,017,875</u>
		<b>\$ <u>3,842,273,505</u></b>		<b><u>27,423,019</u></b>
Sheng-Hwa Securities				
Investment Trust Co., Ltd.:				
Sheng-Hwa 1699 Fund	\$ 834,478,650	320,429,441	0.8~ 1.25	857,933
Sheng-Hwa 5599 Fund	119,936,381	-	0.95~ 0.975	41,013
Sheng-Hwa Bond Fund	176,031,148	-	0.8~1.3	267,347
		<b>\$ <u>320,429,441</u></b>		<b><u>1,166,293</u></b>

(Continued)

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

## Notes to Consolidated Financial Statements

## (26) Pledged Assets

Pledged assets	Pledged for	Book Value	
		June 30, 2003	June 30, 2002
516,100 thousand shares of Fuhwa Securities (the shares issued by such subsidiaries, originally were recorded under long-term investments – equity method, and have been eliminated in consolidated financial statements)	Short-term borrowings	\$ 5,904,654,899	-
44,000 thousand shares of Fuhwa Securities Finance (the shares issued by such subsidiaries, originally were recorded under long-term investments – equity method, and have been eliminated in the consolidated financial statements)	Short-term borrowings	555,222,170	-
89,100 thousand shares of Fuhwa Securities (the shares issued by such subsidiaries, originally were recorded under long-term investments – equity method, and have been eliminated in consolidated financial statements)	Short-term borrowings	-	987,117,778
Common stock (recorded under long-term equity investments – cost method)	Credit lines of borrowings and overdrafts	337,591,000	-
Government bonds (recorded under short-term investments)	Liabilities for bonds sold under agreement to repurchase	-	1,112,374,072
Beneficiary Certificates (recorded under short-term investments)	Credit lines of borrowings and overdrafts	47,500,000	-
Investment in bonds purchased under agreement to resell	Liabilities for bonds sold under agreement to repurchase	1,933,663,023	4,930,297,311
Negotiable certificates of deposit (recorded under other receivables)	Stock borrowings	160,000,000	289,000,000
Restricted time deposits (recorded under other financial assets – current)	Credit lines of borrowings and overdrafts	871,800,000	724,500,000

(Continued)

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

## Notes to Consolidated Financial Statements

Pledged assets	Pledged for	Book Value	
		June 30, 2003	June 30, 2002
Restricted time deposits (recorded under other financial assets – current)	Guarantees for lawsuits	\$ 11,730,425	11,730,425
Government bonds (recorded under trading securities)	Liabilities for bonds sold under agreement to repurchase	1,458,330,117	-
Short-term bills (recorded under trading securities)	Liabilities for bonds sold under agreement to repurchase	6,813,344,719	5,991,837,970
Trading securities – proprietary	Liabilities for bonds sold under agreement to repurchase	8,786,437,606	7,578,678,587
Land and buildings (recorded under property and equipment)	Credit lines of short-term mortgage loans	989,034,585	-
Land and buildings (recorded under property, equipment and non-operating assets)	Credit lines of borrowings and overdrafts	867,668,242	-
Time deposits (recorded under operating guarantee deposits)	Operating guarantee deposits	940,000,000	825,000,000
Land and buildings (recorded under non-operating assets)	Credit lines of short-term mortgage loans	513,889,261	-
Negotiable certificates of deposit (recorded under refundable deposits)	Provisional seizure	30,000,000	16,800,000
Government bonds (recorded under refundable deposits)	Provisional seizure	160,514,714	202,651,157
Bonds (recorded under refundable deposits)	Trust custodian	59,326,526	50,000,000
Government bonds (recorded under refundable deposits)	Consumer loan reserves deposited in National Credit Card Center of ROC	11,908,652	20,000,000

(Continued)

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

## Notes to Consolidated Financial Statements

Pledged assets	Pledged for	Book Value	
		June 30, 2003	June 30, 2002
Government bonds (recorded under refundable deposits)	Operating guarantee deposits for bills – proprietary	\$ 54,130,237	50,000,000
Government bonds (recorded under refundable deposits)	Operating guarantee deposits for bonds – proprietary	21,049,598	-
Time deposits (related-party transactions, which have been netted off in consolidated reports)	Discretionary account investment consigned by clients	52,500,000	52,500,000
		<b>\$ <u>30,580,295,774</u></b>	<b><u>22,842,487,300</u></b>

**(27) Commitments and Contingencies**

## 1. Significant purchase agreements

As of June 30, 2003 and 2002, the Consolidated Company had significant purchase agreements for purchasing assets amounting to \$1,337,620,972 and \$102,343,885, respectively. The unpaid amounts of those agreements were \$1,121,273,417 and \$31,628,039, respectively.

## 2. As of June 30, 2003 and 2002, the stocks entrusted to the custody of Fuhwa Securities Finance by clients totaled 7,498,000 shares. The market value of these entrusted stocks as of June 30, 2003 and 2002, was approximately \$74,325,310 and \$74,685,010, respectively.

## 3. Litigation

Fuhwa Securities was engaged in litigation due to merging with Ever-well Securities Co. The previous general manager, Wei Mei Fang, asked Fuhwa Securities to give her an achievement award and pension amounting to \$5,182,783. Fuhwa Securities disagreed with the second judgment of the Court that Fuhwa Securities should pay \$2,672,429; according to the revised second judgment of the Court, Fuhwa Securities might not pay any compensation. However, Ms. Wei disagreed with the judgment and appealed to the Supreme Court. According to the opinion of the Fuhwa Securities attorney, it is possible that Fuhwa Securities could win the lawsuit.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

4. Proxy settlement

As of June 30, 2003, Fuhwa Securities had signed proxy settlement contracts with several securities companies. The agents must perform trade obligations in accordance with Taiwan Stock Exchange Corporation instructions on behalf of Fuhwa Securities in the event that Fuhwa Securities is not able to perform its obligations. In addition, Fuhwa Securities has reciprocated by agreeing to act as proxy settlement agent for some securities companies.

In September 1998, Fuhwa Futures signed proxy futures settlement and clearing contracts with several futures companies. The agents must perform trade obligations in accordance with Taiwan Futures Exchange Corporation instructions on behalf of Fuhwa Futures in the event that Fuhwa Futures is not able to perform its obligations.

5. Operating leases

The Consolidated Company has entered into several operating lease agreements that have terms ranging from one to five years. As of June 30, 2003, future leasing commitments were as follows:

<b>Fiscal Year</b>	<b>Amount</b>
July 1~December 31, 2003	\$ 125,312,907
2004	195,907,771
2005	146,101,108
2006	96,858,045
2007	<u>79,290,477</u>
	<b>\$ <u>643,470,308</u></b>

6. Agreements on purchase of operating rights

During June 2003, the Consolidated Company signed contracts with Litton Securities Co., Ltd. for purchase of their operating rights and partial assets amounting to \$20,000,000. As of June 30, 2003, the prepayments for the purchase of operating rights and partial assets amounted to \$5,000,000.

(Continued)

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

## Notes to Consolidated Financial Statements

## 7. Others

	June 30, 2003	June 30, 2002
Consignment collection for others	\$ 15,427,112,198	13,616,067,390
Traveler's checks held on consignment for sale	233,823,135	187,855,583
Consignment securities, custodial goods, and others	4,434,999,562	609,425,728
Trust assets	<u>20,761,619,814</u>	<u>11,069,131,748</u>
	<b>\$ <u>40,857,554,709</u></b>	<b><u>25,482,480,449</u></b>
Lines of credit provided but not used	<b>\$ <u>101,787,148,341</u></b>	<b><u>56,152,374,561</u></b>
Credit commitment on credit cards	<b>\$ <u>20,878,798,000</u></b>	<b><u>9,433,358,000</u></b>
Guarantees	<b>\$ <u>6,628,011,316</u></b>	<b><u>6,959,175,669</u></b>
Unused L/C balance	<b>\$ <u>2,202,062,935</u></b>	<b><u>980,773,838</u></b>
Securities sold under repurchase agreements	<b>\$ <u>6,813,344,719</u></b>	<b><u>5,991,837,970</u></b>
Securities purchased under resell agreements	<b>\$ <u>598,439,776</u></b>	<b><u>3,702,680,522</u></b>

8. According to Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet and trust property list are as follows:

**Trust Balance Sheet**  
**June 30, 2003**

Trust assets		Trust liabilities	
Fund investment	\$ 18,551,398,549	Trust capital—cash trust	20,761,619,814
Bond investment	<u>2,210,221,265</u>		-
Total trust assets	<b>\$ <u>20,761,619,814</u></b>	Total trust liabilities	<b>\$ <u>20,761,619,814</u></b>

**Trust Property list**  
**June 30, 2003**

Invested items	Book value
Fund investment	\$ 18,551,398,549
Bond investment	<u>2,210,221,265</u>
	<b><u>20,761,619,814</u></b>

9. In order to extend Fuhwa Bank's operations and branches and to enhance its competitiveness, the board of directors decided to acquire Douliou Credit Cooperative, at \$120 per share, on March 26, 2003. The total price was \$185,000,000, and the designated date was July 25, 2003. This acquisition was approved by the authority in letter Tai-Tsai-Ron (2) 0928011041.

(Continued)

**FUHW A FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Furthermore, in order to extend Fuhwa Bank's operations and branches and to boost its competitiveness, the board of directors decided to acquire Taitung Credit Cooperative at \$119 per share. The total price was \$126,154,182, and the designated date was October 24, 2003. This acquisition has been undergoing the procedure for the authority's approval.

**(28) Others**

1. A summary of employment, depreciation, and amortization expenses categorized by cost of goods and operating expenses is as follows:

	2003.1.1~2003.6.30			2002.1.1~2002.6.30		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Employment						
Salary	-	1,231,074,967	1,231,074,967	-	1,200,497,723	1,200,497,723
Insurance	-	85,098,502	85,098,502	-	64,716,878	64,716,878
Pension	-	54,877,789	54,877,789	-	51,227,550	51,227,550
Others	-	40,799,473	40,799,473	-	33,340,455	33,340,455
Depreciation	-	175,524,230	175,524,230	-	164,525,865	164,525,865
Amortization	-	58,431,362	58,431,362	-	46,126,081	46,126,081

2. Capital ratio of financial holding company which is calculated by the consolidated base

In accordance with the Regulations Governing Consolidated Capital of Financial Holding Companies, the capital ratio of the financial holding company shall not be below 100% in order to strength the financial holding company's financial status. If the ratio is below the standard, the government authorities will discipline the company in accordance with Article 60 of the, Financial Holding Company Act. In addition, the company cannot distribute earnings as cash or other property; otherwise, the government authorities can discipline the company depending on the seriousness of the violation. The capital ratio of a financial holding company is calculated as follows:

$$= (\text{Eligible capital of financial holding company} + \text{Eligible capital of subsidiaries based on percentage of shares} - \text{Deduction item}) / (\text{Minimum capital of financial holding company} + \text{Minimum capital of subsidiaries based on percentage of shares})$$

As of June 30, 2003 and 2002, the capital ratio of the Company was 140.24% and 345.70%, respectively.

(Continued)

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

## Notes to Consolidated Financial Statements

3. The following table represents the financial holding company's subsidiaries' provision of business credit, endorsement, or other transactions to the same individual, the same related party, or the same affiliated company. (figures in thousands of New Taiwan dollars)

<b>June 30, 2003</b>			
Name	Relationship	Total of business credit, endorsement, or other transactions	Percentage of net value in the Company
Construction and Planning Agency, Ministry of the Interior	Same unit	5,000,000	13.39
Taiwan Railway Administration	Same unit	4,000,000	10.71
RESA Engineering Corporation	Same unit	2,917,000	7.81
Formosa Chemical and Fiber Corporation	Same affiliated company	1,106,000	
Formosa PetroChemical Co., Ltd.		698,000	
Mai-liao Power Corporation		<u>498,000</u>	
Total		<u><b>2,302,000</b></u>	6.17
Designated account for Fuhwa Securities Bond Fund	Same unit	2,271,000	6.08

As of June 30, 2002, there was no transaction which reached the standard of disclosure.

- Note 1: The above table represents the financial holding company's subsidiaries' provision of business credit, endorsement, or other transactions to the same individual, the same related party, or the same affiliated company. It discloses transactions that reached the lower of 5% of the net value of the financial holding company or three billion New Taiwan dollars.
- 2: Business credit refers to loans, discounts, overdrafts, acceptances, guarantees, and other business activities certified by the government authorities.
- 3: Endorsement refers to a bills company's endorsement or guarantee.

(Continued)

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

## Notes to Consolidated Financial Statements

## 4. Supplemental disclosure for pro forma financial statements

Assuming that the Company was established at the beginning of the year 2002, the performance of the Company's operations for the half-year ended June 30, 2002, would be as follows:

## (a) Condensed balance sheet:

(In thousands of New Taiwan dollars)

	<b>June 30, 2002</b>
Current assets	\$ 94,687
Long-term investment	35,585,345
<b>Total assets</b>	<b>35,680,032</b>
Current liabilities	2,803,080
Common stock	29,644,778
Capital surplus	10,337,899
Accumulated losses	(2,107,093)
Treasury stock	(4,998,632)
<b>Total liabilities</b>	<b>2,803,080</b>
<b>Shareholders' equity</b>	<b>32,876,952</b>

## (b) Condensed income statement:

(In thousands of New Taiwan dollars)

	<b>For the half- year ended June 30, 2002</b>
Operating loss	\$ 2,065,869
Net loss	2,107,093
Loss per share—before tax (in New Taiwan dollars)	0.83
Loss per share—after tax (in New Taiwan dollars)	0.83

(Continued)



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

## Notes to Consolidated Financial Statements

	<b>Fuhwa Bank</b>	
	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Current assets	\$ 196,758,474	156,132,772
Long-term investments	493,577	815,564
Other financial assets	799,827	376,262
Fixed assets	1,593,445	1,371,027
Other assets	6,318,054	6,459,735
<b>Total assets</b>	<b>205,963,377</b>	<b>165,155,360</b>
Current liabilities	189,963,483	154,788,266
Long-term liabilities	4,500,000	-
Other liabilities	433,167	327,662
Common stock	12,115,136	12,115,136
Capital surplus	14,667	1,709
Accumulated deficits	(1,052,836)	(1,823,982)
Unrealized loss on decline in market value of long-term equity investments	-	(17,636)
Net loss not recognized as pension cost	(10,240)	-
Treasury stock	-	(235,795)
<b>Total liabilities</b>	<b>194,896,650</b>	<b>155,115,928</b>
<b>Shareholders' equity</b>	<b>11,066,727</b>	<b>10,039,432</b>

## (b) Condensed income statement

	<b>Fuhwa Securities Finance</b>	
	<b>For the half- year ended June 30, 2003</b>	<b>For the half- year ended June 30, 2002</b>
Operating revenues	\$ 1,039,910	1,723,993
Gross profit	800,668	1,205,473
Operating income	120,210	565,924
Non-operating income	585,042	262,438
Non-operating expenses	3,223	434,654
Net income before income tax	702,029	393,708
Net income after income tax	601,810	197,414
Earnings per share—before income tax (in New Taiwan dollars)	0.58	0.28
Earnings per share—after income tax (in New Taiwan dollars)	0.49	0.14

(Continued)

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

## Notes to Consolidated Financial Statements

	<b>Fuhwa Securities</b>	
	<b>The half- year ended June 30, 2003</b>	<b>The half- year ended June 30, 2002</b>
Operating revenues	\$ 1,607,820	1,997,897
Gross profit	1,283,284	1,595,716
Operating income	157,364	354,636
Non-operating income	214,955	193,128
Non-operating expenses	28,180	58,987
Net income before income tax	344,139	488,777
Net income after income tax	282,831	348,583
Earnings per share—before income tax (in New Taiwan dollars)	0.49	0.81
Earnings per share—after income tax (in New Taiwan dollars)	0.41	0.58
	<b>Fuhwa Bank</b>	
	<b>The half- year ended June 30, 2003</b>	<b>The half- year ended June 30, 2002</b>
Operating revenues	\$ 3,839,284	3,893,841
Gross profit (loss)	1,803,728	(2,592,508)
Operating income (loss)	568,781	(3,409,621)
Non-operating income	12,407	30,562
Non-operating expenses	6,437	2,435
Net income (loss) before income tax	574,751	(3,381,494)
Net income (loss) after income tax	570,788	(2,961,107)
Earnings (losses) per share—before income tax (in New Taiwan dollars)	0.48	(2.89)
Earnings (losses) per share—after income tax (in New Taiwan dollars)	0.48	(2.53)

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

6. Cross-marketing is not only between the financial holding company and its subsidiaries but is also between subsidiaries.

(a) Conducting business or transactions:

Except for fund-raising transactions, all the following transactions have been eliminated in the consolidated financial statements.

a. Agency

For the half-years ended June 30, 2003 and 2002, Fuhwa Securities earned commission revenue resulting from stock transactions consigned by Fuhwa Securities Finance of \$65,135,060 and \$65,334,164, respectively.

b. Stock management income

For the half-years ended June 30, 2003 and 2002, commission revenues earned by Fuhwa Securities resulting from stock management for Fuhwa Financial Holding and its subsidiaries were as follows:

	<b>2003.1.1 ~ 2003.6.30</b>	<b>2002.1.1 ~ 2002.6.30</b>
Fuhwa Financial Holding	\$ 4,687,269	3,279,473
Fuhwa Securities Finance	60,015	1,345,225
Fuhwa Bank	<u>61,359</u>	<u>-</u>
	<b>\$ <u>4,808,643</u></b>	<b><u>4,624,698</u></b>

c. Brokerage commission revenue for futures

For the half-years ended June 30, 2003 and 2002, Fuhwa Securities conducted futures trading support on behalf of Fuhwa Futures and earned brokerage commission revenue of \$43,640,295 and \$37,007,477, respectively.

d. Expenses from settlement and clearing

For the half-years ended June 30, 2003 and 2002, expenses from settlement and clearing paid by Fuhwa Securities to Fuhwa Futures amounted to \$2,165,992 and \$872,384, respectively.

(Continued)

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

## Notes to Consolidated Financial Statements

## e. Expenses from sale of funds

Fuhwa Securities Investment Trust appointed related parties to sell its securities investment trust fund. Details of expenses resulting from the abovementioned transaction are as follows:

	<b>June 30, 2003</b>
Fuhwa Bank	\$ 12,531,699
Fuhwa Securities	<u>716,032</u>
	<b>\$ <u>13,247,731</u></b>

## f. Banking

## (i) Deposits

As of June 30, 2003 and 2002, deposits in Fuhwa Bank from subsidiaries were as follows:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Fuhwa Securities Finance	\$ 63,567,794	-
Fuhwa Securities	73,920,643	-
Fuhwa Futures	508,723,260	9,346,497
Fuhwa Securities Investment Trust	<u>194,606,806</u>	<u>-</u>
	<b>\$ <u>840,818,503</u></b>	<b><u>9,346,497</u></b>

(ii) As of June 30, 2003, Fuhwa Futures had deposited customers' deposits for futures trading accounts in Fuhwa Bank of \$426,336,563.

(iii) As of June 30, 2003, the balance of subordinated financial debentures purchased from Fuhwa Bank by Fuhwa Securities Finance was \$966,000,000; the related interest revenue amounted to \$22,308,825.

## (iv) Credit lines

For the half-year ended June 30, 2003, in order to obtain short-term borrowing credit lines of \$650,000,000 from Fuhwa Bank, Fuhwa Securities Finance pledged several pieces of land and buildings as collateral. As of June 30, 2003, the book value of the abovementioned collateral amounted to \$989,034,585 and \$513,889,261 recorded under fixed assets and non-operating assets, respectively.

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

For the half-year ended June, 30, 2003, in order to obtain short-term borrowing credit lines of \$1,300,000,000 from Fuhwa Bank, Fuhwa Securities pledged beneficiary certificates, long-term equity investments under the cost method, land and buildings as collateral. As of June 30, 2003, the book value of the abovementioned assets was \$47,500,000, \$337,591,000, and \$867,668,242, respectively.

(v) Others

For the half-year ended June 30, 2003, in order to engage in discretionary account investment consigned by clients, Fuhwa Securities Investment Trust pledged time deposits of \$50,000,000 as operating guarantee deposits in the custody of Fuhwa Bank in accordance with SFC rulings.

g. Fund-raising

Please refer to note 25.

h. Rent revenue

For the half-years ended June 30, 2003 and 2002, Fuhwa Securities Finance leased offices to Fuhwa Securities and Fuhwa Futures, and earned rent revenue as follows:

	<b>2003.1.1 ~ 2003.6.30</b>	<b>2002.1.1 ~ 2002.6.30</b>
Fuhwa Securities	\$ 7,350,600	12,521,900
Fuhwa Futures	<u>3,977,160</u>	<u>-</u>
	<b><u>\$ 11,327,760</u></b>	<b><u>12,521,900</u></b>

For the half-year ended June 30, 2003, Fuhwa Securities leased office space to Fuhwa Bank, and earned rent revenue amounting to \$16,460,982.

i. Credit card promotion and processing fee revenue

For the half-year ended June 30, 2003, Fuhwa Securities conducted credit card promotion on behalf of Fuhwa Bank and was paid processing fees by Fuhwa Bank totaling \$1,252,438.

(Continued)

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

## Notes to Consolidated Financial Statements

- j. Bond or bill transactions with agreements to repurchase or resell

For the half-year ended June 30, 2003, the interest income of Fuhwa Securities that was generated from the investment in bonds or bills with agreements to resell was as follows:

	<b>2003.1.1 ~ 2003.6.30</b>
Fuhwa Securities Finance	\$ 3,289,873
Fuhwa Bank	<u>994,271</u>
	<b>\$ <u>4,284,144</u></b>

For the half-year ended June 30, 2003, the interest expense of Fuhwa Securities that was generated from the bonds sold with agreements to repurchase with Fuhwa Securities Finance amounted to \$17,507.

- k. Stock transactions

On May 10 and 17, 2002, Fuhwa Financial Holding purchased 99,996,000 shares of Fuhwa Futures for \$1,063,957,440 and 26,683,400 shares of Fuhwa Capital Management for \$278,574,696, respectively, from Fuhwa Securities Finance.

Fuhwa Financial Holding purchased 19,999,000 shares of Fuhwa Futures for \$212,789,360 on June 12, 2002, from Fuhwa Securities.

- l. Commercial paper transactions

For the half-year ended June 30, 2002, Fuhwa Capital Management and Fuhwa Futures purchased commercial paper issued by Fuhwa Securities Finance through a bills finance company. The interest income which were generated from the investment in commercial paper was as follows:

	<b>2003.1.1 ~ 2003.6.30</b>
Fuhwa Capital Management	\$ 421,752
Fuhwa Futures	<u>1,395,587</u>
	<b>\$ <u>1,817,339</u></b>

(Continued)

**FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

m. Relevant revenues for investment and consulting

Fuhwa Capital Management provided services for the subsidiaries of Fuhwa Financial Holding. The revenues which were generated from the services regarding various publications, securities information, consulting and inquiry for investments, exercising discretionary account investment, and so on were as follows:

	<b>2003.1.1 ~ 2003.6.30</b>	<b>2002.1.1 ~ 2002.6.30</b>
Fuhwa Securities Finance	\$ 8,384,722	9,599,803
Fuhwa Securities	999,242	296,857
Fuhwa Bank	<u>476,190</u>	<u>-</u>
	<b>\$ <u>9,860,154</u></b>	<b><u>9,896,660</u></b>

n. Others

In order to hedge short-term investment risk, Fuhwa Securities Finance appointed Fuhwa Futures as a futures brokerage and conducted futures transactions. As of June 30, 2003, guarantee deposits amounting to \$20,007,398 had been paid due to the abovementioned transactions.

Fuhwa Securities Finance paid registration fees and the other relevant fees in the amount of \$14,895,400 (the highest balance in 2002) for Fuhwa Financial Holding in February 2002. Fuhwa Securities Finance received the total amount of \$14,895,400 and also generated interest income of \$110,996.

(b) Cross-marketing business:

The financial holding company attempted to satisfy customers' needs, increase sales revenues, and decrease costs through the company's marketing strategy, locations, and cross-marketing in order to enjoy the advantages of integration. The company set a policy for the costs and expenses of cross-sales among subsidiaries and how to amortize for the half-year ended June 30, 2003. The policy is based on the actual sales figures and a subsidiary's paying a certain percentage of commission to a subsidiary which sells commodities for it.

(c) Information interchange:

The Company developed a Policy about Privacy and Security of Clients' Data in November 2002. The policy refers that the Company's regulating the collection of clients' data, the storage and safeguarding of clients' data, data security and protection, data classification, utilization and disclosure of clients' data, modification of clients' data, discontinuation of use of clients' data, and so on.

(Continued)

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

## Notes to Consolidated Financial Statements

## (d) Mutual use of business facilities and places:

According to the decision of the Company's operating conference, Fuhwa Financial Holding and its subsidiaries allocate the expenses of business facilities by the percentage of actual utilization.

For the half-year ended June 30, 2003, the Company started formulating regulations in terms of cross-marketing business, information interchange, and mutual use of business facilities. As of June 30, 2003, there was no significant transaction or allocation of revenues, costs and expenses.

## 7. Information about subsidiaries' investments in Mainland China, significant commitments and contingencies, essential disaster loss, and subsequent events

(a) Information about investment in Mainland China: Not applicable

(b) Significant commitments and contingencies: Please refer to note 27

(c) Essential disaster loss and subsequent events: Not applicable

## 8. Subsidiaries of the bank — significant financial and operating conditions

## (a) Regulatory capital ratio

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Self-owned capital ratio (%)	9.60	8.31
Debt-to-net equity ratio (%)	1,761.10	1,545.07

a. Self-owned capital ratio = Self-owned capital / Risk-based assets. Pursuant to Article 44 of the Banking Law and the MOF letter Bank's Capital Ratio Management, Tai-Tsai-Ron (1) 0090345106, of October 16, 2001, the capital ratio is calculated in June and December each year. The latest figure (June or December) is as disclosed in the statements of the first and third quarters.

b. In the following tables, asset quality, concentration of credit risk, profitability, and sensitivity to market risk are compared and contrasted for two periods.

(Continued)

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

## Notes to Consolidated Financial Statements

## (b) Asset quality

(figures in thousands of New Taiwan dollars)

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Overdue loans (includes non-performing loans)	5,974,157	8,080,587
Non-performing loans	4,805,437	6,578,507
Overdue loan ratio (%)	3.98	6.78
Loans-to-be-observed	4,796,441	7,219,649
Loans-to-be-observed to total loans ratio (%)	3.20	6.06
Recorded loans and reserve for non-performing loans	2,936,781	5,566,980

Note 1: The criteria of overdue loans (includes non-performing loans), which shall be reported in accordance with the MOF letters Tai-Tsai-Ron No. 832292834 of February 16, 1994, and Tai-Tsai-Ron No. 86656564 of December 1, 1997.

Note 2: Overdue loan ratio = overdue loans (includes non-performing loans) / (Loan balance + non-performing loans)

Note 3: Loans-to-be-observed include medium-term and long-term installment loans which are unpaid over three months but less than six months, and other loans of which the principal is unpaid less than three months with the interest unpaid periodically over three months but less than six months. In addition, loans-to-be-observed loans include those which approach the standard for overdue loans and have been certified (including overdue loans with agreements for installments, overdue loans with compensation from Credit Insurance Funds, time deposits and sufficient deposits for repayment, agreements for extension of repayment term of loans of borrowers who suffered damage in the 921 earthquake, the amount of collateral which has been sold under auction but not distributed, and loans for other projects which are certified not to be claimed).

Note 4: Non-performing loans exclude agreements for installments on loans, agreements for extension of the repayment term of loans of borrowers who suffered damage in the 921 earthquake, the amount of collateral which has been sold under auction but not distributed, and loans for other projects which are certified not to be claimed.

(Continued)

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

## Notes to Consolidated Financial Statements

## (c) Management information

## a. Concentration of credit risk

(Figures in thousands of New Taiwan dollars)

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Lines of credit to related parties	\$ 1,835,702	1,364,312
Ratio of lines of credit to related parties to total credit lines (%)	1.27	1.16
Lines of credit mortgaged by stock (%)	1.85	2.15
Percentage of lines of credit by industries (%):		
Manufacturing industry	19.65	20.40
Wholesale or retail industry	6.99	7.06
Services industry	7.84	6.19
Individuals	46.14	48.65
Others	19.38	17.70

Note 1: Total credit lines include remittance bills, negotiation drafts under letter of credit, loans, discounts, acceptance receivables, and guarantee receivables.

Note 2: Lines of credit to related parties refer to lines of credit as defined by the Banking Law.

Note 3: Ratio of lines of credit to related parties to total credit lines=Lines of credit (defined by Banking Law)/Total credit lines.

Note 4: Ratio of lines of credit mortgaged by stock=Lines of credit mortgaged by stock/Total credit lines.

Note 5: Percentage of lines of credit by industries refers to the ratio of loans in industries, public and private agricultural industries, mining industry, manufacturing industry, water and electricity industry, building industry, wholesale or retail industry, financial and insurance industry, services industry, and others according to the classification of "Table for Analysis of Loan Usage and Borrower" announced by the Central Bank of China to total loans.

## b. Summary of investees' investment business

(Figures in thousands of New Taiwan dollars)

	<b>June 30, 2003</b>	
	<b>Investment cost</b>	<b>Ownership ratio (%)</b>
Fuhwa Lease Co., Ltd.	\$ 197,000	98.56
Fuhwa Property Insurance Agent Co., Ltd.	2,880	80.00
Fuhwa Life Insurance Agency Co., Ltd.	1,999	99.99

(Continued)

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

## Notes to Consolidated Financial Statements

Note: Investment business refers to an ownership ratio greater than 5%.

- c. Loans, non-performing loans, and policy on reserve for investment loss
- (i) Fuhwa Bank reserved allowance for bad debts from loans, advances to customers, and so on, especially for the risk of specific debts which cannot be collected entirely and the potential risk from the whole debts. The risk of specific debts is evaluated by the defaults on payment. The potential risk from the whole debts is evaluated by past experience.
  - (ii) Reserve for guarantee liabilities (recorded as other liabilities) is based on the ending balance of guarantees and acceptances.
  - (iii) Securities which are held for trading and non-trading purposes are evaluated by LCM at the end of the period. Long-term investments which do not apply the equity method are evaluated by LCM if they are listed stocks; if not, long-term investments are evaluated by the cost method.
- d. Extraordinary events

## June 30, 2003

	<b>Event and amount</b>
Presidents or employees were prosecuted by judges in the latest year owing to violation of laws or regulations in business latest.	None
Any violation of the Banking Law and penalties paid in the recent year	None
Any deficiency incurred and warned of by the MOF	None
Any safety incidents happened in the latest year due to employee fraud, any significant occasional events occurred, or the company did not follow the Points for Safety of Financial Institutions. The actual loss was greater than \$50,000,000 individually or totally in the latest year.	None
Others	None

(Continued)

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

## Notes to Consolidated Financial Statements

## (d) Profitability

	(Figures in percentage)	
	<b>For the half- year ended June 30, 2003</b>	<b>For the half- year ended June 30, 2002</b>
Return on assets (note 1)	0.30	(2.05)
Return on net equity (note 2)	5.39	(29.32)
Net income to operating revenue (note 3)	14.97	(86.84)

Note 1: Return on assets = Profits before income taxes / Average assets

Note 2: Return on net equity = Profits before income taxes / Net average assets

Note 3: Net income to operating revenue = Net income before income taxes / Operating revenue

## (e) Liquidity

Analysis of Assets and Liabilities June 30, 2003						
(Figures in thousands of New Taiwan dollars)						
	<b>Total</b>	<b>Aging for remaining period until expiration</b>				
		<b>Day 0 to day 30</b>	<b>Day 31 to day 90</b>	<b>Day 91 to day 180</b>	<b>Day 181 to 1 year</b>	<b>Over 1 year</b>
Assets	192,485,000	38,667,000	15,929,000	11,345,000	9,055,000	117,489,000
Liabilities	177,388,000	33,143,000	20,511,000	28,145,000	28,415,000	67,174,000
Spreads	15,097,000	5,524,000	(4,582,000)	(16,800,000)	(19,360,000)	50,315,000
Accumulated spreads	15,097,000	5,524,000	942,000	(15,858,000)	(35,218,000)	15,097,000

Note: This table contains the amount of New Taiwan dollars in the headquarters and local branches but does not include the amount of foreign currencies.

(Continued)

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

## Notes to Consolidated Financial Statements

## (f) Sensitivity to market risk

	<b>The half- year ended June 30, 2003</b>	<b>The half- year ended June 30, 2002</b>
Ratio of interest-rate-sensitive assets to liabilities (%)	81.82	76.19
Ratio of interest-rate-sensitive spreads to net equity (%)	(249.06)	(312.11)

Note 1: Ratio of interest-rate-sensitive assets to liabilities = Interest-rate-sensitive assets / Interest-rate-sensitive liabilities (refer to interest-rate-sensitive assets and interest-rate-sensitive liabilities in New Taiwan dollars within one year)

Note 2: Interest-rate-sensitive spreads = Interest-rate-sensitive assets - Interest-rate-sensitive liabilities

## 9. Self-owned capital adequacy ratio of securities firm subsidiaries

In accordance with the Rules Governing Securities Firms, a self-owned capital adequacy ratio of a securities firm cannot be less than 150% in order to strengthen the financial infrastructure of the firm. If the capital ratio is below the standard, the government authorities can postpone increases of new business or branches, or restrict retained earnings. The calculation of the self-owned capital adequacy ratio is as below:

$$\frac{\text{Qualified net amount of self-owned capital}}{\text{Equivalent operating risk amount}}$$

As of June 30, 2003 and 2002, the self-owned capital adequacy ratios of Fuhwa Securities Finance and Fuhwa Securities were as follows:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>
Fuhwa Securities Finance	733.92	915.09
Fuhwa Securities	210.71	254.46

(Continued)

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

## Notes to Consolidated Financial Statements

## 10. Regulatory financial ratio and executions of futures firm's subsidiaries

(a) Pursuant to SFC rulings, Fuhwa Securities' financial ratios and executions were as follows:

Rule	Equation	June 30, 2003		June 30, 2002		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	Shareholders' equity	312,095,853	234.419	390,169,921	89.85	≥ 1	Pursuant to the regulations
	(Total liabilities – Payable to customer – Reserve for trading losses – Reserve for default losses)	1,331,357		4,342,672			
17	Current assets	301,002,018	244.274	382,053,511	88.51	≥ 1	Pursuant to the regulations
	Current liabilities	1,232,231		4,316,322			
22	Shareholders' equity	312,095,853	78.024%	390,169,921	97.54%	≥ 60%	Pursuant to the regulations
	Minimum capital	400,000,000		400,000,000			
22	Adjusted net capital	240,270,207	1,532.7%	315,941,929	1,168.77%	≥ 20%	Pursuant to the regulations
	Initial margins required	15,676,084		27,032,000			

(b) Pursuant to SFC rulings, Fuhwa Futures' financial ratios and executions were as follows:

Rule	Equation	June 30, 2003		June 30, 2002		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	Shareholders' equity	1,224,978,618	26.10	1,216,212,795	23.60	≥ 1	Pursuant to the regulations
	(Total liabilities – Payable to customer – Reserve for trading losses – Reserve for default losses)	46,929,962		51,533,087			
17	Current assets	2,528,624,342	1.66	2,010,672,170	2.03	≥ 1	Pursuant to the regulations
	Current liabilities	1,523,211,463		988,942,160			
22	Shareholders' equity	1,224,978,618	204%	1,216,212,795	203%	≥ 60%	Pursuant to the regulations
	Minimum capital	600,000,000		600,000,000			
22	Adjusted net capital	1,168,671,259	512%	1,204,081,043	1,029%	≥ 20%	Pursuant to the regulations
	Initial margins required	228,106,329		116,972,559			