

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

**Consolidated Financial Statements
December 31, 2003 and December 31, 2002
(With Independent Auditors' Report Thereon)**

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100, Taiwan**

Independent Auditors' Report

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 December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2003, and the period from February 4, 2002 (date of establishment) to December 31, 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 Republic of China generally accepted auditing standards and the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants. 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 December 31, 2003 and 2002, and the results of their operations and their cash flows for the year ended December 31, 2003, and the period from February 4, 2002 (date of establishment) to December 31, 2002, in conformity with Republic of China generally accepted accounting principles, the "Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies", the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the "Criteria Governing the Preparation of Financial Reports by Securities Firms", and the "Criteria Governing the Preparation of Financial Reports by Futures Firms".

As described in note 2-1 to the consolidated financial statements, due to the change in subsidiaries comprising the group of companies for which consolidated financial statements as of December 31, 2003, are presented, the Company restated the consolidated financial statements as of December 31, 2002, to give effect to the change for comparative analysis.

February 6, 2004

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.

Fuhwa Financial Holding Co., Ltd. and Subsidiaries

Consolidated Balance Sheets

December 31, 2003 and 2002

(expressed in thousands of New Taiwan dollars)

Assets	December 31, 2003		December 31, 2002		Liabilities and Stockholders' Equity	December 31, 2003		December 31, 2002	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 3)	\$ 12,246,457	4	11,874,246	5	Short-term debts (notes 17, 26 and 27)	\$ 52,968,976	17	43,170,008	18
Due from Central Bank and placement to other banks (note 4)	23,133,898	7	22,503,177	9	Deposits by Central Bank	7,245	-	8,256	-
Short-term investments (notes 5, 26 and 27)	5,915,160	2	4,433,845	2	Deposits by other banks	13,471,011	4	5,147,664	2
Bonds purchased under agreements to resell (notes 6 and 27)	809,697	-	2,447,086	1	Stock warrant liabilities, net (note 25)	131,618	-	57,292	-
Call options - nonhedge (note 25)	1,478	-	247	-	Put option liabilities (note 25)	5,454	-	1,815	-
Futures trading margins (note 7)	1,984,891	2	1,147,510	-	Payable to customer	1,960,534	1	1,147,510	-
Margin deposits for futures contracts (note 25)	68,489	-	78,577	-	Derivative financial instruments - liabilities, OTC (note 25)	192,286	-	-	-
Derivative financial instruments - assets, OTC (note 25)	213,709	-	25	-	Guarantee deposits received (notes 8 and 26)	2,432,718	1	4,348,135	2
Interest receivable	1,348,378	-	1,816,120	1	Short sales proceeds payable (note 8)	2,953,984	1	5,379,510	2
Margin loans (note 8)	33,998,772	11	30,286,127	12	Other notes and accounts payable (notes 23 and 24)	5,502,213	2	3,856,987	2
Other receivables (notes 10, 23, 26 and 27)	7,034,512	2	2,941,592	1	Advance receipts and other current liabilities (note 25)	156,918	-	99,436	-
Other financial assets - current (notes 23, 25 and 27)	1,188,214	-	1,056,699	-	Total current liabilities	<u>79,782,957</u>	<u>26</u>	<u>63,216,613</u>	<u>26</u>
Deferred income tax assets - current (note 23)	696,256	-	891,156	-	Deposits and remittances (notes 18 and 26)	188,722,954	61	148,350,314	60
Trading securities (notes 5, 9, 25, 26 and 27)	30,689,087	10	27,653,273	11	Subordinate financial debentures (note 19)	3,534,000	1	3,534,000	1
Prepaid expenses	222,124	-	93,784	-		<u>192,256,954</u>	<u>62</u>	<u>151,884,314</u>	<u>61</u>
Total current assets	<u>119,551,122</u>	<u>38</u>	<u>107,223,464</u>	<u>42</u>	Long-term liabilities:				
Loans and advances to customers, net (notes 10, 25, and 26)	<u>168,475,062</u>	<u>55</u>	<u>119,197,086</u>	<u>48</u>	Bonds payable (notes 20 and 27)	2,900,000	1	-	-
Funds and long-term investments (notes 5, 11, and 27):					Accrued pension liabilities (note 21)	319,031	-	278,081	-
Funds	-	-	300,000	-	Other long-term liabilities (notes 22 and 27)	598,899	-	-	-
Long-term equity investments under equity method	2,246,359	1	1,234,415	1	Long-term liabilities	<u>3,817,930</u>	<u>1</u>	<u>278,081</u>	<u>-</u>
Long-term equity investments under cost method	1,708,640	1	1,472,822	1	Other liabilities:				
Long-term investments in bonds	5,218,134	2	6,758,389	2	Reserve for guarantee liabilities	54,027	-	39,773	-
Prepayments for long-term investments in stocks	-	-	100,000	-	Reserve for default losses	205,306	-	200,731	-
Total funds and long-term investments, net	<u>9,173,133</u>	<u>4</u>	<u>9,865,626</u>	<u>4</u>	Reserve for trading losses	99,523	-	4,877	-
Property and equipment (notes 12, 26, 27 and 28):					Reserve for bad debt	254,891	-	222,710	-
Cost:					Other liabilities	430,137	-	121,326	-
Land	2,629,706	1	1,769,823	1	Minority interest	18	-	61	-
Buildings	1,986,675	1	1,510,513	1	Total other liabilities	<u>1,043,902</u>	<u>-</u>	<u>589,478</u>	<u>-</u>
Machinery and equipment	681,799	-	501,969	-	Total liabilities	<u>276,901,743</u>	<u>89</u>	<u>215,968,486</u>	<u>87</u>
Computer equipment	124,322	-	95,205	-	Stockholders' equity (notes 21 and 24):				
Transportation equipment	99,655	-	68,596	-	Common stock, par value \$10, authorized 5,000,000 thousand shares in 2003 and 2002, issued 2,894,445 thousand shares and 2,826,829 thousand shares in 2003 and 2002, respectively	28,944,445	9	28,268,294	11
Other facilities	1,450,835	-	1,394,710	1	Capital surplus:				
	6,972,992	2	5,340,816	3	Capital surplus - additional paid-in capital	7,891,572	3	9,826,951	4
Less: accumulated depreciation	1,697,896	1	1,566,381	1	Capital surplus - treasury stock transactions	619,171	-	468,852	-
Prepayments for building and equipment	97,046	-	112,851	-		<u>8,510,743</u>	<u>3</u>	<u>10,295,803</u>	<u>4</u>
	5,372,142	1	3,887,286	2	Retained earnings:				
Intangible assets (note 28)	<u>740,368</u>	<u>-</u>	<u>470,553</u>	<u>-</u>	Legal reserve	3,323	-	-	-
Other assets:					Special reserve	29,911	-	-	-
Operating guarantee deposits (notes 13 and 27)	1,015,219	-	985,000	-	Unappropriated retained earnings	2,492,645	1	33,234	-
Settlement and clearing funds (note 14)	463,099	-	411,212	-		<u>2,525,879</u>	<u>1</u>	<u>33,234</u>	<u>-</u>
Nonoperating assets (notes 12, 26 and 27)	2,145,029	1	1,296,791	1	Equity adjustments:				
Refundable deposits (notes 15 and 27)	1,506,955	-	1,693,881	1	Cumulative foreign currency translation adjustments	(18,273)	-	1,657	-
Nonperforming loans and overdue receivables (note 8)	1,749,187	1	2,645,447	1	Net loss from unrecognized pension cost	(26,726)	-	(10,240)	-
Deferred charges	447,323	-	309,756	-		<u>(44,999)</u>	<u>-</u>	<u>(8,583)</u>	<u>-</u>
Deferred pension cost (note 21)	22,860	-	24,441	-	Treasury stock	(4,814,476)	(2)	(4,908,614)	(2)
Deferred income tax assets - noncurrent (note 23)	1,344,074	-	1,620,592	1	Total stockholders' equity	<u>35,121,592</u>	<u>11</u>	<u>33,680,134</u>	<u>13</u>
Total other assets	<u>8,693,746</u>	<u>2</u>	<u>8,987,120</u>	<u>4</u>	Commitments and contingent liabilities (notes 8, 10, 12, 23, 25 and 28)				
Brokering transaction debit balance, net (note 16)	<u>17,762</u>	<u>-</u>	<u>17,485</u>	<u>-</u>	Total liabilities and stockholders' equity	<u>\$ 312,023,335</u>	<u>100</u>	<u>249,648,620</u>	<u>100</u>
Total assets	<u>\$ 312,023,335</u>	<u>100</u>	<u>249,648,620</u>	<u>100</u>					

See accompanying notes to financial statements.

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the year ended December 31, 2003, and the period from February 4 (date of establishment) to December 31, 2002
(expressed in thousands of New Taiwan dollars, except for earnings per share)

	2003		2002	
	Amount	%	Amount	%
Operating revenues:				
Interest revenue (note 26)	\$ 9,218,917	61	10,287,481	69
Fees and commissions (note 26)	3,692,272	24	3,059,413	20
Underwriting commission	80,234	1	91,390	1
Profit from trading securities - dealing	416,112	3	-	-
Profit from trading securities - underwriting	47,584	-	148,084	1
Gain on bills trading, net	884,424	6	759,111	5
Investment income under equity method	36,623	-	-	-
Gain on issuance of stock warrants (note 25)	121,949	1	172,999	1
Gain on futures contracts (note 25)	74,984	-	80,830	1
Clearing and settlement service income - futures	704	-	-	-
Gain on option transactions (note 25)	19,206	-	32,613	-
Gain on derivative financial instruments - OTC (note 25)	213,770	1	24	-
Gain on market value recovery of trading securities	18,346	-	-	-
Other operating revenue (note 26)	399,073	3	323,624	2
	<u>15,224,198</u>	<u>100</u>	<u>14,955,569</u>	<u>100</u>
Operating costs:				
Interest expense (note 26)	3,253,918	21	4,614,422	31
Fees and commission expense	899,795	6	365,581	2
Loss on investments under equity method	-	-	45,454	-
Provisions for bad and doubtful accounts (note 10)	1,378,220	9	6,105,903	41
Loss from trading securities - dealing	-	-	60,898	-
Loss from trading securities - hedge	9,391	-	26,679	-
Loss from devaluation of trading securities	-	-	31,044	-
Commission expenses for introducing futures contracts	56,981	1	48,089	-
Loss from futures contracts (note 25)	169,929	1	103,663	1
Settlement and clearing brokerage commission	24,917	-	12,021	-
Loss on option transactions (note 25)	19,212	-	35,079	-
Loss from derivative financial instruments - OTC (note 25)	179,871	1	-	-
Other operating loss	22,877	-	8,386	-
	<u>6,015,111</u>	<u>39</u>	<u>11,457,219</u>	<u>75</u>
Gross profit	<u>9,209,087</u>	<u>61</u>	<u>3,498,350</u>	<u>25</u>
Operating expenses (notes 21 and 26)	<u>6,976,997</u>	<u>46</u>	<u>6,982,251</u>	<u>47</u>
Operating income	<u>2,232,090</u>	<u>15</u>	<u>(3,483,901)</u>	<u>(22)</u>
Nonoperating revenue and income:				
Interest income from deposits, bonds, and bills	141,481	1	230,895	2
Rental income (note 26)	15,335	-	10,777	-
Investment income (notes 5 and 26)	560,893	4	81,368	1
Gain on disposal of property and equipment	5,989	-	55,301	-
Other income	225,892	1	179,659	1
	<u>949,590</u>	<u>6</u>	<u>558,000</u>	<u>4</u>
Nonoperating expenses and loss:				
Interest expense	72,911	1	38,872	-
Loss on disposal of property and equipment	26,147	-	-	-
Miscellaneous expenses (note 26)	206,774	1	71,644	-
	<u>305,832</u>	<u>2</u>	<u>110,516</u>	<u>-</u>
Income (loss) before income tax	<u>2,875,848</u>	<u>19</u>	<u>(3,036,417)</u>	<u>(18)</u>
Income tax expense (benefit) (note 23)	<u>383,202</u>	<u>3</u>	<u>(433,655)</u>	<u>(3)</u>
Comprehensive net income (loss)	<u>2,492,646</u>	<u>16</u>	<u>(2,602,762)</u>	<u>(15)</u>
Pre-acquisition loss	-	-	2,635,996	18
Minority interest income	(1)	-	-	-
Consolidated net income	<u>\$ 2,492,645</u>	<u>16</u>	<u>33,234</u>	<u>3</u>
			Before	After
			income tax	income tax
Earnings per share (expressed in New Taiwan dollars)	<u>\$ 0.97</u>	<u>1.00</u>	<u>0.02</u>	<u>0.02</u>
Proforma data - Shares of Fuhwa Financial Holding Co., Ltd. held by its subsidiaries are not deemed as treasury stock:				
			Before	After
			income tax	income tax
Net income	<u>\$ 2,996,313</u>	<u>3,075,454</u>	<u>(747,064)</u>	<u>(748,320)</u>
Earnings per share (expressed in New Taiwan dollars)	<u>\$ 1.08</u>	<u>1.11</u>	<u>(0.31)</u>	<u>(0.31)</u>

See accompanying notes to financial statements.

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the year ended December 31, 2003, and the period from February 4 (date of establishment) to December 31, 2002
(expressed in thousands of New Taiwan dollars)

	Retained earnings					Cumulative foreign currency translation adjustments	Net loss from unrecognized pension cost	Treasury stock	Total
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings				
Balance as of February 4, 2002 (date of establishment) (note 24)	\$ 20,910,000	8,787,508	-	-	-	-	-	(866,823)	28,830,685
Consolidating Fuhwa Bank as a subsidiary (note 24)	8,734,778	1,550,391	-	-	-	-	-	(212,088)	10,073,081
Capital reduction from cancellation of treasury stock (note 24)	(246,484)	(60,904)	-	-	-	-	-	307,388	-
Purchase of treasury stock (note 24)	-	-	-	-	-	-	-	(1,629,524)	(1,629,524)
Cancellation of treasury stock (note 24)	(1,130,000)	50,978	-	-	-	-	-	1,079,022	-
Subsidiaries' shareholding of the Company transferred to treasury stock (note 24)	-	-	-	-	-	-	-	(3,586,589)	(3,586,589)
Adjustment of income of prior period by subsidiaries	-	(32,170)	-	-	-	-	-	-	(32,170)
Recognition of cumulative foreign currency translation adjustments from subsidiaries	-	-	-	-	-	1,657	-	-	1,657
Recognition of net loss from unrecognized pension cost from subsidiaries	-	-	-	-	-	-	(10,240)	-	(10,240)
Net income for the period from February 4 to December 31, 2002	-	-	-	-	33,234	-	-	-	33,234
Balance as of December 31, 2002	<u>28,268,294</u>	<u>10,295,803</u>	<u>-</u>	<u>-</u>	<u>33,234</u>	<u>1,657</u>	<u>(10,240)</u>	<u>(4,908,614)</u>	<u>33,680,134</u>
Appropriation of retained earnings (note 24):									
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 24)	-	(1,222,294)	-	-	-	-	-	-	(1,222,294)
Capital surplus transferred to common stock (note 24)	676,151	(676,151)	-	-	-	-	-	-	-
Purchase of treasury stock (note 24)	-	-	-	-	-	-	-	(189,178)	(189,178)
Treasury stock transferred to employees by subsidiaries (note 24)	-	14,596	-	-	-	-	-	213,131	227,727
Disposal of the stock of the Company by subsidiaries (note 24)	-	3,531	-	-	-	-	-	33,251	36,782
Adjustments of capital surplus due to distribution of cash dividends to subsidiaries (note 24)	-	132,192	-	-	-	-	-	-	132,192
Reversal of capital surplus from subsidiaries due to change in percentage of ownership of investees under equity method	-	(34,081)	-	-	-	-	-	34,081	-
Reversal of prior years' cumulative foreign currency translation adjustments from subsidiaries	-	(2,853)	-	-	-	-	-	2,853	-
Recognition of cumulative foreign currency translation adjustments from subsidiaries	-	-	-	-	-	(19,930)	-	-	(19,930)
Net loss from unrecognized pension cost from subsidiaries	-	-	-	-	-	-	(16,486)	-	(16,486)
Net income for 2003	-	-	-	-	2,492,645	-	-	-	2,492,645
Balance as of December 31, 2003	<u>\$ 28,944,445</u>	<u>8,510,743</u>	<u>3,323</u>	<u>29,911</u>	<u>2,492,645</u>	<u>(18,273)</u>	<u>(26,726)</u>	<u>(4,814,476)</u>	<u>35,121,592</u>

See accompanying notes to financial statements.

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the year ended December 31, 2003, and the period from February 4 (date of establishment) to December 31, 2002
(expressed in thousands of New Taiwan dollars)

	2003	2002
Cash flows from operating activities:		
Net income	\$ 2,492,645	33,234
Adjustments to reconcile net income to net cash used in operating activities:		
Pre-acquisition loss	-	(2,635,996)
Adjustment of the income of prior period	-	(24,718)
Minority interest income	1	-
Depreciation and amortization	509,435	422,866
Realized losses on reclassifying long-term investments to short-term investments	-	40,952
Provisions for bad and doubtful accounts	2,219,770	8,380,128
Loss on disposal of short-term investments	-	81,338
Recovery from devaluation of short-term investments, net	(21,302)	(58,769)
Loss on (recovery from) devaluation of trading securities, net	(25,691)	31,044
Increase in reserve for guarantee liabilities	14,254	-
Provision for reserve for default losses	4,575	-
(Reversal of) provision for reserve for trading losses	27,384	(16,685)
Provision for reserve for bad debt	32,181	72,441
Gain on long-term investments under equity method	(43,811)	(19,139)
Cash dividends from long-term investments under equity method	5,867	16,828
Gain on disposal of long-term investments	(223,370)	-
Loss (gain) on disposal of property, plant and equipment and nonoperating assets, net	20,158	(55,301)
Allowance for loss on devaluation of securities foreclosed	1,593	2,011
Loss (gain) on disposal of securities foreclosed	(31)	2,230
Decrease (increase) in bonds purchased under agreements to resell	1,637,389	(604,586)
Increase in futures trading margins	(837,381)	(264,381)
Decrease in margin deposits for futures contracts	10,088	17,843
Increase in derivative financial instruments - assets, OTC	(213,684)	(24)
Decrease (increase) in interest receivable	467,742	(169,203)
Decrease (increase) in margin loans	(3,657,935)	1,132,149
Increase in other receivables	(4,095,017)	(185,497)
Decrease (increase) in other financial assets - current	(113,283)	(104,585)
Increase in trading securities	(3,010,123)	(7,924,696)
Increase in prepaid expenses	(128,224)	(505,150)
Decrease (increase) in call option - nonhedge	(1,231)	2,780
Decrease (increase) in deferred income tax assets	471,418	(1,123,455)
Decrease (increase) in brokering transaction debit balance, net	(277)	13,606
Increase (decrease) in stock warrant liabilities, net	74,326	(2,930)
Increase in put option liabilities	3,639	-
Increase payable to customer	813,024	264,381
Increase in derivative financial instruments - liabilities, OTC	192,286	-
Increase (decrease) in short sales proceeds payable	(2,425,526)	279,034
Increase (decrease) in other notes and accounts payable	1,604,822	(621,954)
Increase in advance receipts and other current liabilities	57,482	171,199
Increase in accrued pension liabilities	26,045	26,336
Net cash used in operating activities	(4,110,762)	(3,326,669)

See accompanying notes to financial statements.

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the year ended December 31, 2003, and the period from February 4 (date of establishment) to December 31, 2002
(expressed in thousands of New Taiwan dollars)

	2003	2002
Cash flows from investing activities:		
Increase in due from central Bank and placement to other banks	\$ (550,789)	(507,083)
Increase in short-term investments held for investing purpose	(1,460,013)	(347,182)
Increase in loans and advances to customers	(48,789,070)	(10,670,378)
Increase in long-term investments	(1,382,810)	(5,407,509)
Proceeds from disposal of funds and long-term investments	2,395,889	-
Acquisition of property, plant and equipment and nonoperating assets	(2,137,473)	(317,863)
Proceeds from disposal of property, plant and equipment and nonoperating assets	11,227	137,916
Purchase of intangible assets	(49,740)	(247,092)
Increase in prepaid signatory fund	-	(75,000)
Increase in operating guarantee deposits	(30,219)	(85,000)
Increase in settlement and clearing funds	(51,887)	(11,651)
Proceeds from disposal of securities foreclosed	385,254	73,025
Increase in securities foreclosed	(815,456)	-
Decrease (increase) in refundable deposits	158,163	(73,333)
Increase in deferred charges	(186,710)	(16,126)
Increase in other assets	-	(84,942)
Net cash provided by acquiring The Credit Cooperative of Douliou	1,886,948	-
Net cash used in investing activities	(50,616,686)	(17,632,218)
Cash flows from financing activities:		
Increase in short-term debts	9,798,968	6,778,734
Increase in short-term bills payable	-	229,868
Decrease in deposits by Central Bank	(1,011)	(6,286)
Increase in deposits by other banks	8,323,347	3,048,930
Increase in deposits and remittances	36,174,200	7,527,974
Issuance of subordinate financial debentures	-	3,534,000
Increase in long-term liabilities	3,498,899	-
Increase in other liabilities	308,811	6,370
Decrease in guarantee deposits received	(1,915,417)	(161,607)
Payment of cash dividends and employee bonus	(1,090,102)	(23,337)
Payment of remuneration of directors and supervisors	-	(315)
Transfer of treasury stock to employees	227,727	-
Capital refund of minority interest	(33)	-
Purchase of treasury stock	(206,856)	(1,921,679)
Net cash provided by financing activities	55,118,533	19,012,652
Effect of exchange rate changes on cash and cash equivalents	(18,874)	(690)
Net increase (decrease) in cash and cash equivalents for the years ended December 31, 2003 and 2002	372,211	(1,946,925)
Decrease in subsidiaries' cash and cash equivalents at the date of acquiring subsidiaries' majority interests	-	(4,192,162)
Net increase in cash and cash equivalents	372,211	2,245,237
Cash and cash equivalents, at beginning of period	11,874,246	-
Cash and cash equivalents, at the date of acquiring subsidiaries' majority interests	-	9,629,009
Cash and cash equivalents, at end of period	\$ 12,246,457	11,874,246
Supplemental disclosure of cash flow:		
Cash payment of interest	\$ 3,534,296	5,236,162
Cash payment of income tax	\$ 639,323	165,987
Investing and financing activities not affecting cash flow:		
Reclassifying long-term investments to short-term investments	\$ -	317,848
Changes in long-term equity investments due to elimination of subsidiaries' holding of the Company's shares	\$ 227,727	-
Increase (decrease) in cumulative foreign currency translation adjustments	\$ (19,930)	1,657
Net loss on unrecognized pension cost of subsidiaries	\$ 16,486	10,240
Gain on disposal of the Company's stock by Asia Pacific Lease	\$ 3,531	-
Proceeds from disposal of the Company's stock by subsidiaries	\$ 33,251	-
Cash paid for acquisition of property, plant and equipment and nonoperating assets:		
Increase in acquisition of property, plant and equipment and nonoperating assets	\$ 2,133,151	309,872
Decrease in machinery and equipment payable (recorded as other notes and accounts payable)	4,322	7,991
Net cash paid	\$ 2,137,473	317,863
Cash paid for purchase of treasury stock:		
Increase in purchase of treasury stock	\$ 189,178	1,939,357
Decrease (increase) in payable for purchase of treasury stock (recorded as other notes and accounts payable)	17,678	(17,678)
Net cash paid	\$ 206,856	1,921,679

See accompanying notes to financial statements.

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(expressed in thousands of 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 an 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 (Fuhwa Bank) on September 17, 2002.

In the years 2002 and 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 Co., Ltd.

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 to securities firms 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 December 31, 2003, Fuhwa Securities indirectly owned 100% of the shares of Fuhwa Securities (H.K.) Co., Ltd. and Fuhwa Investment Management (BVI) Co., Ltd. through its wholly owned financial holding company, Fuhwa Holding (BVI) Co., Ltd. The main operations of the abovementioned subsidiaries are in the securities and consulting businesses, respectively.

Fuhwa 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 December 31, 2003, the subsidiaries of Fuhwa Bank were Fuhwa Lease Co., Ltd. (Fuhwa Lease), Fuhwa Property Insurance Agency Co., Ltd. (Fuhwa property Insurance Agency), and Fuhwa Life Insurance Agent Co., Ltd. (Fuhwa Life Insurance Agent). The shareholding ratios of the abovementioned subsidiaries are 98%, 80%, and 100%, respectively. The main operations of Fuhwa Lease are the purchase, sale, and lease of various real estate and movable properties. Fuhwa Property Insurance Agency primarily engages in the business of property insurance agent. Fuhwa Life Insurance Agent 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. 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 December 31, 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.

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.

(Continued)

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

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

The Consolidated Company had approximately 4,043 employees on December 31, 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 prepared in conformity with Republic of China generally accepted accounting principles, the Rules Governing the Preparation of Financial Reports by Financial Holding Companies, the Guidelines Governing the Preparation Financial Reports by Securities Issuers, the Criteria Governing the Preparation of Financial Reports by Securities Firms, and the Criteria Governing the Preparation of Financial Reports by Futures firms. The consolidated financial statements are based on historical cost, unless otherwise specified.

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 prepare annual and quarterly financial statements, but the Company must also prepare 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 accordance with R.O.C. SFAS No. 7.

The consolidated financial statements include the accounts of Fuhwa Financial Holding, Fuhwa Securities Finance, Fuhwa Securities, Fuhwa Bank, Fuhwa Futures, Fuhwa Captial Management, and Fuhwa Securities Investment Trust (the Consolidated Company). 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 nonconsolidated 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 nonconsolidated total assets and operating revenues of the Company, these subsidiaries have been excluded from the Consolidated Company.

(Continued)

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

In addition, the total assets and operating revenues of the subsidiaries in which 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 Bank and Fuhwa Venture Capital, respectively. Therefore, Fuhwa Bank and Fuhwa Venture Capital did not prepare consolidated financial statements, and their subsidiaries have not been included in the consolidated financial statements. Moreover, the total assets of Fuhwa Holding (BVI) Co., Ltd. a subsidiary of Fuhwa Securities with an ownership over 50%, reached 10% of the nonconsolidated total assets of Fuhwa Securities as of December 31, 2003. Therefore, Fuhwa Holding (BVI) Co., Ltd. was included in the December 31, 2003 and 2002, consolidated financial statements for comparison purposes.

2) 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.

The Company's overseas subsidiaries included in the consolidated financial statements use their local currencies as their functional currencies. Foreign financial statements are translated into New Taiwan dollars. The resulting translation differences are accounted for as translation adjustments, and are included in the consolidated financial statements as a component of stockholders' equity. 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.

3) 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.

4) 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.

(Continued)

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

5) Short-term Investments

Short-term investments include listed stocks, open-end funds, convertible bonds, 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 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.

6) Bonds Purchased Under Agreements to Resell and Bonds Sold Under Agreements to Repurchase

Bonds purchased under agreements to resell and bonds sold under agreements to repurchase 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 repurchase are based on the actual obtained amount, and recorded as liabilities for bonds sold under agreements to repurchase. 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.

7) 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.

8) 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.

9) 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.

(Continued)

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

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 value of collateral, past experience in collections, and the collectibility of margin loans.

10) 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 - dealing, and they are stated at cost 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.

11) 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.

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

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 Ruling Tai-Tsai-Rong No. 88733168, banks should provide 3% of operating revenue as allowance for bad debts to write off default accounts from July 1, 1999, and for the following four years. Moreover, in accordance with Ruling Wa-Chung-One-Yi No. 09200114870, the aforementioned provision is still valid until the ratio of overdue accounts is lower than 1%.

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

12) 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:

1. Assets and liabilities are translated at the current exchange rate prevailing at the balance sheet date.

(Continued)

FUHWAL FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Stockholders' equity is translated at the historical rate with the exception of the beginning retained earnings in New Taiwan dollars, which are brought forward.
3. Dividends are translated at the exchange rate prevailing at the declaration date.
4. Income statement accounts are translated at the average exchange rate of the year involved.

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

13) Property, Equipment, Nonoperating 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 nonoperating income or losses.

Property and equipment under operating leases have been reclassified as nonoperating 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 nonoperating expenses. Idle assets that are not utilized for operating or any other purpose are transferred as nonoperating assets, and are stated at their net realizable value. Any shortfalls in book values on the balance sheet date will be recognized as nonoperating 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 nonoperating 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	5 to 55 years
Machinery and equipment	3 to 5 years
Computer equipment	3 years
Transportation equipment	3 to 5 years
Other facilities	2 to 15 years

14) Intangible Assets

Intangible assets include goodwill and operating rights. Goodwill was carried forward from the acquisition of "The Credit Cooperative of Douliou" in 2003 and was recognized as the purchase price less the market value of tangible assets obtained. Goodwill is amortized over 10 years using the straight-line method.

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)

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

15) 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, corporate bond issuance expense, costs of computer software, expense for enterprise resource planning system installation, and telephone installation. The net values of the consolidated debt and credit accounts are amortized on the straight-line method over twenty years. The corporate bond issuance expense was amortized over the issuance period. The other accounts are amortized over the prospective benefit periods.

16) 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.

17) Options

The premium generated from the transactions involving put options is recorded as put option liabilities, while the premium generated from call options is recorded as call option - nonhedge. The profits or losses which result from their exercise are recognized as realized gains or losses on option transactions - non-hedge. If the option can be exercised prior to the expiration date, the option should be reevaluated by the market price of the option contract on the balance sheet date, and the resulting valuation 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 to call option - hedge. If the option can be exercised prior to the expiration date, the option should be reevaluated by the lower of cost or market price method on the balance sheet date. The resulting valuation losses should be recognized as deferred losses on option transactions, and can be offset by the valuation gains resulted from the recovery of declined market price. Nonetheless, the valuation gain resulted from market value in excess of the book value of the stock shall not be recognized. Put options are not for the purpose of hedging.

18) 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.

(Continued)

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

19) Deposit by Banks, and Deposits and Remittances

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

20) Subordinate 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.

21) Reserve for Guarantee Liabilities

Reserve for guarantee liabilities is the estimated potential losses based on the ending balances of guarantees and acceptances. According to the abovementioned regulation, the Consolidated Company records reserve for guarantee liabilities as operating cost - provision expense and other liabilities - reserve for guarantee liabilities.

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. However, in accordance with SFC Ruling Tai-Tsai-Cheng No. 0920003132, futures brokerages shall resume the provision of reserves for default losses from July 1, 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.

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.

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

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.

Effective on July 1, 2003, the abovementioned regulation was not applied to the consolidated Company, and the balance of allowance for doubtful accounts or reserve for bad debt, as of June 30, 2003, was required to be retained for writing off nonperforming loans or overdue receivables in the future.

25) Revenue Recognition

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.

26) 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.

27) 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 trading swaps, the evaluation of interest receivables or payables on settlement or the balance sheet date is based on fair value, and the differences are recorded under exchange gains or losses - interest rate swaps. The interest is received or paid by an offsetting amount. For non-trading swaps, the differences between interest receivables or payables on settlement or the balance sheet date and the hedged positions are recorded as current interest revenue or expenses. For interest rate swap options, differences in the market value of the premium on settlement or the balance sheet date are recorded under exchange gains or losses - interest rate swap options. The

(Continued)

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

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.

28) 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 same principle as for 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 fair market value of the IRS contract on settlement or 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.

29) Structured Note Transactions

The Company entered into equity-linked note transactions. An equity-linked note is divided into a fixed-income investment and an embedded equity derivative; for the Company, the former is a liability and the latter is an asset.

1. Equity-linked note - fixed-income investment:

The proceeds received from the counterparty are the principal discount with expected interest rate minus the amount of embedded equity derivative on the contract date. The Company will recognize the implicit interest during the contract period by the straight-line method and book it as gain (loss) from equity-linked note.

2. Equity-linked note - embedded equity derivative:

This is assessed by the fair value method. The fair value of the embedded equity derivative is determined by the principles below:

(a) When the fair value increases

The profit will be accounted for in the current period.

(b) When the fair value decreases

If the losses are not greater than the unrealized gains of individual hedge parts, accounting for it is deferred to a future period. Otherwise, the losses will be accounted for in the current period. Deferred losses shall be accounted for in proportion to the realized percentage of the disposition of individual hedge parts in the current period.

(Continued)

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

30) Pension Plan

Except for Fuhwa Securities (H.K.) Co., Ltd., 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.

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 abovementioned 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. Effective in 2003, the gains or losses resulted from reduction of personnel are recorded as current net periodic pension costs.

Fuhwa Securities (H.K.) Co., Ltd. did not establish a pension plan. However, Fuhwa Securities (H.K.) Co., Ltd. appropriates a certain amount to the related pension fund in accordance with Hong Kong regulations. The actual appropriations are recorded as pension expenses.

(Continued)

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

31) 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 noncurrent 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.

In accordance with the Financial Holding Company Act, Article 49, the Consolidated Company has adopted Fuhwa Financial Holding as the taxpayer to file a consolidated corporate income tax return and pay the 10% surtax on undistributed earnings from 2003. When the Consolidated Company prepared its financial statements for the year ended December 31, 2003, the Consolidated Company accounted for its income tax in conformity with SFAS No. 22, "Accounting for Income Taxes". However, the Consolidated Company also adjusted the related income tax balance in a reasonable and systematic way to reflect the differences computed under filing a consolidated corporate income tax return with Fuhwa Financial Holding as the taxpayer. The adjustments resulting from using Fuhwa Financial Holding as the taxpayer to file a consolidated corporate income tax return are recorded under receivable from (payable to) related parties.

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.

(Continued)

FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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.

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.

The weighted-average number of outstanding shares of common stock was 2,481,164 thousand shares and 2,107,520 thousand shares as of December 31, 2003 and 2002, respectively. If the Company's stock which held by the subsidiaries were not treated as treasury stock, the weighted-average number of outstanding shares of common stock would be 2,781,995 thousand shares and 2,392,620 thousand shares as of December 31, 2003 and 2002, respectively.

(3) Cash and Cash Equivalents

	December 31, 2003	December 31, 2002
Cash	\$ 2,329,203,581	1,737,427,653
Deposits in bank	<u>5,579,246,494</u>	<u>4,582,154,994</u>
	<u>7,908,450,075</u>	<u>6,319,582,647</u>
Short-term securities:		
Negotiable certificates of deposit	2,016,804	550,398,172
Commercial paper	3,993,689,954	4,945,146,435
Treasury bills	342,299,731	-
Banker's acceptances	<u>-</u>	<u>59,119,130</u>
	<u>4,338,006,489</u>	<u>5,554,663,737</u>
Total	<u>\$ 12,246,456,564</u>	<u>11,874,246,384</u>

As of December 31, 2003 and 2002, the composite banking insurance amounted to \$153,500,000.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Due from Central Bank and Placement to Other Banks

	December 31, 2003	December 31, 2002
Deposit reserve:		
Deposit reserve - checking account	\$ 2,177,609,028	4,744,784,208
Deposit reserve - demand account	<u>4,448,399,000</u>	<u>3,177,214,000</u>
	6,626,008,028	7,921,998,208
Certificates of deposit	15,888,000,000	11,663,000,000
Placement to other banks	<u>619,890,000</u>	<u>2,918,179,000</u>
Total	<u>\$ 23,133,898,028</u>	<u>22,503,177,208</u>

(5) Long-term and Short-term Investments

1) Short-term investments

	December 31, 2003	December 31, 2002
Beneficiary certificates	\$ 3,843,332,935	3,706,719,870
Listed stocks	401,898,551	448,831,176
Government bonds	-	299,595,877
Overseas debentures	734,836,152	-
Credit-linked notes	426,715,785	-
Convertible bonds	<u>508,376,873</u>	<u>-</u>
	5,915,160,296	4,455,146,923
Less: allowance for devaluation	<u>-</u>	<u>21,301,964</u>
Total	<u>\$ 5,915,160,296</u>	<u>4,433,844,959</u>

2) Long-term investments

	December 31, 2003			December 31, 2002		
	Percentage of ownership	Investment Cost	Amount	Percentage of ownership	Investment Cost	Amount
Equity method:						
Fuhwa Venture Capital Co., Ltd.	100.00	\$ 1,000,000,000	996,728,643	100.00	1,000,000,000	997,895,973
Fuhwa Asset Management Co., Ltd.	100.00	1,000,000,000	1,008,691,590	-	-	-
Fuhwa Finance Consulting Co., Ltd.	100.00	50,000,000	53,111,128	-	-	-
Fuhwa Securities Investment Trust Co., Ltd.	-	-	-	24.28	75,000,000	105,929,151

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Percentage of ownership	2003.12.31		Percentage of ownership	2002.12.31	
		Investment Cost	Amount		Investment Cost	Amount
Fuhwa Lease Co., Ltd.	98.56	\$ 197,000,000	149,166,976	98.56	197,000,000	114,647,539
Fuhwa Property Insurance Agency Co., Ltd. (Forone Insurance Agency Co., Ltd.)	80.00	2,880,000	4,154,709	80.00	2,880,000	4,015,212
Fuhwa Life Insurance Agent Co., Ltd. (Asia Pacific Life Insurance Agent Co., Ltd.)	99.99	1,999,940	34,506,248	99.99	1,999,940	11,926,818
		<u>2,251,879,940</u>	<u>2,246,359,294</u>		<u>1,276,879,940</u>	<u>1,234,414,693</u>
Cost method:						
Taiwan Securities Central Depository Co., Ltd.	15.27	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	145,940,000	145,940,000
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	6.00	60,000,000	60,000,000
Len Tin Venture Capital Co., Ltd.	10.00	100,000,000	100,000,000	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	2,800,000	2,800,000	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

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Percentage of ownership	2003.12.31		Percentage of ownership	2002.12.31	
		Investment Cost	Amount		Investment Cost	Amount
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	100,000,000	100,000,000	0.57	100,000,000	100,000,000
Taiwan Cooperative Bank Co., Ltd.	-	2,268,542	2,268,542	-	-	-
The National Federation of Credit Cooperatives R.O.C.	0.49	750,000	750,000	-	-	-
Kun Ki II Venture Capital Co., Ltd.	14.29	100,000,000	100,000,000	-	-	-
Global Strategy Venture Capital Co., Ltd.	2.00	30,000,000	30,000,000	-	-	-
Debt Instruments Depository and Clearing Co., Taiwan	1.00	20,000,000	20,000,000	-	-	-
		<u>1,703,265,561</u>	<u>1,708,640,263</u>		<u>1,467,447,019</u>	<u>1,472,821,721</u>
Prepayments for stocks:						
Sin Shen Venture Capital Co., Ltd.	-	-	-	-	100,000,000	100,000,000
Long-term bond investments	-	<u>5,218,133,455</u>	<u>5,218,133,455</u>	-	<u>6,758,389,103</u>	<u>6,758,389,103</u>
Total		<u>\$9,173,278,956</u>	<u>9,173,133,012</u>		<u>9,602,716,062</u>	<u>9,565,625,517</u>

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 \$17,200,000 of investments to the Consolidated Company as of December 31, 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.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2003 and 2002, 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 4.70% to 6.00% per annum for the years ended December 31, 2003 and 2002, respectively. Interest rates for pecuniary financing to investors ranged from 5.40% to 6.95% and 6.45% to 8.43% per annum for the years ended December 31, 2003 and 2002, respectively.

The stipulated percentage of deposits from the proceeds of short sale stock financing was 90% for the years ended December 31, 2003 and 2002. As of December 31, 2003 and 2002, the balance of stock deposits was \$68,489,140 and \$4,322,924,818, respectively. The interest rates on the short sale proceeds payable and stock deposits to investors were 0.30% to 0.40% and 0.40% to 1.75% per annum for the years ended December 31, 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 December 31, 2003 and 2002, the overdue receivables of pecuniary and securities financing transactions were as follows:

	2003	2002
Overdue receivables	\$ 4,890,443,175	6,528,339,716
Less: allowance for bad debt	<u>3,141,256,084</u>	<u>3,882,892,942</u>
	<u>\$ 1,749,187,091</u>	<u>2,645,446,774</u>

As of December 31, 2003 and 2002, the memorandum accounts for pecuniary and securities financing transactions were as follows:

Memorandum Account	2003	2002
Securities held for collateral	\$ 26,408,375,030	25,354,867,740
Short sale stock loans	<u>1,103,800,000</u>	<u>2,287,060,000</u>
	<u>\$ 27,512,175,030</u>	<u>27,641,927,740</u>
Liabilities for holding collateral securities	\$ 27,058,750,070	25,913,660,070
Guarantee effects	453,424,960	1,692,687,670
Securities borrowed	<u>-</u>	<u>35,580,000</u>
	<u>\$ 27,512,175,030</u>	<u>27,641,927,740</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2003 and 2002, the approximate market values of the above memorandum accounts were as follows:

Memorandum Account	2003	2002
Securities held for collateral	\$ 55,369,484,038	42,230,186,736
Short sale stock loans	<u>3,142,811,300</u>	<u>5,379,368,600</u>
	<u>\$ 58,512,295,338</u>	<u>47,609,555,336</u>
Liabilities for holding collateral securities	\$ 57,185,477,438	44,454,604,036
Guarantee effects	1,326,817,900	3,052,480,900
Securities borrowed	<u>-</u>	<u>102,470,400</u>
	<u>\$ 58,512,295,338</u>	<u>47,609,555,336</u>

(9) Trading Securities

	December 31, 2003	December 31, 2002
Dealing department:		
Listed stocks on TSE	\$ 1,583,147,674	1,588,545,832
Listed stocks on OTC	579,800,122	247,743,886
Emerging stocks	123,185,931	73,393,195
Listed bonds on OTC	24,961,140,767	18,228,689,369
Beneficiary certificates	1,704,432,572	2,558,096,452
Others	<u>771,149,656</u>	<u>4,177,932,516</u>
	29,722,856,722	26,874,401,250
Less: allowance for devaluation	<u>8,182,650</u>	<u>-</u>
	<u>29,714,674,072</u>	<u>26,874,401,250</u>
Underwriting department:		
Listed stocks on TSE	50,090,852	50,722,636
Listed stocks on OTC	90,694,751	58,601,968
Other stocks	-	32,298,000
Listed bonds on OTC	<u>254,100,000</u>	<u>331,900,000</u>
	<u>394,885,603</u>	<u>473,522,604</u>
Hedge:		
Listed stocks on TSE	457,870,302	336,393,054
Listed stocks on OTC	<u>134,355,326</u>	<u>-</u>
	592,225,628	336,393,054
Less: allowance for devaluation	<u>12,698,534</u>	<u>31,044,254</u>
	<u>579,527,094</u>	<u>305,348,800</u>
Total	<u>\$ 30,689,086,769</u>	<u>27,653,272,654</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Loans and Advances to Customers

	December 31, 2003	December 31, 2002
Bills purchased and discounts	\$ 253,498,266	248,905,478
Short-term loans and overdrafts	28,830,130,047	22,712,178,098
Short-term secured loans and overdrafts	14,320,926,155	10,407,930,388
Medium-term loans	38,714,209,196	20,364,674,803
Medium-term secured loans	25,699,573,117	21,270,134,045
Long-term loans	4,409,871,065	5,168,502,251
Long-term secured loans	52,737,913,417	36,306,161,761
Nonperforming loans and overdue receivables	<u>6,445,751,323</u>	<u>5,257,269,285</u>
	171,411,872,586	121,735,756,109
Less: allowance for bad and doubtful accounts	<u>2,936,810,221</u>	<u>2,538,670,187</u>
	<u>\$ 168,475,062,365</u>	<u>119,197,085,922</u>

For the year ended December 31, 2003 and 2002, details of movement of allowance for bad and doubtful accounts were as follows:

	Specific provision	2003 General provision	Total
Beginning balance	\$ 1,942,474,986	610,649,105	2,553,124,091
Add: Provision for doubtful accounts	941,236,744	369,721,131	1,310,957,875
Recoveries	402,594,836	-	402,594,836
Acquisition of Credit Cooperative of Douliou	252,824,000	8,802,000	261,626,000
Less: Write-offs	1,568,203,565	-	1,568,203,565
Foreign exchange transaction adjustments	<u>-</u>	<u>1,384,824</u>	<u>1,384,824</u>
Ending balance	<u>\$ 1,970,927,001</u>	<u>987,787,412</u>	<u>2,958,714,413</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

		2002	
	Specific provision	General provision	Total
Beginning balance	\$ 790,458,264	776,597,600	1,567,055,864
Add: Provision for doubtful accounts	5,684,667,103	435,372,624	6,120,039,727
Recoveries	48,758,391	-	48,758,391
Reclassification	600,873,307	(600,873,307)	-
Less: Write-offs	5,182,282,079	-	5,182,282,079
Foreign exchange transaction adjustments	-	447,812	447,812
Ending balance	<u>\$ 1,942,474,986</u>	<u>610,649,105</u>	<u>2,553,124,091</u>

As of December 31, 2003 and 2002, the components of allowance for bad and doubtful accounts were as follows:

	2003	2002
Loans and advances	\$ 1,248,923,445	665,921,549
Nonperforming loans	1,687,886,776	1,872,748,638
Account receivables	<u>21,904,192</u>	<u>14,453,904</u>
Total	<u>\$ 2,958,714,413</u>	<u>2,553,124,091</u>

For the years ended December 31, 2003 and 2002, the amounts of allowance for bad debt generated from 3% of operating revenue were \$212,231,000 and \$205,702,000, respectively.

As of December 31, 2003 and 2002, the amounts of interest receivables that were not accrued from nonperforming loans were \$202,994,011 and \$167,286,278, 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.

(Continued)

FUHW FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Fixed Assets and Nonoperating Assets

As of December 31, 2003 and 2002, and the details of nonoperating assets were as follows:

	2003	2002
Lease assets:		
Land	\$ 408,327,739	286,080,076
Buildings	<u>619,849,758</u>	<u>294,940,760</u>
	1,028,177,497	581,020,836
Less: accumulated depreciation	<u>106,923,765</u>	<u>63,923,419</u>
	<u>921,253,732</u>	<u>517,097,417</u>
Idle assets	<u>257,810,056</u>	<u>257,810,056</u>
Collateral assets:		
Cost	994,973,530	523,894,665
Less: allowance for devaluation	<u>29,008,470</u>	<u>2,011,457</u>
	<u>965,965,060</u>	<u>521,883,208</u>
	<u>\$ 2,145,028,848</u>	<u>1,296,790,681</u>

The major clauses in the lease contracts are as follows:

- 1) The lease terms of the contracts range from one to five 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:

2004	\$ 35,074,512
2005	4,132,920
2006	<u>1,804,320</u>
	<u>\$ 41,011,752</u>

As of December 31, 2003 and 2002, the Consolidated Company had insured its fixed assets and non-operating assets for \$3,335,927,000 and \$2,590,243,000, 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 RGAF, the Consolidated Company had provided time deposits as operating deposits amounting to \$1,015,218,772 and \$985,000,000 as of December 31, 2003 and 2002, respectively.

(14) Settlement and Clearing Funds

As stipulated in the RGASF and OTC Securities Exchange regulations, the Consolidated Company had deposited \$463,098,552 and \$411,212,466 with the Taiwan Stock Exchange and OTC Securities Exchange for settlement and clearing funds as of December 31, 2003 and 2002, respectively.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(15) Refundable Deposits

	December 31, 2003	December 31, 2002
Financial business guarantee deposits	\$ 628,538,671	650,840,175
Leasehold refundable deposits	444,237,958	426,766,450
Courthouse guarantee deposits	154,861,081	255,516,724
Operating guarantee deposits	12,500,000	50,000,000
Warrant guarantee deposits	-	100,000,000
Trust fund reserve	57,974,216	52,187,455
Credit card reserve	21,421,020	21,758,059
Computer link deposits	52,500,000	25,000,000
Trading refundable deposits	600,000	600,000
Securities firm funds	95,224,553	74,410,070
Others	39,097,585	36,801,557
Total	<u>\$ 1,506,955,084</u>	<u>1,693,880,490</u>

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 guarantee 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.

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.

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

(16) Brokering Transaction Debit Balance, Net

As of December 31, 2003 and 2002, the details of debit (credit) items for consigned trades were as follows:

	2003	2002
Debit balance:		
Cash in banks - settlement amount	\$ 6,123,843	29,308,199
Proceeds receivable from investors	2,331,690,603	1,931,197,680
Accounts receivable - brokering	1,743,082,874	1,625,032,746
Credit transactions	<u>270,726,380</u>	<u>8,384,595</u>
	<u>4,351,623,700</u>	<u>3,593,923,220</u>
Credit balance:		
Proceeds payable to investors	2,394,873,801	1,655,242,959
Accounts payable - brokering	1,661,969,298	1,339,418,803
Clearance	<u>277,018,282</u>	<u>581,775,973</u>
	<u>4,333,861,381</u>	<u>3,576,437,735</u>
Brokering transaction debit balance, net	<u><u>\$ 17,762,319</u></u>	<u><u>17,485,485</u></u>

(17) Short-term Borrowings

1) Short-term loans

	December 31, 2003	December 31, 2002
Credit loans	\$ 9,675,000,000	8,365,000,000
Mortgage loans	<u>730,000,000</u>	<u>2,009,914,874</u>
	<u><u>\$ 10,405,000,000</u></u>	<u><u>10,374,914,874</u></u>

All short-term loans are due within one year, and the interest rates of the short-term loans were 0.725%~2.19% and 1.50%~5.975% for the years ended December 31, 2003 and 2002, respectively.

As of December 31, 2003 and 2002, the Consolidated Company had unused lines of credit of approximately \$16,720,000,000 and \$19,530,085,126, respectively.

2) Short-term paper payable

	December 31, 2003	December 31, 2002
Commercial paper payable	\$ 16,680,000,000	12,515,000,000
Less: discount on commercial paper payable	<u>17,696,652</u>	<u>14,435,030</u>
	<u><u>\$ 16,662,303,348</u></u>	<u><u>12,500,564,970</u></u>

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2003 and 2002, the interest rates for commercial paper payable ranged from 0.52% to 1.825% and from 1.30% 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

As of December 31, 2003 and 2002, information on bonds sold under agreements to repurchase was as follows:

	2003		2002
	Amount	Period to repurchase	Interest rate (%)
Bonds sold under agreements to repurchase	\$ <u>25,901,672,178</u>	Jan. 2, 2004~ Dec. 28, 2004	0.75~2.50
	Amount	Period to repurchase	Interest rate (%)
Bonds sold under agreements to repurchase	\$ <u>20,294,528,094</u>	Jan. 2, 2003~ Dec. 18, 2003	0.80~4.00

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.

(18) Deposits and Remittances

	December 31, 2003	December 31, 2002
Checking deposits	\$ 1,983,389,414	1,034,289,457
Demand deposits	12,915,532,044	8,799,941,259
Time deposits	57,996,462,874	42,634,911,086
Time deposits transferred from Post Office	17,907,438,443	19,256,715,835
Demand savings deposits	38,635,184,408	24,041,804,167
Time savings deposits	59,270,042,390	52,459,546,084
Remittances	<u>14,904,415</u>	<u>123,105,740</u>
	\$ <u>188,722,953,988</u>	<u>148,350,313,628</u>

As of December 31, 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.

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(19) Subordinate 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 subordinate financial debentures on August 22, 2002. The issuance of subordinate financial debentures was approved by the Bureau of Monetary Affairs in Ministry of Finance Ruling Tai-Tsai-Rong No. 0910042863 on September 24, 2002. The Consolidated Company's first issuance of the subordinate financial debentures was made on November 4, 2002, and the period of the issuance was five years and three months. The issued amount was \$4,500,000,000, which was the total amount and stated at face value. The details were as follows:

	Floating Interest	Fixed Interest
	Rate	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.

The difference of \$966,000,000 between the issued amount of \$4,500,000,000 and the book value of \$3,534,000,000 was the amount of subordinated financial debentures which Fuhwa Securities Finance purchased from Fuhwa Commercial Bank. The aforementioned inter company transaction was eliminated in the consolidated financial statements.

(20) Corporate Bonds Payable

The Consolidated Company issued secured corporate bonds (first issue) totaling 2,900,000,000 at par on October 1, 2003, with the approval of Ruling Tai-Tsai-Cheng (4) No. 0920146322. The details of the aforementioned issuance of corporate bonds were as follows:

Category	Amount	Issue date	Maturity date (Note 1)	Coupon rate (%)	Interest payment terms
A1	\$ 300,000,000	92.10.24	96.10.24	1.55	Starting from the issue date, simple interest is accrued annually

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Category	Amount	Issue date	Maturity date (Note 1)	Coupon rate (%)	Interest payment terms
A2	\$ 300,000,000	92.10.27	96.10.27	1.55	Starting from the issue date, simple interest is accrued annually
A3	300,000,000	92.10.28	96.10.28	1.55	Starting from the issue date, simple interest is accrued annually
A4	300,000,000	92.10.29	96.10.29	1.55	Starting from the issue date, simple interest is accrued annually
A5	250,000,000	92.10.30	96.10.30	1.55	Starting from the issue date, simple interest is accrued annually
B1	300,000,000	92.10.24	97.10.24	(Note 2)	(Note 4)
B2	300,000,000	92.10.27	97.10.27	(Note 2)	(Note 4)
B3	350,000,000	92.10.28	97.10.28	(Note 2)	(Note 4)
B4	250,000,000	92.10.29	97.10.29	4.46% - 6M LIBOR	(Note 4)
B5	<u>250,000,000</u>	92.10.30	97.10.30	(Note 3)	(Note 4)
Total	<u><u>\$ 2,900,000,000</u></u>				

Note 1: The principal of category A bonds will be repaid 50% each in the third and fourth years starting from the issue date; the principal of Category B bonds will be repaid in a lump-sum at maturity.

Note 2: 3.5% for the first year; 6 Month LIBOR (if 6 Month LIBOR is below 0.7%), 3% (if 6 Month LIBOR is equal to or above 0.7% and equal to or below 2.5%), or 4% - 6 Month LIBOR (if 6 Month LIBOR is above 2.5%) for the second year to fifth year.

Note 3: 3.5% for the first year; 6 Month LIBOR (if 6 Month LIBOR is below 0.7%) or 4.40% - 6 Month LIBOR (if 6 Month LIBOR is equal to or above 0.7%) for the second year to fifth year.

Note 4: The first interest fixing date will be two business days prior to the issue date. The reset date will be two business days prior to the first date of each calculation period, subject to adjustment in accordance with 6 Month LIBOR. Simple interest is accrued semi-annually and the coupon rate shall not be below 0%. (Business days refers to business days in London. If the date falls on a holiday or nonworking day, the date shall be advanced to the preceding business day.)

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(21) Pension

The Consolidated Company accounts for its pension liability in conformity with SFAS No. 18, "Accounting for Pensions". According to the actuarial report, the reconciliations between funded status and accrued pension liabilities as of December 31, 2003 and 2002, respectively, were as follows (expressed in thousands of New Taiwan dollars):

	2003	2002
Benefit obligation:		
Vested benefit obligation	\$ (166,282)	(178,334)
Nonvested benefit obligation	<u>(533,607)</u>	<u>(410,372)</u>
Accumulated benefit obligation	(699,889)	(588,706)
Additional benefits based on future salaries	<u>(166,009)</u>	<u>(133,543)</u>
Projected benefit obligation	(865,898)	(722,249)
Fair value of plan assets	<u>458,111</u>	<u>408,678</u>
Funded status	(407,787)	(313,571)
Unrecognized net transition obligation	34,871	38,463
Unrecognized prior service costs	(3,711)	(3,970)
Unrecognized pension loss	107,182	35,678
Additional minimum pension liability	<u>(49,589)</u>	<u>(34,681)</u>
Accrued pension liabilities	<u>\$ (319,034)</u>	<u>(278,081)</u>
Vested benefit	<u>\$ 232,114</u>	<u>253,618</u>

For the years ended December 31, 2003 and 2002, the components of net periodic pension costs were as follows (expressed in thousands of New Taiwan dollars):

	2003	2002
Service costs	\$ 121,205	89,420
Interest costs	26,373	28,574
Actual return on plan assets	(7,255)	(9,035)
Net amortization	(6,257)	(6,826)
Gain on reduction in personnel	<u>(2,019)</u>	<u>-</u>
Net periodic pension cost	<u>\$ 132,047</u>	<u>102,133</u>

Actuarial assumptions used in accounting for the retirement plan for the years ended December 31, 2003 and 2002, were as follows:

	2003		2002	
Discount rate	3.00%	3.50%	3.50%	4.50%
Rate of increase in future compensation	1.00%	3.00%	1.00%	3.00%
Rate of projected return	3.00%	3.50%	3.50%	4.50%

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(22) Other Long-term liabilities

	December 31, 2003	December 31, 2002
Commercial paper payables	\$ 600,000,000	-
Less: discount on long-term notes payable	<u>1,100,550</u>	<u>-</u>
Total	<u><u>\$ 598,899,450</u></u>	<u><u>-</u></u>

For the year ended December 31, 2003, the interest rates of long-term commercial paper payables ranged from 1.70% to 1.90%. The repayment terms were within two years according to the agreements with bills finance companies.

(23) Income tax

The Consolidated Company will file a consolidated tax return for the year ended December 31, 2003. The subsidiaries of the Company had to file their 2002 tax returns individually, of which Fuhwa Holding (BVI) Co., Ltd. and Fuhwa Investments Management (BVI) Co., Ltd. are exempt from taxation.

In March 2003, the income tax rate for Fuhwa Securities (H.K.) Co., Ltd. was adjusted from 16% in 2002 to 17.5% in 2003 by the Hong Kong government. The remaining subsidiaries of the Consolidated Company are subject to a maximum income tax rate of 25%.

The income tax expense (benefit) for the years ended December 31, 2003 and 2002, was as follows:

	2003	2002
Current income tax expense (benefit)	\$ (88,214,977)	665,921,959
10% surtax on undistributed earnings	-	23,878,407
Deferred income tax expense (benefit)	<u>471,417,236</u>	<u>(1,123,455,338)</u>
Income tax expense (benefit)	<u><u>\$ 383,202,259</u></u>	<u><u>(433,654,972)</u></u>

(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 for 2003 and 2002 were as follows:

	2003	2002
"Expected" income tax expenses	\$ 667,454,841	(759,104,217)
Expenses disallowed for tax purposes	6,474,628	122,731
Gain on reversal of decline in market value of short-term investments	(3,279,828)	(14,692,399)
Adjustments for tax effect of separately taxable interest income from commercial paper	(5,419,101)	(17,140,420)
Tax-exempt gain on disposal of trading securities	(405,335,486)	(162,092,164)
Net loss on futures contracts	1,753,937	3,518,626
Revenue from issuing stock warrant liabilities	165,000,000	63,250,000
Dividend income	(37,522,035)	(17,003,261)
Realized loss resulting from capital reduction of subsidiaries	(403,784,070)	-
Gain on long-term investments under equity method	(10,952,607)	(25,397,011)
Loss on reclassification from long-term investments to short-term investments	-	10,238,044
Reserve for trading losses	13,249,045	-
Loss on disposal of land	1,470,460	(21,962,865)
Adjustments of government bonds for tax report	(65,840,451)	-
Expenses attributable to bond trading department	983,136	-
Income of OBU exempt from tax	(60,149,242)	(39,482,611)
10% surtax on undistributed earnings	-	23,878,407
Investment tax credit	(1,575,605)	(901,304)
Overestimation of prior years' loss carryforwards	116,587,035	(188,245)
Loss carryforwards write-off	-	36,618,454
Underestimation of prior years' investment tax credit	1,875,447	2,796,075
Overestimation of prior years' income tax	(92,326,901)	(8,173,376)
Adjustments of prior years' allowance for bad debt	(80,961,250)	-
Adjustments of prior years' income tax and assessment of additional tax requested by authorities	(30,100,720)	60,000,000
Disallowed loss carryforwards	133,525,540	22,485,016
Adjustments of deferred income tax assets	-	10,485,416
Valuation allowance for deferred income tax assets	472,234,290	382,616,096
Others	(158,804)	16,474,036
Income tax expenses (benefits)	<u>\$ 383,202,259</u>	<u>(433,654,972)</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2003 and 2002, the major components of deferred income tax expense (benefit) were as follows:

	2003	2002
Deferred pension expense	\$ (7,520,705)	(8,107,859)
Capitalization of interests	1,865	1,865
Reversal of provision for trading losses	-	5,389,478
Provision for reserve for default losses	(1,143,765)	-
Deferred organization cost	133,644	261,695
Recognition of allowance for bad debt (Bad debt in excess of legal limitation)	204,481,679	(706,432,812)
Recognition (deferral) of donation expenses	5,000,000	(5,000,000)
Employee welfare expense in excess of legal limitation	600,000	600,000
Unrealized loss on decline in net realizable value of securities foreclosed	(398,337)	(502,864)
Unrealized exchange gain (loss)	1,218,050	(10,408,909)
Increase in loss carryforwards utilized	(239,128,912)	(798,608,296)
Increase in investment tax credit	(1,575,605)	(901,304)
Adjustments of prior years' allowance for bad debt	(80,961,250)	-
Overestimation (underestimation) of prior years' loss carryforward	116,587,035	(188,245)
Overestimation of prior years' investment tax credit	1,875,447	2,796,075
Valuation allowance for deferred income tax assets	472,234,290	382,616,096
Others	13,800	15,029,742
Deferred income tax expenses (benefits)	<u>\$ 471,417,236</u>	<u>(1,123,455,338)</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The components of deferred income tax assets and liabilities as of December 31, 2003 and 2002, were as follows:

	2003	2002
Current:		
Deferred income tax assets	\$ <u>696,256,326</u>	<u>891,155,966</u>
Noncurrent:		
Deferred income tax assets	\$ 2,275,590,569	2,078,655,825
Valuation allowance for deferred income tax assets	(917,174,801)	(444,940,511)
Deferred income tax assets, net	<u>1,358,415,768</u>	<u>1,633,715,314</u>
Deferred income tax liabilities	<u>(14,341,701)</u>	<u>(13,123,651)</u>
Deferred income tax assets - noncurrent, net	\$ <u>1,344,074,067</u>	<u>1,620,591,663</u>
Total deferred income tax assets	\$ <u>2,971,846,895</u>	<u>2,969,811,791</u>
Total deferred income tax liabilities	\$ <u>14,341,701</u>	<u>13,123,651</u>
Total valuation allowance for deferred income tax assets	\$ <u>917,174,801</u>	<u>444,940,511</u>

As of December 31, 2003 and 2002, 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:

	2003		2002	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Allowance for bad debt in excess of tax limitation	\$ 4,572,744,336	1,143,186,087	5,066,826,060	1,266,706,516
Employee welfare expense in excess of tax limitation	-	-	2,400,000	600,000
Deferred pension expense	297,598,920	74,399,730	267,516,096	66,879,025
Reserve for default losses	205,305,773	51,326,443	200,730,712	50,182,678
Loss carryforwards	6,795,758,293	1,698,939,573	6,305,590,785	1,576,397,696
Unrealized exchange gain	(57,366,810)	(14,341,701)	(52,494,608)	(13,123,651)
Unrealized loss on decline in net realizable value of securities foreclosed	3,604,803	901,201	2,011,457	502,864
Donation expense deferred to future years	-	-	20,000,000	5,000,000
Investment tax credit	1,575,605	1,575,605	1,875,447	1,875,447
Others	6,073,025	1,518,256	6,670,260	1,667,565
		\$ <u>2,957,505,194</u>		<u>2,956,688,140</u>

(Continued)

FUHW FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2003 and 2002, the components of estimated refundable income tax (recorded as other receivables) and tax payable (recorded as other payables) were as follows:

	2003	2002
Income tax expense	\$ (88,214,977)	689,800,366
Separate taxation	(33,910,253)	(49,372,129)
Prepaid and withheld income taxes	(206,862,227)	(107,633,703)
Prior years' additional income tax assessed by the authorities	30,100,720	-
Prior years' income tax payable	-	52,843,105
Overestimation of prior years' income tax	<u>92,326,901</u>	<u>8,173,376</u>
Income tax payable (refundable income tax)	<u><u>\$ (206,559,836)</u></u>	<u><u>593,811,015</u></u>

For the year ended December 31, 2003, the estimated refundable income tax, amounting to \$206,874,000, consisted of \$206,559,836 from the Consolidated Company and \$314,164 from the unconsolidated subsidiaries. The Company will file a consolidated tax return with the aforementioned amount.

As of December 31, 2003 and 2002, prior years' tax refund receivables were \$471,011,967 and \$518,575,951, respectively, recorded as other receivables. As of December 31, 2003, prior years' estimated income tax payable was \$94,331,413, recorded as other payables.

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 December 31, 2003, the amount of losses and the year of expiry were as follows:

Year incurred	December 31, 2003	Year of expiry
2000	\$ 2,391,770,367	2005
2001	2,031,815	2006
2002	3,445,440,462	2007
2003	<u>956,515,649</u>	2008
	<u><u>\$ 6,795,758,293</u></u>	

Pursuant to the ROC Statute for Upgrading Industries, the Consolidated Company's unused investment tax credit - staff training cost as of December 31, 2003, was as follows:

Year incurred	December 31, 2003	Year of expiry
2003	<u><u>\$ 1,575,605</u></u>	2007

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FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the year ended December 31,, 2003, the reconciliation of the balances of current income expense (benefit), deferred income tax expense, deferred income tax assets, and income tax receivable under the provisions of SFAS No. 22, "Accounting for Income Taxes", to the related balances computed for filing consolidated income tax returns with Fuhwa Financial Holding as the taxpayer was as follows:

	2003			
	Current income tax expense (benefit)	Deferred income tax expense	Deferred income tax assets, net	Income tax receivable
Amounts computed under SFAS No. 22	\$ 153,528,721	389,053,742	2,122,693,887	35,183,862
Difference adjustments	<u>(241,743,698)</u>	<u>82,363,494</u>	<u>(82,363,494)</u>	<u>(241,743,698)</u>
Amounts computed for filing consolidated income tax return	<u>\$ (88,214,977)</u>	<u>471,417,236</u>	<u>2,040,330,393</u>	<u>(206,559,836)</u>

Fuhwa 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 Finance, Fuhwa Securities (excluding the year 1999) and Fuhwa Bank have been assessed by the tax authority. The income tax returns for all fiscal years through 1999 of Fuhwa Capital Management have been assessed by the tax authority. Moreover, Fuhwa Futures and Fuhwa Securities Investment Trust income tax returns for all fiscal years through 2001 have been assessed by the tax authority.

Fuhwa Securities Finance's ROC income tax return for 2000 was assessed by the National Taxation Authority of Taipei (NTAT) in December 2003. NTAT decided that the amortization of premiums on government bonds amounting to \$9,243,973 should be adjusted as current interest revenue under operating revenue and increased Fuhwa Securities Finance's taxable income. After that, Fuhwa Securities Finance should pay additional tax of \$2,310,993. Further, in examining Fuhwa Securities Finance's 10% surtax on undistributed earnings for the year 1999, NTAT disallowed the deduction of legal reserve of \$96,890,251 from undistributed earnings for the year 1999 since it was appropriated for the year 1992. Therefore, Fuhwa Securities Finance should pay additional tax of \$9,689,024. Fuhwa Securities Finance objected to the assessment and applied for a recheck. Since Fuhwa Securities Finance thought there was a good chance of having the assessment overturned, Fuhwa Securities Finance did not accrue the income tax payable in the financial statements.

Fuhwa 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.

Regarding the aforementioned administrative relief, in January 2004, the tax authorities decided that Fuhwa Securities shall reverse tax of \$21,761,692 on the interest accrued from the last interest payment date to the date of purchase.

(Continued)

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

Moreover, Fuhwa Securities provided time deposits totaling \$11,730,425 as collateral for the aforementioned administrative relief 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 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.

(24) 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 246,484 thousand shares, at \$10 per share, amounting to \$24,648 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. 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 August 15, 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 years ended December 31, 2003 and 2002, were as follows (expressed in thousands of New Taiwan dollars and thousands of shares):

Reason for buyback of shares	Shares	Share increase	Share decrease	2003	Ending balance shares	Ending balance amount
				Due to change in reason for buyback of shares		
Held by the Company:						
For transferring to employees	29,793	18,350	-	23,318	71,461	\$ 739,682
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	-	71	-	41,888	558,391
Fuhwa Bank - For transferring to employees prior to share exchange	27,155	-	27,155	-	-	-
	<u>94,661</u>	<u>18,759</u>	<u>71</u>	<u>-</u>	<u>113,349</u>	<u>\$ 1,298,073</u>

Fuhwa Securities Finance and Fuhwa Bank had transferred to employees all the Company's treasury stock which was bought back as an incentive for employees prior to share exchange, totaling 71 thousand shares and 27,155 thousand shares in the amount of \$1,043 thousand and \$212,088 thousand, respectively. The total transfer price was \$966 thousand and \$226,761 thousand, respectively, and the difference of \$14,596 thousand was accounted for as capital surplus - treasury stock transaction.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Reason for buyback of shares	Shares	Share increase	Share decrease	2002	Ending balance shares	Ending balance amount
				Due to change in reason for buyback of shares		
Held by the Company:						
For transferring to employees	-	142,793	-	(113,000)	29,793	\$ 333,132
For maintaining the Company's reputation and shareholders' interest	-	22,909	113,000	113,000	22,909	217,371
Held by the subsidiary:						
Fuhwa Securities Finance - For transferring to employees prior to share exchange	41,959	-	-	-	41,959	559,434
Fuhwa Securities - For buying shares from dissenting shareholders prior to share exchange	24,648	-	24,648	-	-	-
Fuhwa Bank - For transferring to employees prior to share exchange	-	27,155	-	-	27,155	212,088
	<u>66,607</u>	<u>165,702</u>	<u>137,648</u>	<u>-</u>	<u>94,661</u>	<u>\$ 1,322,025</u>

On February 4 and August 1, 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.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 September 30, 2003 and 2002, the maximum number of shares that the Company could repurchase was 289,445 thousand shares and 293,983 thousand shares, respectively, and the maximum amount of the Company's repurchase was \$10,464,511 thousand and \$11,374,507 thousand, respectively. For the years ended December 31, 2003 and 2002, the maximum number of shares the Company had repurchased were 123,775 thousand shares and 227,088 thousand shares, respectively, and the maximum amount of repurchase was \$1,342,260 thousand and \$2,326,812 thousand, respectively, which complied with the Securities and Exchange Law. As of December 31, 2002, the related payable for repurchasing treasury stock, recorded in other payable account, amounted to \$17,678 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.

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 297,598 thousand shares and 293,810 thousand shares, and the market price was \$3,185,466 thousand and \$2,805,035 thousand for the years ended December 31, 2003 and 2002, respectively.

As of December 31, 2003 and 2002, the subsidiaries held shares of the Company due to the above paragraph as follows (expressed in thousands of shares and thousands of New Taiwan dollars) :

		2003	
Subsidiary	Reason for holding the Company's shares	Shares	Amounts
Fuhwa Securities Finance	Stock conversion of Fuhwa Securities	254,152	\$ 3,086,527
Fuhwa Securities Finance	Stock conversion of Fuhwa Bank	25,849	171,349
Fuhwa Securities	Stock conversion of Fuhwa Securities Finance	10,096	158,619
Fuhwa Futures	Stock conversion of Fuhwa Securities Finance	7,501	99,908
		<u>297,598</u>	<u>\$ 3,516,403</u>

The Company's subsidiaries increased their holdings of the Company's stock by 3,788 shares, attributable to the Company's distribution of stock dividends from capital surplus on August 15, 2003, and the disposal of the Company's stock by Fuhwa Lease.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Subsidiary	Reason for holding the Company's shares	2002	
		Shares	Amounts
Fuhwa Securities Finance	Stock conversion of Fuhwa Securities	247,979	\$ 3,123,461
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	Stock conversion of Fuhwa Bank	3,440	33,252
		<u>293,810</u>	<u>\$ 3,586,589</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.

For the years ended December 31, 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 December 31, 2003 and 2002, total shares of the Company held by subsidiaries were 339,486 thousand shares and 362,924 thousand shares, respectively, and the market prices were \$3,633,245 thousand and \$3,464,385 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 nontreasury stock of shareholders' equity contra account.

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 December 31, 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 \$330,937 thousand and \$781,554 thousand, respectively. Consequently, for the years ended December 31, 2003 and 2002, the amount decreased \$450,617 thousand and increased \$781,554 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 years ended December 31, 2003 and 2002. However, as of December 31, 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 December 31, 2003 and 2002, the details of capital surplus were as follows:

	2003	2002
Paid-in capital in excess of par value	\$ 7,891,571,371	9,826,950,635
Treasury stock transaction	<u>619,171,270</u>	<u>468,852,362</u>
	<u>\$ 8,510,742,641</u>	<u>10,295,802,997</u>

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:

	December 31, 2003	December 31, 2002
Prior to 1997	\$ 1,037,720	1,037,720
1998 and after	<u>716,545,417</u>	<u>1,686,496,768</u>
	<u>\$ 717,583,137</u>	<u>1,687,534,488</u>

(Continued)

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

The Company distributed cash dividends on August 15, 2003. Because subsidiaries held the Company's stock for long-term equity investments, the resulting gain on long-term investments and an increase in capital surplus - treasury stock of \$132,192 thousand were eliminated in preparing the accompanying consolidated financial statements, in accordance with related accounting rules and procedures for treasury stock.

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.

6) Distribution of retained earnings

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

1. Pay income tax.
2. Offset prior years' deficits.
3. Provide legal reserve.
4. 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 Company's earnings for 2002 were fully appropriated to legal reserve and special reserve. Therefore, no information on employee bonus and directors' and supervisors' remuneration was disclosed.

The Company's 2003 appropriation of earnings is subject to the Company's directors' and stockholders' resolutions. After their resolutions, the related information can be obtained from the Market Observation Post System.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7) Imputation credit account (ICA)

	December 31, 2003	December 31, 2002
Imputation credit account balance	\$ <u>127,208,106</u>	<u>276,503,747</u>

For the Company's distribution of 2003 retained earnings in 2004, the expected imputation tax credit ratio is 4.00%. When the Company distributed 2002 retained earnings in 2003, the actual imputation tax credit ratio was 17.74%.

(25) Financial Instruments

1) Derivative financial instruments

For the years ended December 31, 2003 and 2002, derivative financial instrument transactions were as follows:

1. Derivative financial instruments - stock options, futures and index options

(a) Stock warrants

As of December 31, 2003 and 2002, stock warrant liabilities recorded in the accompanying balance sheets were as follows:

	2003			Gain or (loss) on change in fair value
	Issued units	Issued amount	Market value	
Stock warrants:				
Fuhwa 05	20,000,000	\$ 67,800,000	68,000,000	(200,000)
Fuhwa 06	20,000,000	113,100,000	44,000,000	69,100,000
Fuhwa 07	20,000,000	75,300,000	56,000,000	19,300,000
Fuhwa 08	24,000,000	82,560,000	89,310,174	(8,640,000)
Fuhwa P1	8,500,000	<u>40,460,000</u>	<u>51,850,000</u>	<u>(11,390,000)</u>
		<u>379,220,000</u>	<u>309,160,174</u>	68,170,000
Less: recognized gain on change in market value of stock warrant liabilities repurchased in last period				481,725,000
Add: revenue from royalties				669,854,826
Add: gain on nonexercise				<u>3,425,000</u>
				<u>259,724,826</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2003			Gain or (loss) on change in fair value
	Issued units	Issued amount	Market value	
Stock warrant liabilities for repurchase:				
Fuhwa 05	3,805,000	\$ 18,513,913	12,937,000	(5,576,913)
Fuhwa 06	11,370,000	61,065,120	25,014,000	(36,051,120)
Fuhwa 07	14,206,000	56,120,739	39,776,800	(16,343,939)
Fuhwa 08	23,713,000	85,415,131	90,109,400	4,694,269
Fuhwa P1	1,591,000	<u>7,031,687</u>	<u>9,705,100</u>	<u>2,673,413</u>
		<u>228,146,590</u>	<u>177,542,300</u>	<u>(50,604,290)</u>
Stock warrant liabilities, net			<u>\$ 131,617,874</u>	
Loss from trading stock warrant liabilities repurchased				(87,171,495)
Gain on issuance of stock warrants, net				<u>\$ 121,949,041</u>

The issuance terms of the stock warrants were as follows:

Stock warrants	Issued price per unit	exercise price	Leverage effect	Market price per unit on December 31, 2003
Fuhwa 05	\$ 3.39	29.76	7.32	3.40
Fuhwa 06	5.66	42.35	6.81	2.20
Fuhwa 07	3.77	29.15	7.04	2.80
Fuhwa 08	3.44	49.50	9.59	3.80
Fuhwa P1	4.76	31.07	5.02	6.10

Stock warrants	Variety	Maturity	Exercise period	Option for exercise
Fuhwa 05	American style	Nine months 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.
Fuhwa 06	American style	Six months 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

Stock warrants	Variety	Maturity	Exercise period	Option for exercise
Fuhwa 07	American style	Eight months 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.
Fuhwa 08	American style	Nine months 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.
Fuhwa P1	American style	One year after trading on OTC	From listing date to expiry date	Cash clearing or purchase of the defined common stock is optional for the issuer.

2002

	Issued units	Issued amount	Market value	Gain or (loss) on change in fair value
Stock warrants:				
Fuhwa 02	13,500,000	\$ 263,250,000	29,025,000	234,225,000
Fuhwa 03	35,000,000	201,950,000	75,250,000	126,700,000
Fuhwa 04	20,000,000	<u>194,800,000</u>	<u>74,000,000</u>	<u>120,800,000</u>
		<u>660,000,000</u>	<u>178,275,000</u>	<u>481,725,000</u>
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>-</u>
				<u>544,725,000</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2002			Gain or (loss) on change in fair value
	Issued units	Issued amount	Market value	
Stock warrant liabilities for repurchase:				
Fuhwa 02	6,675,000	\$ 29,650,843	14,351,250	(15,299,593)
Fuhwa 03	23,999,000	119,718,379	51,597,850	(68,120,529)
Fuhwa 04	14,874,000	<u>110,767,734</u>	<u>55,033,800</u>	<u>(55,733,934)</u>
		<u>260,136,956</u>	<u>120,982,900</u>	<u>(139,154,056)</u>
Stock warrant liabilities, net			<u>\$ 57,292,100</u>	
Loss from trading warrant liabilities repurchased				(232,572,314)
Gain on issuance of stock warrants, net				<u>\$ 172,998,630</u>

The issuance terms of the stock warrants were as follows:

Stock warrants	Issued price per unit	Exercise price	Leverage effect	Market price per unit on December 31, 2002
Fuhwa 02	\$ 19.50	124.71	4.74	2.15
Fuhwa 03	5.77	24.86	3.92	2.15
Fuhwa 04	9.74	65.65	5.18	3.70
Stock warrants	Variety	Maturity	Exercise period	Option for exercise
Fuhwa 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.
Fuhwa 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.
Fuhwa 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.

(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. For the years ended December 31, 2003 and 2002, the Consolidated Company's outstanding TAIEX index futures and options contracts were as follows:

Item	Volume		2003	
			Contract amount or royalty	Fair value
FIMTX index futures	buys	1	\$ <u>292,200</u>	<u>295,150</u>
FITE index futures	buys	5	\$ <u>4,897,000</u>	<u>4,950,000</u>
FITF index futures	buys	7	\$ <u>6,116,400</u>	<u>6,134,800</u>
FITX index futures	sell	2	\$ <u>2,361,200</u>	<u>2,361,200</u>
Option TAIEX index	buys	600	\$ <u>1,570,350</u>	<u>1,478,030</u>
Option TAIEX index	sell	1,706	\$ <u>5,673,140</u>	<u>5,454,355</u>
Item	Volume		2002	
			Contract amount or royalty	Fair value
FITX index futures	sell	106	\$ <u>94,968,600</u>	<u>95,148,000</u>
FITX index futures	buys	35	\$ <u>13,069,775</u>	<u>11,867,375</u>
Option TAIEX index	buys	81	\$ <u>538,900</u>	<u>247,100</u>
Option TAIEX index	sell	331	\$ <u>1,604,225</u>	<u>1,814,825</u>

- a) The maturity dates of the above outstanding TAIEX index futures and options are in contracts January in years 2003 and 2002, respectively.
- b) The fair value of derivative financial instruments is 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.
- c) 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.

(Continued)

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

d) 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 nonoffset position. Therefore, market risk is low. The following methods are also applied to evaluate and control market risk.

a. 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.

b. 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.

c. 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.

d. 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.

e) 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.

f) 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 \$68,489,140 and \$78,577,091 as of December 31, 2003 and 2002, respectively.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the years ended December 31, 2003 and 2002, net gains (loss) from dealing in TAIEX inde futures and option contracts were as follows:

	2003	2002
Futures contract:		
Futures contract gain	\$ 74,910,100	80,651,050
- realized		
Futures contract gain	74,350	179,400
- unrealized		
Futures contract loss	(169,928,950)	(102,460,500)
- realized		
Futures contract loss	-	(1,202,400)
- unrealized		
Futures contract loss, net	<u>\$ (94,944,500)</u>	<u>(22,832,450)</u>
Option:		
Option transactions gain	\$ 19,079,070	32,613,200
- realized		
Option transactions gain	126,465	-
- unrealized		
Option transactions loss	(19,211,535)	(34,576,765)
- realized		
Option transactions loss	-	(502,450)
- unrealized	-	-
Option contract gain (loss), net	<u>\$ (6,000)</u>	<u>(2,466,015)</u>

2. Forward exchange contract, nondelivery 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

		December 31, 2003	
		Notional amount	Fair value
		Gain	Loss
Trading purposes:			
Forward exchange contract	\$ 5,102,707,478	13,429,737	23,680,118
Nondelivery forward exchange contract	672,618,000	6,912,994	1,453,001
Currency swap contract	11,392,543,656	40,679,049	36,822,595
Currency option contract	4,324,465,000	68,226,156	63,901,063

(Continued)

FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(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 counterparties 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.

(d) Liquidity risk, cash flow risk, and future cash requirements

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 swaps, and receives or pays the difference in the interest rate. Therefore, there is no significant cash flow risk or requirements for cash flows.

(e) The above contract amount 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.

3. Convertible corporate bonds - asset swaps

(a) As of December 31, 2003, the Consolidated Company had entered into convertible corporate bonds - asset swap options contracts as follows:

	Option cost	Market value
Sell call options	\$ <u>160,911,277</u>	<u>185,577,602</u>

There was no such transaction during the year ended December 31, 2002.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (b) As of December 31, 2003, the values of outstanding IRS contract - asset swaps were as follows:

Counter party	Trading item	Notional principal	Payment date	Due date	Feature
B Commerciak Bank	Paying and receiving fixed rate	102,500,000	Quarterly	94.05.18	Trading
B Commerciak Bank	Paying and receiving fixed rate	150,000,000	Quarterly	94.05.30	Trading
B Commerciak Bank	Paying and receiving fixed rate	150,000,000	Quarterly	94.05.30	Trading
B Commerciak Bank	Paying and receiving fixed rate	45,000,000	Quarterly	94.07.31	Trading
B Commerciak Bank	Paying and receiving fixed rate	82,000,000	Quarterly	94.10.23	Trading
B Commerciak Bank	Paying and receiving fixed rate	6,300,000	Quarterly	94.10.23	Trading
C Commerciak Bank	Paying and receiving fixed rate	30,000,000	Quarterly	93.08.21	Trading
C Commerciak Bank	Paying and receiving fixed rate	30,000,000	Quarterly	93.09.06	Trading
C Commerciak Bank	Paying and receiving fixed rate	20,000,000	Quarterly	93.10.08	Trading
C Commerciak Bank	Paying and receiving fixed rate	20,000,000	Quarterly	94.05.30	Trading
C Commerciak Bank	Paying and receiving fixed rate	20,000,000	Quarterly	94.08.07	Trading
C Commerciak Bank	Paying and receiving fixed rate	40,000,000	Quarterly	94.10.08	Trading
D Corporation Ltd.	Paying and receiving fixed rate	20,000,000	Quarterly	94.08.15	Trading
E Corporation Ltd.	Paying and receiving fixed rate	30,000,000	Quarterly	93.08.22	Trading

There was no such transaction during the year ended December 31, 2002.

- (c) Transaction risk

- a) 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.

(Continued)

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

b) 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.

(d) Liquidity risk, cash flow risk, and future cash requirements

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.

4. Structured notes

(a) The Consolidated Company engaged in structured note transactions since October 2003. As of December 31, 2003, the aforementioned structure notes were all settled.

(b) Transaction risk

a) Credit risk

Credit risk is the risk that the counter-party will default on its obligation. The Company receives principal from the counter-party on the trading date and deposits the principal in an insured account at the appointed bank. Therefore, credit risk is low.

b) Market risk

The Company receives principal from the counter-party on the trading date and invests the principal according to the contract. There are open market prices and related regulations about linked items and fixed-income investment. Therefore, market risk is low.

(c) Requirement for cash flows

The Company receives principal from the counter-party on the trading date and deposits the principal in an insured account of the appointed bank. The principal is separate from the assets of the Company and is used and invested according to the contracts. Therefore, there is no material requirement for cash flows on the maturity date of the contracts.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of December 31, 2003, the Consolidated Company had entered into interest rate swaps and convertible bond asset swaps expressed on the balance sheets as follows:

	2003	
	Derivative financial instruments - assets, OTC	Derivative financial instruments - liabilities, OTC
IRS contract value - asset swaps	\$ 5,068,479	6,708,381
Options - asset swaps	<u>208,640,721</u>	<u>185,577,602</u>
	<u><u>\$ 213,709,200</u></u>	<u><u>192,285,983</u></u>

There were no such transactions for the year ended December 31, 2002.

For the year ended December 31, 2003, the related gains and losses from these transactions were as follows:

	2003		
	Gains on derivative financial instruments - OTC	Losses on derivative financial instruments - OTC	Unrealized gains (losses)
IRS contract value - asset swaps	\$ 5,068,479	6,708,381	(1,639,902)
Options - asset swaps	208,640,721	173,053,852	36,885,369
Equity-linked notes	<u>61,123</u>	<u>108,643</u>	<u>1,610</u>
	<u><u>\$ 213,770,323</u></u>	<u><u>179,870,876</u></u>	<u><u>35,247,077</u></u>

There were no such transactions for the year ended December 31, 2002.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Fair value of nonderivative financial instruments

1. As of December 31, 2003, and 2002, the book value and fair value of nonderivative financial instruments comprised the following (expressed in thousands of New Taiwan dollars):

	2003		2002	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Fair value equal to book value	\$ 253,515,876	253,515,876	197,389,879	197,389,879
Short-term investments	5,915,160	5,932,610	4,433,845	4,509,538
Trading securities	30,689,087	30,837,592	27,653,273	28,161,934
Funds	-	-	300,000	300,000
Long-term investments	9,173,133	10,188,249	9,565,626	10,643,202
Refundable deposits	1,506,955	1,511,677	1,693,881	1,790,111
Financial liabilities:				
Fair value equal to book value	268,338,666	268,338,666	211,586,468	211,586,468
Corporate bonds payable	2,900,000	2,899,964	-	-
Subordinate financial debentures	3,534,000	3,534,000	3,534,000	3,534,000
Other long-term liabilities	598,899	598,899	-	-

2. 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, net loans and advances to customers, operating guarantee deposits, settlement and clearing funds, nonperforming loans and overdue receivables, short-term debts, deposits by Central Bank, deposits by other banks, payable to customer, guarantee deposits received, short sales proceeds payable, other notes and accounts payable, deposits and remittances and accrued pension liabilities.
- (b) The fair market value of listed stock and closed-end funds is 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.

(Continued)

FUHLWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (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 corporate bonds payable is based on yield rates of various bonds traded in securities companies.
- (g) 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.

3. 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 December 31, 2003, and 2002, the financial instruments with off-balance-sheet credit risk exposure were as follows:

	2003	2002
Lines of credit provided but not used	\$ <u><u>115,546,232,775</u></u>	<u><u>69,997,382,372</u></u>
Credit commitment on credit cards	\$ <u><u>34,771,296,000</u></u>	<u><u>12,536,458,000</u></u>
Guarantees	\$ <u><u>8,488,547,701</u></u>	<u><u>6,125,182,637</u></u>
Unused L/C balance	\$ <u><u>2,469,927,566</u></u>	<u><u>957,455,775</u></u>

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 56.22% and 58.39% of the entire amount of loans in 2003 and 2002 respectively. 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.

(Continued)

FUHWI FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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:

1. Gross loans classified by geographical region

	December 31, 2003	December 31, 2002
Domestic	\$ 162,226,056,197	113,579,318,483
Overseas	<u>9,185,816,389</u>	<u>8,221,437,626</u>
Total	<u>\$ 171,411,872,586</u>	<u>121,800,756,109</u>

2. Gross loans classified by industry

	December 31, 2003	December 31, 2002
Manufacturing	\$ 33,513,552,442	26,043,363,617
General commercial	15,084,547,346	9,635,011,710
Construction	5,787,779,000	4,337,706,000
Private	79,396,825,000	55,529,248,000
Others	<u>37,629,168,798</u>	<u>26,255,426,782</u>
Total	<u>\$ 171,411,872,586</u>	<u>121,800,756,109</u>

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Credit card receivables classified by cardholder's age

	December 31, 2003	December 31, 2002
Under 20 years old	\$ -	18,878
20 to 29 years old	359,315,179	69,578,088
30 to 44 years old	859,764,549	252,162,720
45 to 64 years old	441,991,358	114,439,896
over 64 years old	<u>10,741,508</u>	<u>3,474,852</u>
Total	<u>\$ 1,671,812,594</u>	<u>439,674,434</u>

(26) Related-Party Transactions

1) Name and relationship of related party

Name	Relationship
Kuomintang (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
Fuhwa Assets Management Co., Ltd. (Fuhwa Assets Management)	Consolidated Company subsidiary
Fuhwa finance Consulting Co., Ltd. (Fuhwa Finance Consulting)	Consolidated Company subsidiary
Fuhwa Life Insurance Agent Co., Ltd. (formerly known as Asia Pacific Life Insurance Agent Co., Ltd.) (Fuhwa Life Insurance Agent)	Consolidated Company subsidiary
Fuhwa Property Insurance Agency Co., Ltd. (formerly 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. (formerly 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

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name	Relationship
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
Fuhwa System Fund of Funds	Security investment trust fund raised by the Consolidated Company
Fuhwa Classical Fund	Security investment trust fund raised by the Consolidated Company
International Securities Co., Ltd.	The Consolidated Company is a corporate director of such company (term expired on February 4, 2002)
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

1. Deposits

December 31, 2003			
Name	Balance	Percentage of deposits (%)	Interest rate (%)
Each related party's deposits are not over 1% of total deposits	\$ <u>224,932,400</u>	<u>0.12</u>	0 13.00

December 31, 2002			
Name	Balance	Percentage of deposits (%)	Interest rate (%)
Each related party's deposits are not over 1% of total deposits	\$ <u>1,004,344,634</u>	<u>0.68</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 years ended December 31, 2003 and 2002, interest expense paid on the above-mentioned deposits totaled \$2,188,826 and \$19,329,211, respectively.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Loans

December 31, 2003			
Name	Balance	Percentage of loans (%)	Interest rate (%)
Each related party's deposits are not over 1% of total deposits	\$ <u>99,930,745</u>	<u>0.06</u>	1.25 5.90

December 31, 2002			
Name	Balance	Percentage of loans (%)	Interest rate (%)
Each related party's deposits are not over 1% of total deposits	\$ <u>607,076,775</u>	<u>0.52</u>	1.675 8.00

For the years ended December 31, 2003 and 2002, the interest rate received on loans to the Consolidated Company's affiliates was 1.25%~1.70% and 1.675%~2.75%, respectively; the interest rate received on loans to the Consolidated Company's employees was 2.40%~5.90% and 3.68%~7.00%, respectively. Loans to other related parties are the same as those offered to other customers.

For the years ended December 31, 2003 and 2002, interest received on the above-mentioned loans totaled \$4,439,574 and \$14,775,710, respectively.

3. 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	December 31, 2003				
	Investment		Ending balance		Gains (losses) on disposal
	Unit	Amount	Unit	Amount	
Fuhwa Securities Investment Trust:					
Fuhwa Fund	47,222,425.10	\$ 353,060,000	-	-	6,168,696
Fuhwa II Fund	69,199,516.60	402,564,500	3,427,104.60	20,000,000	12,202,307
Fuhwa Bond Fund	39,874,750.15	481,000,000	1,319,424.40	16,000,000	13,610,837
Fuhwa New Balance Fund	25,606,045.50	266,000,000	6,137,217.30	66,000,000	51,998,848
		<u>\$ 1,502,624,500</u>		<u>102,000,000</u>	<u>83,980,688</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name	December 31, 2003				
	Investment		Ending balance		Gains (losses) on disposal
	Unit	Amount	Unit	Amount	
Sheng-Hwa Securities Investment Trust:					
Sheng-Hwa 1699 Fund	39,964,637.00	\$ 480,000,000	8,407,813.00	100,000,000	8,371,400
Sheng-Hwa 5599 Fund	5,597,205.00	60,000,000	8,283,385.00	89,000,000	150,355
Sheng-Hwa 0566 Fund	6,995,005.00	70,000,000	-	-	59,950
		<u>\$ 610,000,000</u>		<u>189,000,000</u>	<u>8,581,705</u>
Name	December 31, 2002				
	Investment		Ending balance		Gains (losses) on disposal
	Unit	Amount	Unit	Amount	
Fuhwa Securities Investment Trust:					
Asia Pacific Fund	29,850,536.70	\$ 202,642,500	26,256,287.50	180,119,856	2,996,525
Asia Pacific II Fund	41,550,489.60	221,656,500	36,214,521.20	194,629,286	2,480,371
Asia Pacific Bond Fund	74,647,234.94	887,706,192	57,777,211.50	687,706,192	4,691,845
		<u>\$ 1,312,005,192</u>		<u>1,062,455,334</u>	<u>10,168,741</u>
Sheng-Hwa Securities Investment Trust:					
Sheng-Hwa 2008 fund	2,000,000.00	\$ 20,030,000	-	-	(5,750,000)
Sheng-Hwa 6666 fund	8,000,000.00	80,050,000	3,000,000.00	30,000,000	(99,800)
Sheng-Hwa 1699 fund	27,972,668.26	320,900,000	18,907,273.24	216,220,934	1,446,629
Sheng-Hwa 5599 Fund	16,407,427.96	170,000,000	-	-	96,746
		<u>\$ 590,980,000</u>		<u>246,220,934</u>	<u>(4,306,425)</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 party	December 31, 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 I Venture	71,784,216.94	\$ 875,947,952	23,928,072.32	292,994,460
Fuhwa Leasing	911,361.48	11,000,000	-	-
Fuhwa Venture	1,388,480.51	17,000,000	1,388,480.51	17,000,000
Fuhwa Finance Consulting	2,896,967.29	35,000,000	2,896,967.29	35,000,000
Fuhwa Life Insurance Agent	-	-	592,672.15	7,105,902
Fuhwa Property Insurance Agency	330,318.91	4,044,503	330,319.91	4,044,503
		<u>\$ 942,992,455</u>		<u>356,144,865</u>
Fuhwa System Fund of Funds:				
Fuhwa Lease	2,900,000.00	\$ <u>29,000,000</u>	-	<u>-</u>

Name of the related party	December 31, 2002			
	Investment		Ending balance	
	Unit	Amount	Unit	Amount
Asia Pacific Fund:				
Taiwan Bank	-	\$ <u>-</u>	10,000,000.00	<u>100,000,000</u>
Asia Pacific Bond Fund:				
Fuhwa I Venture	2,085,279.59	\$ 25,000,000	2,085,279.59	25,000,000
Asia Pacific Lease	417,896.95	5,000,000	417,896.95	5,000,000
Fuhwa Property Insurance Agency	330,319.94	3,960,404	330,319.94	3,960,404
Fuhwa Life Insurance Agency	1,679,500.88	20,068,272	839,750.45	10,068,272
		<u>\$ 54,028,676</u>		<u>44,028,676</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (c) In the year ended December 31, 2003, the Consolidated Company signed a contract with the KMT to purchase an office building located at 4th Sec., 1 Jhongsiao West Road, Taipei, including 7 floors and 41 underground parking spaces to be used as offices and for lease. The price stated in the contract totaled \$1,581,919,668. As of December 31, 2003, the Consolidated Company had paid the full price of \$1,581,919,668, recorded under fixed assets and nonoperating assets.
- (d) The Consolidated Company entered into contracts with Fuhwa Assets Management to sell nonperforming loans for the price of \$776,021,066, resulting in loss on disposal of \$80,265,475, recorded as miscellaneous expense. As of December 31, 2003, proceeds retained from the above-mentioned transaction amounted to \$100,000,000, and the remaining part, amounting to \$676,021,066, was recorded under other receivable.

4. 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:

	December 31, 2003	December 31, 2002
Fuhwa Fund	\$ 10,062,444	8,121,938
Fuhwa Bond Fund	143,482,167	77,561,892
Fuhwa II Fund	11,176,884	9,586,759
Fuhwa New Balance Fund	30,053,625	-
Fuhwa System Fund of Funds	6,347,669	-
Fuhwa Classical Fund	<u>23,423,749</u>	<u>-</u>
Total	<u>\$ 224,546,538</u>	<u>95,270,589</u>

Account receivables from the above-mentioned handling fees, recorded under other receivable, were as follows:

	December 31, 2003	December 31, 2002
Fuhwa Fund	\$ 736,997	1,032,952
Fuhwa Bond Fund	12,389,168	9,269,217
Fuhwa II Fund	847,658	1,175,138
Fuhwa New Balance Fund	3,198,165	-
Fuhwa System Fund of Funds	577,176	-
Fuhwa Classical Fund	<u>9,924,719</u>	<u>-</u>
Total	<u>\$ 27,673,883</u>	<u>11,477,307</u>

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Commission revenue

For the year ended December 31, 2003, the Consolidated Company received commission revenues resulting from promoting insurance business on behalf of Fuhwa Life Insurance Agent totaling \$76,089,819.

6. Rent revenue

For the year ended December 31, 2002, the Consolidated Company leased office space to International Securities Co., Ltd., and received rent revenue and refundable deposit amounting to \$600,000 and \$200,000, respectively.

7. For the year ended December 31, 2003, securities investment trust funds were raised by affiliates engaged in bond repurchase transactions. The details of such transactions were as follows:

		December 31, 2003			
	Highest amount	Ending balance	Interest rate (%)		Interest expense
Fuhwa Securities Investment Trust:					
Fuhwa Bond Fund	\$ 5,799,950,286	4,899,593,478	0.625	3	58,782,092
Fuhwa Fund	1,868,425,733	213,456,146	0.65	3	17,961,584
Fuhwa New Balance Fund	30,003,719	-	0.925		3,801
Fuhwa II Fund	96,009,278	20,000,959	0.65	0.875	25,431
Fuhwa Classical Fund	1,334,123,556	<u>240,000,240</u>	0.65	1.35	<u>592,281</u>
		<u>\$5,373,050,823</u>			<u>77,365,189</u>
Sheng-Hwa Securities Investment Trust Co., Ltd.					
Sheng-Hwa 1699 Fund	\$ 956,820,076	367,667,976	0.625	1.25	2,435,284
Sheng-Hwa 5599 Fund	755,033,972	340,691,032	0.625	0.975	1,917,197
Sheng-Hwa Bond Fund	138,962,647	<u>-</u>	0.62	0.725	<u>88,554</u>
		<u>\$ 708,359,008</u>			<u>4,441,035</u>

8. Rent expenses

The Consolidated Company leased office space from related parties as follows:

	December 31, 2003	December 31, 2002
KMT	\$ 60,617,322	10,763,638
Fuhwa Assets Management	<u>1,641,534</u>	<u>-</u>
	<u>\$ 62,258,856</u>	<u>10,763,638</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

9. Service charges

The Consolidated Company signed a contract with Fuhwa Finance Consulting for investment consulting service, and paid each month. For the year ended December 31, 2003, expense paid for the above-mentioned service totaled \$1,595,508.

(27) Pledged Assets

Pledged assets	Pledged for	Book Value	
		December 31, 2003	December 31, 2002
516,100 thousand shares of Fuhwa Securities (the shares issued by such subsidiary originally were recorded under long-term investments - equity method, and have been eliminated in the consolidated financial statements)	Short-term borrowings	\$ -	5,880,604,309
164,100 thousand shares of Fuhwa Securities (the shares issued by such subsidiary, originally were recorded under long-term investments - equity method, and have been eliminated in the consolidated financial statements)	Short-term borrowings	1,978,103,760	-
94,000 thousand shares of Fuhwa Securities Finance (the shares issued by such subsidiary originally were recorded under long-term investments - equity method, and have been eliminated in the consolidated financial statements)	Short-term borrowings	1,236,260,250	-
595,000 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)	Bonds	7,825,264,345	-

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pledged assets	Pledged for	Book Value	
		December 31, 2003	December 31, 2002
Common stock (recorded under long-term equity investments - cost method)	Credit lines of borrowings and overdrafts	\$ 337,591,000	-
Beneficiary certificates (recorded under short-term investments)	Credit lines of borrowings and overdrafts	50,000,000	-
Government bonds (recorded under short-term investments)	Liabilities for bonds sold under agreements to repurchase	-	299,595,877
Bonds purchased under agreements to resell	Liabilities for bonds sold under agreements to repurchase	3,723,295,311	2,447,086,256
Negotiable certificates of deposit (recorded under other receivables)	Stock borrowings	330,000,000	400,000,000
Restricted time deposits (recorded under other financial assets - current)	Credit lines of borrowings and overdrafts	911,800,000	824,300,000
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 agreements to repurchase	1,037,725,735	-
Short-term bills (recorded under trading securities)	Liabilities for bonds sold under agreements to repurchase	9,610,176,181	7,300,390,354
Trading securities - dealing	Liabilities for bonds sold under agreement to repurchase	10,771,706,965	10,035,153,471
Land and buildings (recorded under property and equipment)	Credit lines of short-term mortgage loans	984,069,675	993,999,496
Land and buildings (recorded under property, equipment and nonoperating assets)	Credit lines of borrowings and overdrafts	1,470,546,969	873,566,207

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pledged assets	Pledged for	Book Value	
		December 31, 2003	December 31, 2002
Time deposits (recorded under operating guarantee deposits)	Operating guarantee deposits	\$ 945,218,772	915,000,000
Land and buildings (recorded under nonoperating assets)	Credit lines of short-term mortgage loans	510,698,497	517,097,417
Negotiable certificates of deposit (recorded under refundable deposits)	Provisional seizure	20,000,000	10,300,000
Government bonds (recorded under refundable deposits)	Provisional seizure	39,828,268	5,035,297
Bonds (recorded under refundable deposits)	Provisional seizure	70,075,655	215,003,795
Bonds (recorded under refundable deposits)	Trust custodian	57,974,216	52,187,455
Government bonds (recorded under refundable deposits)	Consumer loan reserves deposited in National Credit Card Center of ROC	21,421,020	21,758,059
Government bonds (recorded under refundable deposits)	Operating guarantee deposits for bills - proprietary	63,003,000	54,395,147
Government bonds (recorded under refundable deposits)	Operating guarantee deposits for bonds - proprietary	10,220,849	-
Government bonds (recorded under refundable deposits)	Petition to the National tax administration for second review of tax return	2,203,311	1,573,530
Government bonds (recorded under refundable deposits)	Operating guarantee deposits for trading bonds	10,000,704	-

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pledged assets	Pledged for	Book Value	
		December 31, 2003	December 31, 2002
Time deposits (related-party transactions, which have been eliminated in the consolidated financial statements)	Discretionary account investment consigned by clients	\$ 54,500,000	52,500,000
Total		<u>\$ 42,083,414,908</u>	<u>30,911,277,095</u>

(28) Commitments and Contingencies

1) Significant purchase agreements

As of December 31, 2003 and 2002, the Consolidated Company had significant purchase agreements for purchasing assets amounting to \$160,353,361 and \$246,891,541, respectively. The unpaid amounts of those agreements were \$70,631,027 and \$140,995,052, respectively.

2) Stocks entrusted to custody

As of December 31, 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 December 31, 2003 and 2002, was approximately \$75,038,930 and \$75,033,200, respectively.

3) To comply with Article 31 of the Financial Holding Company Act regarding the disposal of the acquired financial holding company's shares through exchange in a limited period and to coordinate the needs for medium-and long-term operations, Fuhwa Securities Finance's acquired shares of Fuhwa Financial Holding will be used for exchange purposes in accordance with Section 28-2(1) of the Securities and Exchange Law. The application to issue a European exchangeable bond (EEB) was approved by the SFC on December 24, 2003. The face amount of the EEB was USD100,000,000, and the issuing period was one year and one day. The issuance of the EEB was completed on January 13, 2004.

4) 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

5) Proxy settlement

1. As of December 31, 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.
2. 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.

6) Operating leases

The Consolidated Company has entered into several operating lease agreements that have terms ranging from one to five years. As of December 31, 2003, future leasing commitments were as follows:

Fiscal Year	Amount
2004	\$ 296,407,191
2005	241,462,359
2006	171,999,588
2007	129,700,349
2008 and after	<u>54,877,624</u>
Total	<u><u>\$ 894,447,111</u></u>

7) Agreements on purchase of operating rights

In December 2003, the Consolidated Company signed contracts with Litton Securities Co., Ltd. for purchase of their operating rights and partial assets amounting to \$26,000,000. As of December 31, 2003, the prepayments for the purchase of operating rights and partial assets amounted to \$8,500,000.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

8) Others

	December 31, 2003	December 31, 2002
Consignment collection for others	\$ 16,311,319,789	13,639,710,117
Traveler's checks held on consignment for sale	239,913,031	205,194,217
Consignment securities, custodial goods, and others	48,281,950,548	1,639,309,525
Trust assets	<u>18,179,401,548</u>	<u>12,606,539,876</u>
	<u>\$ 83,012,584,916</u>	<u>28,090,753,735</u>
Lines of credit provided but not used	<u>\$ 115,546,232,775</u>	<u>69,997,382,372</u>
Credit commitment on credit cards	<u>\$ 34,771,296,000</u>	<u>12,536,458,000</u>
Guarantees	<u>\$ 8,488,547,701</u>	<u>6,125,182,637</u>
Unused L/C balance	<u>\$ 2,469,927,566</u>	<u>957,455,775</u>
Securities sold under repurchase agreements	<u>\$ 9,742,366,107</u>	<u>7,300,390,354</u>
Securities purchased under resell agreements	<u>\$ -</u>	<u>1,648,227,928</u>

- 9) According to Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet and trust property list were as follows:

Trust Balance sheet
December 31, 2003

Trust assets		Trust liabilities	
Fund investment	\$ 14,741,662,615	Trust capital - pecuniary trust	18,179,401,548
Bond investment	3,422,973,159		
Employee stock ownership trust	1,866,000		
For purpose of pecuniary trust	12,452,130		
Living trust	<u>447,644</u>		
Total trust assets	<u>\$ 18,179,401,548</u>	Total trust liabilities	<u>\$ 18,179,401,548</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Trust Balance sheet
December 31, 2002

Invested items	Bank value
Fund investment	\$ 14,741,662,615
Bond investment	3,422,973,159
Employee stock ownership trust	1,866,000
For purpose of pecuniary trust	12,452,130
Living trust	447,644
	<u>\$ 18,179,401,548</u>

- 10) In order to extend Fuhwa Bank's operations and branches and to enhance its competitiveness, the board of directors decided to acquire Taitung Credit Cooperative, at \$119 per share, on June 5, 2003. The total price was \$126,154,182

(29) Others

- 1) Employment, depreciation, depletion, and amortization expenses

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

Function Accounts	December 31, 2003			December 31, 2002		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Employment expenses:						
Salary	-	3,159,849,347	3,159,849,347	-	2,247,046,355	2,247,046,355
Insurance	-	179,738,269	179,738,269	-	136,159,638	136,159,638
Pension (note)	-	135,431,899	135,431,899	-	103,714,874	103,714,874
Others	-	114,420,263	114,420,263	-	75,008,447	75,008,447
Depreciation	-	374,707,036	374,707,036	-	328,308,800	328,308,800
Depletion	-	-	-	-	-	-
Amortization	-	134,728,312	134,728,312	4,689,000	89,867,791	94,556,791

Note: Pension expenses consisted of the Company's and subsidiaries' net pension costs in accordance with actuarial reports. Pension expenses also included retirement payments to retired management.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 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 December 31, 2003 and 2002, the capital ratio of the Company was 142.13% and 163.39%, respectively.

- 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)

December 31, 2003			
Name	Relationship	Total of business credit, endorsement, or other transactions	Percentage of net value of the Company
Construction and Planning Agency	Same unit	5,000,000	13.39
Taiwan Railway Administration	Same unit	2,100,000	5.63
Kuomintang	Same affiliated company	1,168,000	
Chong Yang Investment Co., Ltd.		1,326,000	
Kuang Hwa Investment Co., Ltd.		500,000	
Yu Hwa Development Co., Ltd.		<u>900,000</u>	
Total		<u><u>3,894,000</u></u>	10.08

December 31, 2002			
Name	Relationship	Total of business credit, endorsement, or other transactions	Percentage of net value of the Company
Taiwan Railway Administration	Same unit	3,960,000	11.76
RESA Engineering Corporation	Same unit	2,486,000	7.38
Formosa Chemical and Fibre Corporation	Same affiliated company	1,212,000	
Formosa Petrochemical Co., Ltd.		848,000	
Mai-liao Power Corporation		<u>498,000</u>	
Total		<u><u>2,558,000</u></u>	7.59

(Continued)

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

- 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.
- 4: Other transactions means the following transactions with the same individual, the same related party, or the same affiliated company:
- (a) Investing in marketable security issued by related parties.
 - (b) Purchasing real estate or other assets from related parties.
 - (c) Selling marketable securities, real estate, or other assets to related parties.
 - (d) Entering into contracts to pay money or provide services.
 - (e) Being agents, brokers or other that would receive commissions or service charges from the financial holding company or its subsidiaries.
 - (f) Doing the aforementioned transactions with a third party which has a conflict of interest with related parties, or transactions with a third party involving related parties.
 - (g) The scope of calculation of the transaction amount does not include transferable time deposit issued by subsidiaries.

(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 year ended December 31, 2002, would be as follows:

1. Condensed balance sheet:

(in thousands of New Taiwan dollars)

**December 31,
2002**

Current assets	\$	130,129
Long-term investments		38,555,414
Property and equipment		30,251
Other assets (including intangible assets)		1,693
Total assets		38,717,487
Current liabilities		2,588,684
Other liabilities		1,570
Common stock		29,644,778
Capital surplus		11,680,252
Accumulated deficit		(831,103)
Cumulative foreign currency translation adjustments		1,657
Net loss from unrecognized pension costs		(10,240)
Treasury stock		(4,358,111)
Total liabilities		2,590,254
Shareholders' equity		36,127,233

2. Condensed income statement:

(in thousands of New Taiwan dollars)

**December 31,
2002**

Operating loss	\$	(2,527,822)
Net loss		(2,598,486)
Loss per share - before tax (in New Taiwan dollars)		(1.26)
Loss per share - after tax (in New Taiwan dollars)		(1.26)

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 5) Condensed balance sheets and income statements for the banking subsidiaries and securities company subsidiaries are as follows (figures in thousands of New Taiwan dollars):

1. Condensed balance sheets:

	Fuhwa Securities Finance	
	December 31, 2003	December 31, 2002
Current assets	\$ 42,400,480	39,447,070
Long-term investments (including funds)	2,605,486	2,732,502
Property and equipment	1,061,920	1,077,239
Other assets (including intangible assets)	3,031,524	3,923,620
Total assets	49,099,410	47,180,431
Current liabilities	29,848,432	29,344,239
Long-term liabilities	167,525	166,271
Common stock	12,200,000	12,200,000
Capital surplus	25,693	59,774
Retained earnings	7,416,151	5,966,728
Cumulative foreign currency translation adjustments	-	2,853
Treasury stock	(558,391)	(559,434)
Total liabilities	30,015,957	29,510,510
Shareholders' equity	19,083,453	17,669,921

	Fuhwa Securities	
	December 31, 2003	December 31, 2002
Current assets	\$ 21,256,501	18,825,508
Long-term investments	1,537,958	798,374
Property and equipment	1,535,212	1,378,418
Other assets (including intangible assets)	2,577,977	2,171,224
Total assets	26,907,648	23,173,524
Current liabilities	17,261,723	14,685,611
Long-term liabilities	598,899	-
Other liabilities	546,374	461,649
Common stock	6,952,986	6,952,986
Capital surplus	89,280	89,280
Retained earnings	1,467,336	973,661
Cumulative foreign currency translation adjustments	(8,950)	10,337
Total liabilities	18,406,996	15,147,260
Shareholders' equity	8,500,652	8,026,264

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Fuhwa Bank	
	December 31, 2003	December 31, 2002
Current assets	\$ 228,383,713	173,960,216
Long-term investments	521,991	494,077
Other financial assets	745,880	773,164
Property and equipment	2,472,451	1,375,074
Other assets	3,121,600	2,387,786
Total assets	235,245,635	178,990,317
Current liabilities	218,727,926	163,916,241
Long-term liabilities	4,500,000	4,500,000
Other liabilities	623,027	304,892
Common stock	10,500,000	12,115,136
Capital surplus	14,673	11,740
Retained earnings (accumulated deficits)	905,091	(1,635,364)
Net loss not recognized as pension costs	(25,082)	(10,240)
Treasury stock	-	(212,088)
Total liabilities	223,850,953	168,721,133
Shareholders' equity	11,394,682	10,269,184

2. Condensed income statements:

	Fuhwa Securities Finance	
	For the year ended December 31, 2003	For the year ended December 31, 2002
Operating revenues	\$ 2,188,336	2,951,247
Gross profit	1,735,687	2,124,037
Operating income (loss)	481,179	(611,219)
Non-operating income	1,189,113	456,970
Non-operating expenses	7,567	712,581
Net income (loss) before income tax	1,662,725	(866,830)
Net income (loss) after income tax	1,449,500	(782,482)
Earnings (loss) per share - before income tax (in New Taiwan dollars)	1.36	(0.65)
Earnings (loss) per share - after income tax (in New Taiwan dollars)	1.19	(0.59)

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Fuhwa Securities	
	For the year ended December 31, 2003	For the year ended December 31, 2002
Operating revenues	\$ 3,667,063	3,286,991
Gross profit	3,007,129	2,614,387
Operating income	473,335	360,247
Non-operating income	456,370	342,705
Non-operating expenses	56,601	102,738
Net income before income tax	873,104	600,214
Net income after income tax	737,620	407,054
Earnings per share - before income tax (in New Taiwan dollars)	1.26	0.97
Earnings per share - after income tax (in New Taiwan dollars)	1.06	0.66

	Fuhwa Bank	
	For the year ended December 31, 2003	For the year ended December 31, 2002
Operating revenues	\$ 8,750,611	8,385,532
Gross profit (loss)	3,761,152	(1,649,848)
Operating income (loss)	1,043,042	(3,357,760)
Non-operating income	37,843	27,052
Non-operating expenses	88,808	4,304
Net income (loss) before income tax	992,077	(3,335,012)
Net income (loss) after income tax	913,579	(2,772,489)
Earnings (loss) per share - before income tax (in New Taiwan dollars)	0.95	(3.29)
Earnings (loss) per share - after income tax (in New Taiwan dollars)	0.87	(2.73)

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

1. Conducting business or transactions:

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

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(a) Agency

For the years ended December 31, 2003 and 2002, Fuhwa Securities earned commission revenue resulting from stock transactions consigned by Fuhwa Securities Finance of \$126,853,306 and \$113,380,517, respectively.

(b) Stock management income

For the years ended December 31, 2003 and 2002, commission revenues earned by Fuhwa Securities resulting from stock management for Fuhwa Financial Holding and its subsidiaries were as follows:

	2003	2002
Fuhwa Financial Holding	\$ 9,563,728	7,686,364
Fuhwa Securities Finance	120,027	1,410,227
Fuhwa Bank	<u>128,531</u>	<u>-</u>
	<u>\$ 9,812,286</u>	<u>9,096,591</u>

(c) Brokerage commission revenue for futures

For the years ended December 31, 2003 and 2002, Fuhwa Securities conducted futures trading support on behalf of Fuhwa Futures and earned brokerage commission revenue of \$119,632,812 and \$81,539,752, respectively.

(d) Expenses from settlement and clearing

For the years ended December 31, 2003 and 2002, expenses from settlement and clearing paid by Fuhwa Securities to Fuhwa Futures amounted to \$3,994,251 and \$2,561,159, respectively.

(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 above-mentioned transaction are as follows:

	December 31, 2003	December 31, 2002
Fuhwa Bank	\$ 17,354,550	936,748
Fuhwa Securities	<u>2,843,692</u>	<u>175,332</u>
	<u>\$ 20,198,242</u>	<u>1,112,080</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(f) Banking

a) Deposits

As of December 31, 2003 and 2002, deposits in Fuhwa Bank from subsidiaries were as follows:

	December 31, 2003	December 31, 2002
Fuhwa Securities Finance	\$ 186,422,955	60,610,289
Fuhwa Securities	163,140,089	-
Fuhwa Futures	511,804,485	346,677,854
Fuhwa Securities Investment Trust	133,700,018	122,169,031
	<u><u>\$ 995,067,547</u></u>	<u><u>529,457,174</u></u>

Interest revenue was as follows:

	December 31, 2003	December 31, 2002
Fuhwa Securities Finance	\$ 107,023	-
Fuhwa Securities	660,875	-
Fuhwa Futures	12,106,584	3,215,456
Fuhwa Securities Investment Trust	3,217,369	4,744,603
	<u><u>\$ 16,091,851</u></u>	<u><u>7,960,059</u></u>

b) As of December 31, 2003 and 2002, Fuhwa Securities Finance had purchased negotiable certificates of deposit from Fuhwa Bank of \$500,000,000 and \$100,000,000, respectively.

c) As of December 31, 2003 and 2002, the amounts deposited in Fuhwa Bank by Fuhwa Futures for customers' deposits from futures trading accounts were as follows:

	2003	2002
Customers' deposits - futures trading accounts	<u><u>\$ 518,546,057</u></u>	<u><u>29,519,947</u></u>

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- d) For the years ended December 31, 2003 and 2002, the balance of subordinate financial debentures purchased from Fuhwa Bank by Fuhwa Securities Finance and the related interest revenue were as follows:

	2003	
	Ending balance	Current interest revenue
Subordinate financial debentures	\$ <u>966,000,000</u>	<u>46,167,715</u>
	December 31, 2002	
	Ending balance	Current interest revenue
Subordinate financial debentures	\$ <u>966,000,000</u>	<u>6,984,312</u>

- e) Credit lines

For the years ended December 31, 2003 and 2002, 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 December 31, 2003 and 2002, the book value of the abovementioned collateral amounted to \$1,494,768,172 and \$1,511,096,913 recorded under fixed assets and nonoperating assets, respectively.

For the year ended December 31, 2002, Fuhwa Securities obtained short-term borrowing credit lines of \$650,000,000 from Fuhwa Bank. The period of the debt from December 13, 2002, to January 7, 2003, and the interest rate was 1.7%. This debt is booked as short-term debt by Fuhwa Securities and as loans by Fuhwa Bank. Fuhwa Securities pledged land and buildings as collateral. As of December 31, 2002, the book value of the fixed assets was \$873,566,207.

For the year ended December 31, 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, and land and buildings as collateral. As of December 31, 2003, the book value of the abovementioned assets was \$50,000,000, \$337,591,000, and \$1,470,546,969, respectively.

- f) For the year ended December 31, 2002, 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 26.

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(h) Rent revenue

For the years ended December 31, 2003 and 2002, Fuhwa Securities Finance leased offices to Fuhwa Securities, Fuhwa Futures, and Fuhwa Securities Investment Trust, and earned rent revenue as follows:

	December 31, 2003	December 31, 2002
Fuhwa Securities	\$ 14,810,040	20,022,900
Fuhwa Futures	7,954,320	7,954,320
Fuhwa Securities Investment Trust	<u>239,400</u>	<u>-</u>
	<u>\$ 23,003,760</u>	<u>27,977,220</u>

For the years ended December 31, 2003 and 2002, Fuhwa Securities leased office space to Fuhwa Bank, and earned rent revenue amounting to \$52,471,962 and \$5,186,340, respectively.

(i) Credit card promotion and processing fee revenue

For the year ended December 31, 2003, Fuhwa Securities conducted credit card promotion on behalf of Fuhwa Bank and was paid processing fees by Fuhwa Bank totaling \$4,207,155.

(j) Bond or bill transactions with agreements to repurchase or resell

For the year ended December 31, 2003, the interest income of Fuhwa Securities that was generated from the investment in bonds or bills with agreements to resell was as follows:

	December 31, 2003
Fuhwa Securities Finance	\$ 6,032,924
Fuhwa Bank	<u>7,377,888</u>
Total	<u>\$ 13,410,812</u>

For the year ended December 31, 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.

On June 12 and July 1, 2002, Fuhwa Financial Holding purchased 19,999,000 shares of Fuhwa Futures for \$212,789,360 and 3,149,400 shares of Fuhwa Capital Management for \$32,879,736, respectively, from Fuhwa Securities.

(Continued)

FUHWa FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(l) Commercial paper transactions

For the year ended December 31, 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:

	2002	
Fuhwa Capital Management	\$	421,752
Fuhwa Futures		<u>1,395,587</u>
Total	\$	<u><u>1,817,339</u></u>

(m) Relevant revenues for investment and consulting

Fuhwa Capital Management provided services for the subsidiaries of Fuhwa Financial Holding. For the years ended December 31, 2003 and 2002, 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:

	2003		2002
Fuhwa Securities Finance	\$	16,503,656	19,078,261
Fuhwa Securities		3,149,343	590,371
Fuhwa Bank		<u>952,380</u>	<u>873,015</u>
	\$	<u><u>20,605,379</u></u>	<u><u>20,541,647</u></u>

(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 December 31, 2003, guarantee deposits amounting to \$20,020,326 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.

2. 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 in April 2003. The policy is based on the actual sales figures and a subsidiary's paying a certain percentage commission to a subsidiary which sells commodities for it.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Information interchange:

The Company developed a Policy about Privacy and Security of Clients' Data in November 2002. The policy refers to 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.

4. 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.

In April, 2003, the Company started formulating regulations in terms of cross-marketing business, information interchange, and mutual use of business facilities. As of December 31, 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

1. Information about investment in Mainland China: Not applicable
2. Significant commitments and contingencies: Please refer to note 28
3. Essential disaster loss: Not applicable
4. Subsequent events: Not applicable

8) Subsidiaries of Fuhwa Bank - significant financial and operating conditions

1. Regulatory capital ratio

(Units: in thousands of New Taiwan dollars; %)

	December 31, 2003	December 31, 2002
1. Capital I	11,115,002	10,269,185
2. Capital II	4,641,814	5,150,422
3. Capital III	-	-
4. Deduction item of capital	521,991	847,928
Self-owned capital, net (1+2+3-4)	15,234,825	14,571,679
Risk-based assets	174,791,811	131,967,688
Self-owned capital ratio (%)	8.72	11.04
Debt-to-net equity ratio (%)	1,964.52	1,642.98

Note: 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.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Asset quality

(Units: in thousands of New Taiwan dollars; %)

	December 31, 2003	December 31, 2002
Overdue loans (includes nonperforming loans)	6,429,701	5,139,996
Nonperforming loans	5,644,476	3,938,336
Overdue loan ratio (%)	3.75	4.22
Loans-to-be-observed	2,091,087	6,643,307
Loans-to-be-observed to total loans ratio (%)	1.22	5.45
Recorded loans and reserve for non-performing loans	2,936,810	2,538,670
Bad debt write-off	1,568,204	5,182,282

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

3. Management information

(a) Concentration of credit risk

(Units: in thousands of New Taiwan dollars; %)

	December 31, 2003	December 31, 2002
Lines of credit to related parties	2,742,937	1,807,908
Ratio of lines of credit to related parties to total credit lines (%)	1.66	1.41
Lines of credit mortgaged by stock (%)	2.96	2.37
Percentage of lines of credit by industries (%):		
Manufacturing industry	18.16	20.98
Wholesale or retail industry	7.36	6.71
Services industry	6.59	5.95
Individuals	48.13	48.89
Others	19.76	17.47

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

Note 2: Ratio of lines of credit to related parties to total credit lines = Lines of credit (defined by Banking Law)/Total credit lines.

Note 3: Ratio of lines of credit mortgaged by stock = Lines of credit mortgaged by stock/Total credit lines.

Note 4: Lines of credit to related parties refer to lines of credit as defined by the Banking Law.

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.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Summary of investees' investment business

(Units: in thousands of New Taiwan dollars; %)

December 31, 2003		
Name	Investment cost	Ownership ratio (%)
Fuhwa Lease Co., Ltd.	\$ 197,000	98.56
Fuhwa Property Insurance Agent Co., Ltd.	2,880	80.00
Fuhwa Life Insurance Agency Co., Ltd.	2,000	99.99

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

(c) Loans, non-performing loans, and policy on reserve for investment loss

- a) 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.
- b) Reserve for guarantee liabilities (recorded as other liabilities) is based on the ending balance of guarantees and acceptances.
- c) 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.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(d) Extraordinary events

December 31, 2003	
	Event and amount (Please state briefly. Use codes to represent names of persons or companies.)
Presidents or employees were prosecuted by judges in the latest year owing to violation of laws or regulations in business	None
Any violation of the Banking Law and penalties paid in the recent year	None
Any deficiency incurred and warned of by the MOF	Nan-Jing E.Road Branch was corrected by MOF because the Branch did not comply with related regulations to process money transfer for A Company's capital increase.
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

4. Profitability

- (a) For the years ended December 31, 2003 and 2002, information on return on assets, return on net equity, and net income to operating revenue was as follows (expressed as percentage):

	December 31, 2003	December 31, 2002
Return on assets (note 1)	0.48	(1.93)
Return on net equity (note 2)	9.16	(28.63)
Net income to operating revenue (note 3)	11.34	(40.21)

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

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Information on interest-bearing assets and liabilities

(Units: in thousands of New Taiwan dollars; %)

	December 31, 2003		December 31, 2002	
	Average amount	Average rate %	Average amount	Average rate %
Assets:				
Cash - due from banks	3,634,471	1.44	2,674,592	3.14
Due from central Bank and placement to other banks	18,391,679	1.58	16,870,440	2.22
Marketable securities	12,146,643	4.13	11,509,370	3.93
Loans and advances to customers	142,817,383	4.01	111,860,584	5.56
Liabilities:				
Due to banks	12,712,293	1.15	3,191,509	1.86
Demand deposits	9,755,932	0.33	6,790,983	0.81
Demand saving deposits	31,685,634	0.91	22,725,942	2.05
Time deposits	44,408,973	1.58	39,102,912	2.57
Time savings deposits	56,820,421	2.05	49,748,984	3.15
Negotiable certificates of deposit	2,718,379	1.75	3,003,333	2.90
Appropriated loan fund	118,628	3.00	110,079	3.89

5. Liquidity

Analysis of Assets and Liabilities

December 31, 2003

(Units: in thousands of New Taiwan dollars)

	Total	Aging for remaining period until expiration				
		Day 0 to day 30	Day 31 to day 90	Day 91 to day 180	Day 181 to 1 year	Over 1 year
Assets	221,641,000	40,172,000	15,515,000	19,118,000	13,955,000	132,881,000
Liabilities	206,466,000	40,896,000	28,267,000	27,256,000	50,169,000	59,878,000
Spreads	15,175,000	(724,000)	(12,752,000)	(8,138,000)	(36,214,000)	73,003,000
Accumulated spreads	15,175,000	(724,000)	(13,476,000)	(21,614,000)	(57,828,000)	15,175,000

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

6. Sensitivity to market risk

- (a) Ratios of interest-rate-sensitive assets to liabilities and interest-rate-sensitive spreads to net equity (expressed as percentage)

	The year ended December 31, 2003	The year ended December 31, 2002
Ratio of interest-rate-sensitive assets to liabilities (%)	79.15	80.06
Ratio of interest-rate-sensitive spreads to net equity (%)	(312.14)	(260.51)

Note 1: The yields or costs produced by interest-rate-sensitivity assets or liabilities are affected by the fluctuation of interest rate.

Note 2: 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 3: Interest-rate-sensitive spreads = Interest-rate-sensitive assets - Interest-rate-sensitive liabilities

- (b) Major foreign currency position, net

(Units: in thousands of stated currencies)

	December 31, 2003		December 31, 2002			
	Amount in functional currency	Amount in New Taiwan dollars	Amount in functional currency	Amount in New Taiwan dollars		
Major foreign currency position, net (market risk)	USD	4,130	140,317	USD	3,155	109,647
	EUR	417	17,863	EUR	663	24,110
	JPY	35,134	11,169	HKD	3,888	17,328
	HKD	2,496	10,923	SGD	372	7,456
	SFR	319	8,768	DEM	269	5,001

Note 1: The major currencies are determined by the amounts of positions after translating to the same currency.

Note 2: The major foreign currency net positions are based on absolute value.

(Continued)

FUHW A FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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:

Qualified net amount of self-owned capital

Equivalent operating risk amount

As of December 31, 2003 and 2002, the self-owned capital adequacy ratios of Fuhwa Securities Finance and Fuhwa Securities were as follows (expressed as percentage):

	December 31, 2003	December 31, 2002
Fuhwa Securities Finance	739.03	742.72
Fuhwa Securities	254.30	297.08

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

1. Pursuant to SFC rulings, Fuhwa Securities' financial ratios and executions were as follows:

Rule	Equation	December 31, 2003		December 31, 2002		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	Shareholders' equity (Total liabilities - Payable to customer - Reserve for trading losses - Reserve for default losses)	$\frac{259,664,985}{8,150,665}$	32	$\frac{369,374,386}{2,942,528}$	126	1	Pursuant to the regulations
17	Current assets Current liabilities	$\frac{254,778,760}{7,995,547}$	32	$\frac{359,319,788}{2,893,296}$	124	1	Pursuant to the regulations
22	Shareholder's equity Minimum capital	$\frac{259,664,985}{400,000,000}$	65 %	$\frac{369,374,386}{400,000,000}$	92 %	60% 40%	Pursuant to the regulations
22	Adjusted net capital Initial margins required	$\frac{199,431,451}{18,494,255}$	1,078 %	$\frac{305,478,002}{8,976,400}$	3,403 %	20% 15%	Pursuant to the regulations

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Pursuant to SFC rulings, Fuhwa Futures' financial ratios and executions were as follows:

Rule	Equation	December 31, 2003		December 31, 2002		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Shareholders' equity}}{\text{(Total liabilities - Payable to customer - Reserve for trading losses - Reserve for default losses)}}$	$\frac{1,250,176}{60,473}$	20.67	$\frac{1,212,742}{48,744}$	24.88	1	Pursuant to the regulations
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{3,041,076}{2,017,948}$	1.51	$\frac{2,181,296}{1,175,842}$	1.86	1	Pursuant to the regulations
22	$\frac{\text{Shareholder's equity}}{\text{Minimum capital}}$	$\frac{1,250,176}{600,000}$	208 %	$\frac{1,212,742}{600,000}$	202 %	60% 40%	Pursuant to the regulations
22	$\frac{\text{Adjusted net capital}}{\text{Initial margins required}}$	$\frac{1,184,758}{392,101}$	302 %	$\frac{1,156,519}{170,891}$	677 %	20% 15%	Pursuant to the regulations

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

11) Maturity analysis

The following table represents the maturity analysis for the period from the report date to the maturity date (expressed in millions of New Taiwan dollars):

	2003.12.31											
	Less than 1 month		Between 1 month and 6 months		Between 6 months and 1 year		Between 1 year and 7 years		After 7 years		Total	
	Total amount	Repayable amount	Total amount	Repayable amount	Total amount	Repayable amount	Total amount	Repayable amount	Total amount	Repayable amount	Total amount	Repayable amount
Assets:												
Due from Central Bank and placement to other banks	\$ 8,519	8,519	9,569	9,569	6,816	6,816	2,205	2,205	-	-	27,109	27,109
Loans and advances to customers (excluding non-performing loans)	23,159	23,159	25,514	25,514	5,916	5,916	56,504	56,504	53,873	53,873	164,966	164,966
Marketable securities	2,930	2,930	2,360	2,360	1,618	1,618	12,742	12,742	3,700	3,700	23,350	23,350
Total											<u>\$ 215,425</u>	<u>215,425</u>
Liabilities:												
Deposits by Central Bank and other banks	\$ 6,406	6,406	7,072	7,072	-	-	-	-	-	-	13,478	13,478
Securities sold under repurchase agreements	9,041	9,041	697	697	-	-	-	-	-	-	9,738	9,738
Time deposits (note)	21,297	21,297	56,493	56,493	51,207	51,207	6,975	6,975	-	-	135,972	135,972
Appropriated loan fund (recorded as other liabilities)	-	-	-	-	3	3	14	14	106	106	123	123
Total											<u>\$ 159,311</u>	<u>159,311</u>

(Note) Term deposits, including time deposits, time savings deposits, and deposits from Post Office.

	2002.12.31											
	Less than 1 month		Between 1 month and 6 months		Between 6 months and 1 year		Between 1 year and 7 years		After 7 years		Total	
	Total amount	Repayable amount	Total amount	Repayable amount	Total amount	Repayable amount	Total amount	Repayable amount	Total amount	Repayable amount	Total amount	Repayable amount
Assets:												
Due from Central Bank and placement to other banks	\$ 14,350	14,350	5,835	5,835	2,688	2,688	2,336	2,336	-	-	25,209	25,209
Loans and advances to customers (excluding non-performing loans)	20,292	20,292	16,220	16,220	4,240	4,240	36,644	36,644	39,147	39,147	116,543	116,543
Marketable securities	6,669	6,669	2,892	2,892	10,539	10,539	2,517	2,517	2,453	2,453	25,070	25,070
Total											<u>\$ 166,822</u>	<u>166,822</u>
Liabilities:												
Deposits by Central Bank and other banks	\$ 3,551	3,551	1,605	1,605	-	-	-	-	-	-	5,156	5,156
Time deposits (note)	15,745	15,745	46,010	46,010	48,754	48,754	4,107	4,107	-	-	114,616	114,616
Appropriated loans fund (recorded as other liabilities)	-	-	-	-	3	3	14	14	96	96	113	113
Total											<u>\$ 119,885</u>	<u>119,885</u>

(Note) Term deposits, including time deposits, time savings deposits, and deposits from Post Office.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 12) Net cash equivalents provided by the acquisition of The Credit Cooperative of Douliou were as follows:

Due from Central Bank	\$	79,932,000
Accounts receivable		9,907,320
Loans and advances to customers, net		1,787,312,109
Long-term equity investments under cost method		3,018,542
Other monetary assets		18,231,998
Property and equipment, net		161,952,938
Other assets		21,701,010
Other accounts payable		(62,404,045)
Deposits and remittances		<u>(4,198,439,941)</u>
Subtotal		(2,178,788,069)
Completion of acquisition of goodwill		
- recorded in the other assets account		<u>291,840,338</u>
Net cash equivalents provided by the acquisition	\$	<u>(1,886,947,731)</u>