

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

**Consolidated Financial Statements
June 30, 2004 and 2003**

(With Independent Auditors' Report Thereon)

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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 June 30, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the half-years ended June 30, 2004 and 2003. 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 of Financial Institutions 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 June 30, 2004 and 2003, and the results of their operations and their cash flows for the half-years ended June 30, 2004 and 2003, 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, the Guidelines Governing the Preparation of Financial Reports by Banks, the Criteria Governing the Preparation of Financial Reports by Futures Firms and other related regulations.

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 June 30, 2004, are presented, the Company restated the consolidated financial statements as of June 30, 2003, to give effect to the change for comparative analysis.

August 3, 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.

FUHW FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2004 and 2003
(expressed in thousands of New Taiwan dollars)

Assets	June 30, 2004 Amount	%	June 30, 2003 Amount	%	Liabilities and Stockholders' Equity	June 30, 2004 Amount	%	June 30, 2003 Amount	%
Current assets:					Current liabilities:				
Cash and cash equivalents (note 4)	\$ 9,962,938	3	12,206,319	4	Short-term debts (notes 17, 26 and 27)	\$ 63,426,136	19	40,911,925	15
Due from Central Bank and placement to other banks (note 5)	25,101,786	8	19,445,188	7	Deposits by Central Bank	10,854	-	11,024	-
Short-term investments (notes 6, 26 and 27)	31,537,917	10	27,428,387	10	Deposits by other banks	10,575,949	3	17,691,211	6
Bonds purchased under agreements to resell (notes 7 and 27)	2,808,659	1	1,933,663	1	Stock warrant liabilities, net (note 25)	104,597	-	27,720	-
Call options - nonhedge (note 25)	10	-	146	-	Put option liabilities (note 25)	10,844	-	584	-
Futures trading margins (note 8)	1,938,526	1	1,070,569	-	Payable to customers	2,159,667	1	1,476,898	1
Margin deposits for futures contracts (note 25)	29,623	-	79,004	-	Derivative financial instruments - liabilities, OTC (note 25)	342,621	-	51,041	-
Derivative financial instruments - assets, OTC (note 25)	147,807	-	52,581	-	Guarantee deposits received (note 9)	2,451,755	1	3,295,907	1
Deferred loss from principal guaranteed note (note 25)	268	-	-	-	Short sales proceeds payable (note 9)	2,993,420	1	4,296,689	2
Interest receivable	1,372,252	-	1,509,608	1	Other notes and accounts payable (note 23)	6,376,071	2	4,619,882	2
Margin loans (note 9)	38,040,988	12	25,635,704	9	Advance receipts and other current liabilities (note 25)	177,121	-	138,915	-
Other receivables (notes 11, 23 and 26)	6,727,751	2	3,464,882	1	Total current liabilities	<u>88,629,035</u>	<u>27</u>	<u>72,521,796</u>	<u>27</u>
Other financial assets - current (notes 25 and 27)	1,301,356	-	1,062,422	-	Deposits and remittances (notes 18 and 26)	193,996,553	59	161,383,627	60
Deferred income tax assets - current (note 23)	574,135	-	840,531	-	Subordinate financial debentures (note 19)	3,534,000	1	3,534,000	1
Trading securities (notes 10 and 27)	12,873,468	4	12,352,749	5		<u>197,530,553</u>	<u>60</u>	<u>164,917,627</u>	<u>61</u>
Prepaid expenses	376,118	-	169,099	-	Long-term liabilities:				
Total current assets	<u>132,793,602</u>	<u>41</u>	<u>107,250,852</u>	<u>38</u>	Bonds payable (notes 20 and 27)	2,900,000	1	-	-
Loans and advances to customers, net (notes 11 and 26)	<u>175,705,672</u>	<u>53</u>	<u>147,168,525</u>	<u>54</u>	Accrued pension liabilities (note 21)	339,923	-	287,396	-
Long-term investments (notes 6 and 27):					Other long-term liabilities (notes 22 and 27)	399,359	-	399,302	-
Long-term investments under equity method	2,263,069	1	2,170,280	1	Total long-term liabilities	<u>3,639,282</u>	<u>1</u>	<u>686,698</u>	<u>-</u>
Long-term investments under cost method	1,750,443	1	1,556,822	1	Other liabilities:				
Long-term investments in bonds	1,108,384	-	703,439	-	Reserve for guarantee liabilities	78,537	-	46,139	-
Prepayments for long-term investments in stocks	200,000	-	100,000	-	Reserve for default losses	210,494	-	200,731	-
Total long-term investments, net	<u>5,321,896</u>	<u>2</u>	<u>4,530,541</u>	<u>2</u>	Reserve for trading losses	47,549	-	56,512	-
Property and equipment (notes 12, 26, 27 and 28):					Reserve for bad debt	253,507	-	257,721	-
Cost:					Other liabilities	781,833	-	288,050	-
Land	2,727,099	1	1,800,288	1	Minority interest	7	-	18	-
Buildings	2,004,927	1	1,671,951	1	Total other liabilities	<u>1,371,927</u>	<u>-</u>	<u>849,171</u>	<u>-</u>
Machinery and equipment	596,719	-	626,935	-	Total liabilities	<u>291,170,797</u>	<u>88</u>	<u>238,975,292</u>	<u>88</u>
Computer equipment	162,591	-	121,906	-	Stockholders' equity (note 24):				
Transportation equipment	90,768	-	78,312	-	Common stock:				
Other facilities	1,347,101	-	1,473,880	1	Common stock, par value \$10, authorized 5,000,000 thousand shares on June 30, 2004 and 2003, issued 2,894,445 thousand shares and 2,826,829 thousand shares on June 30, 2004 and 2003, respectively	28,944,445	9	28,268,294	10
Less: accumulated depreciation	6,929,205	2	5,773,272	3	Stock dividends held for distribution	1,120,000	-	676,151	-
Prepayments for building and equipment	1,556,583	-	1,662,653	1		<u>30,064,445</u>	<u>9</u>	<u>28,944,445</u>	<u>10</u>
Total property and equipment, net	<u>5,577,589</u>	<u>2</u>	<u>4,337,845</u>	<u>2</u>	Capital surplus:				
Intangible assets (note 28)	<u>1,067,075</u>	<u>-</u>	<u>485,858</u>	<u>-</u>	Capital surplus - additional paid-in capital	7,491,572	3	7,891,572	3
Other assets:					Capital surplus - treasury stock transactions	830,625	-	483,519	-
Operating guarantee deposits (notes 13 and 27)	1,135,000	-	1,010,000	-		<u>8,322,197</u>	<u>3</u>	<u>8,375,091</u>	<u>3</u>
Settlement and clearing funds (note 14)	499,680	-	449,599	-	Retained earnings:				
Nonoperating assets (notes 12, 26 and 27)	2,169,269	1	1,746,355	1	Legal reserve	252,588	-	3,323	-
Refundable deposits (notes 15 and 27)	1,608,113	1	1,655,487	1	Special reserve	375,936	-	29,911	-
Nonperforming loans and overdue receivables (note 9)	1,375,415	-	2,135,210	1	Unappropriated retained earnings	2,070,123	1	1,163,171	-
Deferred charges	485,497	-	333,394	-		<u>2,698,647</u>	<u>1</u>	<u>1,196,405</u>	<u>-</u>
Deferred pension cost	22,860	-	24,441	-	Equity adjustments:				
Deferred income tax assets - noncurrent (note 23)	1,492,293	-	1,507,700	1	Cumulative foreign currency translation adjustments	(30,182)	-	(865)	-
Total other assets	<u>8,788,127</u>	<u>2</u>	<u>8,862,186</u>	<u>4</u>	Net loss from unrecognized pension cost	(26,726)	-	(10,240)	-
Brokering transaction debit balance, net (note 16)	<u>16,382</u>	<u>-</u>	<u>24,477</u>	<u>-</u>		<u>(56,908)</u>	<u>-</u>	<u>(11,105)</u>	<u>-</u>
					Treasury stock	(2,928,835)	(1)	(4,819,844)	(1)
Total assets	<u>\$ 329,270,343</u>	<u>100</u>	<u>272,660,284</u>	<u>100</u>	Total stockholders' equity	38,099,546	12	33,684,992	12
					Commitments and contingent liabilities (notes 9, 11, 12, 23, 25, 26 and 28)				
					Total liabilities and stockholders' equity	<u>\$ 329,270,343</u>	<u>100</u>	<u>272,660,284</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the half-years ended June 30, 2004 and 2003

(expressed in thousands of New Taiwan dollars, except for earnings per share)

	For the half-year ended June 30, 2004		For the half-year ended June 30, 2003	
	Amount	%	Amount	%
Operating revenues:				
Interest revenue (note 26)	\$ 5,370,655	54	4,295,842	63
Fees and commissions (note 26)	2,796,284	28	1,296,399	19
Underwriting commission	22,364	-	26,708	-
Profit from trading securities - dealing	260,049	3	241,693	4
Profit from trading securities - underwriting	77,616	1	29,283	-
Gain on bills trading, net	298,356	3	384,299	6
Investment income under equity method	50,808	1	-	-
Gain on issuance of stock warrants (note 25)	243,943	2	51,100	1
Gain on futures contracts (note 25)	174,312	2	47,279	1
Clearing and settlement service income - futures	1,334	-	185	-
Gain on option transactions (note 25)	113,656	1	9,574	-
Gain on derivative financial instruments - OTC (note 25)	13,613	-	53,346	1
Gain on market value recovery of devaluation for trading securities	-	-	28,753	-
Other operating revenue (note 26)	512,440	5	319,765	5
	<u>9,935,430</u>	<u>100</u>	<u>6,784,226</u>	<u>100</u>
Operating costs:				
Interest expense (note 26)	1,545,971	16	1,616,341	24
Fees and commission expense	484,361	5	322,315	5
Loss on investments under equity method	-	-	54	-
Provisions for bad and doubtful accounts (note 11)	1,227,129	12	525,552	8
Loss from disposal of trading securities - hedge	189,184	2	43,782	1
Loss from devaluation of trading securities	121,915	1	-	-
Commission expenses for introducing futures contracts	35,560	-	21,889	-
Loss from futures contracts (note 25)	167,775	2	96,808	1
Settlement and clearing brokerage commissions	17,831	-	9,136	-
Loss from options transactions (note 25)	80,894	1	16,121	-
Loss from derivative financial instruments - OTC (note 25)	9,553	-	40,755	1
Other operating losses	4,876	-	62,253	1
	<u>3,885,049</u>	<u>39</u>	<u>2,755,006</u>	<u>41</u>
Gross profit	6,050,381	61	4,029,220	59
Operating expenses (notes 21 and 26)	4,132,699	42	3,058,625	45
Operating income	1,917,682	19	970,595	14
Nonoperating revenue and income:				
Interest income from deposits, bonds and bills	128,377	1	77,394	1
Rental income	6,440	-	8,440	-
Investment income (notes 6 and 26)	144,280	1	300,542	4
Gain on disposal of property and equipment	333	-	83	-
Other income	141,047	1	126,146	2
	<u>420,477</u>	<u>3</u>	<u>512,605</u>	<u>7</u>
Nonoperating expenses and loss:				
Interest expense	120,855	1	116,077	2
Foreign exchange loss, net	23,460	-	17	-
Loss on disposal of property and equipment	13,025	-	10,787	-
Miscellaneous expenses	63,724	1	12,320	-
	<u>221,064</u>	<u>2</u>	<u>139,201</u>	<u>2</u>
Income before income tax	2,117,095	20	1,343,999	19
Income tax expense (note 23)	83,410	1	180,827	3
Comprehensive net income	2,033,685	19	1,163,172	16
Minority interest income	-	-	(1)	-
Consolidated net income	<u>\$ 2,033,685</u>	<u>19</u>	<u>1,163,171</u>	<u>16</u>
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Earnings per share (expressed in New Taiwan dollars)	<u>\$ 0.65</u>	<u>0.79</u>	<u>0.47</u>	<u>0.47</u>
Proforma data - Shares of Fuhwa Financial Holding Co., Ltd. held by its subsidiaries are not deemed as treasury stock				
	Before	After	Before	After
	income tax	income tax	income tax	income tax
Net income	<u>\$ 2,211,928</u>	<u>2,577,139</u>	<u>1,399,451</u>	<u>1,399,498</u>
Earnings per share (expressed in New Taiwan dollars)	<u>\$ 0.79</u>	<u>0.92</u>	<u>0.50</u>	<u>0.50</u>

See accompanying notes to consolidated financial statements.

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the half-years ended June 30, 2004 and 2003
(expressed in thousands of New Taiwan dollars)

	Common stock	Stock dividends held for distribution	Capital surplus	Retained earnings			Cumulative foreign currency translation adjustments	Net loss from unrecognized pension cost	Treasury stock	Total
				Legal reserve	Special reserve	Unappropriated retained earnings				
Balance on January 1, 2003	\$ 28,268,294	-	10,295,803	-	-	33,234	1,657	(10,240)	(4,908,614)	33,680,134
Appropriation of retained earnings (note 24):										
Legal reserve	-	-	-	3,323	-	(3,323)	-	-	-	-
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)	-	-	-	-	-	-	-	-	(160,252)	(160,252)
Treasury stock transferred to employees by subsidiaries (note 24)	-	-	14,667	-	-	-	-	-	212,088	226,755
Recognition of cumulative foreign currency translation adjustments from subsidiaries	-	-	-	-	-	-	(2,522)	-	-	(2,522)
Reversal of capital surplus from subsidiaries due to change in percentage of ownership of investees under equity method (note 6)	-	-	(36,934)	-	-	-	-	-	36,934	-
Net income for the half-year ended June 30, 2003	-	-	-	-	-	1,163,171	-	-	-	1,163,171
Balance on June 30, 2003	<u>\$ 28,268,294</u>	<u>676,151</u>	<u>8,375,091</u>	<u>3,323</u>	<u>29,911</u>	<u>1,163,171</u>	<u>(865)</u>	<u>(10,240)</u>	<u>(4,819,844)</u>	<u>33,684,992</u>
Balance on January 1, 2004	\$ 28,944,445	-	8,510,743	3,323	29,911	2,492,645	(18,273)	(26,726)	(4,814,476)	35,121,592
Appropriation of retained earnings (note 24):										
Legal reserve	-	-	-	249,265	-	(249,265)	-	-	-	-
Special reserve	-	-	-	-	346,025	(346,025)	-	-	-	-
Cash dividends	-	-	-	-	-	(1,121,944)	-	-	-	(1,121,944)
Bonus to employees	-	-	-	-	-	(18,973)	-	-	-	(18,973)
Capital surplus and retained earnings transferred to common stock (note 24)	-	1,120,000	(400,000)	-	-	(720,000)	-	-	-	-
Treasury stock transferred to employees by subsidiaries (note 24)	-	-	(16,821)	-	-	-	-	-	332,067	315,246
Transfer of stock of the parent company held by subsidiaries to bondholders due to conversion of exchangeable bonds (notes 17 and 24)	-	-	227,697	-	-	-	-	-	1,550,910	1,778,607
Disposal of stock of the parent company held by subsidiaries (note 24)	-	-	578	-	-	-	-	-	2,664	3,242
Recognition of cumulative foreign currency translation adjustments from subsidiaries	-	-	-	-	-	-	(11,909)	-	-	(11,909)
Net income for the half-year ended June 30, 2004	-	-	-	-	-	2,033,685	-	-	-	2,033,685
Balance on June 30, 2004	<u>\$ 28,944,445</u>	<u>1,120,000</u>	<u>8,322,197</u>	<u>252,588</u>	<u>375,936</u>	<u>2,070,123</u>	<u>(30,182)</u>	<u>(26,726)</u>	<u>(2,928,835)</u>	<u>38,099,546</u>

See accompanying notes to consolidated financial statements.

FUHLWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the half-years ended June 30, 2004 and 2003
(expressed in thousands of New Taiwan dollars)

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Cash flows from operating activities:		
Net income	\$ 2,033,685	1,163,171
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Minority interest income	-	1
Depreciation expense	202,346	175,774
Amortization expense	112,073	58,494
Allowance for doubtful receivables	314,000	481,376
Provision for bad and doubtful accounts	1,199,965	525,552
Expenses incurred due to conversion of exchangeable bonds	(5,416)	-
Amortization of premiums on bonds payable	(15,445)	-
Effect of exchange rate on bonds payable	(19,291)	-
Transfer from property and equipment to expenses	951	-
Provision for reserve for guarantee liabilities	-	6,366
Provision for reserve for default losses	5,188	-
(Reversal of) provision for reserve for trading losses	(51,974)	51,635
(Reversal of) provision for reserve for bad debt	(1,384)	35,011
Loss on (recovery from) devaluation of short-term investments	68,640	(20,857)
Loss on (recovery from) devaluation of trading securities	121,915	(28,753)
Loss (gain) on long-term investments under equity method	(50,808)	54
Cash dividends from long-term investments under equity method	7,588	-
Loss (gain) on disposal of long-term investments, net	2,820	(223,370)
Loss on disposal of property and equipment and nonoperating assets, net	12,692	10,704
Allowance for loss on devaluation of unused assets	32,094	-
Allowance for loss on devaluation of securities foreclosed	27,164	1,593
Loss (gain) on disposal of securities foreclosed	(7,667)	4,468
Loss on disposal of deferred charges	169	183
Decrease (increase) in bonds purchased under agreements to resell	(1,998,962)	513,423
Decrease in call options - nonhedge	1,468	101
Decrease in futures trading margins	46,365	76,941
Decrease (increase) in margin deposits for futures contracts	38,866	(427)
Decrease (increase) in derivative financial instruments - assets, OTC	65,902	(52,556)
Increase in deferred loss from principal guaranteed note	(268)	-
Decrease (increase) in interest receivable	(23,874)	306,512
Decrease (increase) in margin loans	(3,982,444)	4,679,284
Decrease (increase) in other receivables	208,634	(526,999)
Increase in other financial assets - current	(86,302)	(5,723)
Decrease (increase) in deferred income tax assets	(26,098)	163,517
Decrease (increase) in trading securities	1,348,158	(291,642)
Increase in prepaid expenses	(153,994)	(75,315)
Decrease (increase) in brokering transaction debit balance, net	1,380	(6,992)
Decrease in stock warrant liabilities, net	(27,021)	(29,572)
Increase (decrease) in put option liabilities	5,390	(1,231)
Increase in payable to customers	199,133	329,388
Increase in derivative financial instruments - liabilities, OTC	150,335	51,041
Increase (decrease) in guarantee deposits received	19,037	(1,052,228)
Increase (decrease) in short sales proceeds payable	39,436	(1,082,821)
Decrease in other notes and accounts payable	(332,589)	(441,721)
Increase in advance receipts and other current liabilities	20,203	39,479
Increase in accrued pension liabilities	20,892	9,315
Net cash provided by (used in) operating activities	<u>(477,048)</u>	<u>4,843,176</u>

See accompanying notes to consolidated financial statements.

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the half-years ended June 30, 2004 and 2003
(expressed in thousands of New Taiwan dollars)

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Cash flows from investing activities:		
Decrease (increase) in due from Central Bank and placement to other banks	\$ (1,912,009)	3,057,989
Increase in short-term investments held for investing purpose	(9,482,020)	(1,325,435)
Increase in loans and advances to customers (including nonperforming loans and overdue receivables)	(6,791,154)	(28,687,036)
Increase in long-term investments	(440,192)	(750,011)
Proceeds from disposal of long-term investments and capital refund by subsidiaries	4,384,526	352,487
Acquisition of property and equipment and nonoperating assets	(345,254)	(1,048,887)
Proceeds from disposal of property and equipment	1,659	1,312
Purchase of intangible assets	(108,271)	(39,242)
Increase in operating guarantee deposits	(119,781)	(25,000)
Increase in settlement and clearing funds	(36,581)	(38,386)
Proceeds from disposal of securities foreclosed	175,377	184,076
Increase in securities foreclosed	(179,495)	-
Increase in refundable deposits	(111,565)	(40,980)
Increase in deferred charges	(76,895)	(46,536)
Proceeds from disposal of deferred charges	-	36
Net cash provided by acquiring the Credit Cooperative of Taidong (note 29(2))	913,030	-
Net cash used in investing activities	<u>(14,128,625)</u>	<u>(28,405,613)</u>
Cash flows from financing activities:		
Increase (decrease) in short-term debts	12,292,971	(2,258,083)
Decrease in deposits by Central Bank	3,609	2,768
Increase (decrease) in deposits by other banks	(2,895,062)	12,543,547
Increase in deposits and remittances	2,491,028	13,033,313
Increase (decrease) in other long-term liabilities	(226,678)	399,302
Increase in other liabilities	351,696	135,745
Transfer of treasury stock to employees	315,246	226,755
Purchase of treasury stock	-	(177,930)
Capital refund to minority interest by subsidiaries	-	(33)
Net cash provided by financing activities	<u>12,332,810</u>	<u>23,905,384</u>
Effect of exchange rate	<u>(10,656)</u>	<u>(10,874)</u>
Net increase (decrease) in cash and cash equivalents for the half-years ended June 30, 2004 and 2003	(2,283,519)	332,073
Cash and cash equivalents, at beginning of period	12,246,457	11,874,246
Cash and cash equivalents, at end of period	<u>\$ 9,962,938</u>	<u>12,206,319</u>
Supplemental disclosure of cash flow:		
Cash payment of interest	<u>\$ 1,665,174</u>	<u>1,830,725</u>
Cash payment of income tax	<u>\$ 131,600</u>	<u>536,539</u>
Investing and financing activities not affecting cash flow:		
Changes in long-term equity investments due to elimination of shares of the parent company held by subsidiaries	<u>\$ 1,868,820</u>	<u>33,252</u>
Proceeds from disposal of shares of the parent company held by subsidiaries	<u>\$ 228,275</u>	<u>-</u>
Decrease in cumulative foreign currency translation adjustments	<u>\$ (11,909)</u>	<u>(2,522)</u>
Cash paid for acquisition of property and equipment:		
Increase in acquisition of property and equipment	\$ 345,254	1,053,209
Decrease in machinery and equipment payable (recorded under other notes and accounts payable)	-	(4,322)
Net cash paid	<u>\$ 345,254</u>	<u>1,048,887</u>
Cash paid for dividends and employee bonuses:		
Declaration of cash dividends and employee bonuses	\$ 1,140,917	1,222,294
Increase in dividends payable	(1,121,944)	(1,222,294)
Increase in employee bonuses payable (recorded under other notes and accounts payable)	(18,973)	-
Net cash paid	<u>\$ -</u>	<u>-</u>
Cash paid for purchase of treasury stock:		
Increase in purchase of treasury stock	\$ -	160,252
Decrease in payable for purchase of treasury stock (recorded under other notes and accounts payable)	-	17,678
Net cash paid	<u>\$ -</u>	<u>177,930</u>

See accompanying notes to consolidated financial statements.

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2004 and 2003

(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 the Company on August 1, 2002. Furthermore, Asia Pacific Bank was authorized to be renamed Fuhwa Commercial Bank (Fuhwa Bank) on September 17, 2002.

Since 2002, the Company has 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 100%, 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 government authorities.) As of June 30, 2004, 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 June 30, 2004, 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 100% 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 June 30, 2004, 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 4,495 employees on June 30, 2004.

(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 were prepared 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, the Guidelines Governing the Preparation of Financial Reports by Banks, the Criteria Governing the Preparation of Financial Reports by Futures Firms and other related regulations. 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 Guidelines Governing the Preparation of Financial Reports by 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 ROC SFAS No. 7.

The consolidated financial statements include the accounts of the Company, Fuhwa Securities Finance, Fuhwa Securities, Fuhwa Bank, Fuhwa Futures, Fuhwa Capital Management and Fuhwa Securities Investment Trust (the Consolidated Company). The accounts of Fuhwa Securities consolidate those of Fuhwa Holding (BVI) Co., Ltd., a subsidiary of Fuhwa Securities. Intercompany 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 (100% owned by the Company) were less than 10% of 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 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 owned more than 50% of the shares did not reach 10% of total assets and operating revenues of Fuhwa Bank. Therefore, Fuhwa Bank did not prepare consolidated financial statements, and its 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 total assets of Fuhwa Securities as of June 30, 2004. Therefore, Fuhwa Holding (BVI) Co., Ltd. was included in the June 30, 2004 and 2003, 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 commercial paper, 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)

FUHWANG 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, overseas debentures, credit-linked notes, 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 bonds are determined by the value on the balance sheet date. The market prices of credit-linked notes are determined by the quotations of issuing securities firms or banks 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 Bad Debts

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 10 of the RGSFE, margin loan investors must pay a certain percentage of the related stock market price themselves.

(Continued)

FUHWA 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 10 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 which 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 bad debts 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 trading securities - dealing, and they are stated at cost on the balance sheet date. When the securities are ready to be listed on the stock market, the Underwriting Department will record them as trading securities - 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 nonperforming loans and overdue receivables and interest receivables) and advance accounts. Doubtful accounts are written off when the recovery possibility is remote.

(Continued)

FUHWHA 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 nonperforming 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 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 investments in nonlisted 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.
2. Stockholders' equity is translated at the historical rate with the exception of the beginning

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 nonoperating 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	1 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 and the Credit Cooperative of Taidong 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.

(Continued)

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

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. The operating rights resulting from the transactions of the Consolidated Company in foreign countries with local businesses are amortized on a straight-line basis over 10 years.

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, leasehold improvements, 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 from one to five years.

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 - nonhedge. 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 - nonhedge.

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.

(Continued)

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

18) Payable to Customers

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.

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) Exchangeable Bonds Payable

The exchangeable bonds are issued by the Consolidated Company and the total amount of bonds is calculated based on the issuing price and recorded as liabilities. The premium, which is the spread between the issue price and par value, is amortized using the straight-line method from the date of issuance to the date of maturity. The bondholders may request to exchange the stock of other companies held by the Consolidated Company in accordance with the agreements.

When the bondholders exercise the exchange right, the unamortized premium and issuance costs, along with the par value of the exercised bond, would be netted with book value of stock to be exchanged, recorded as gain or loss on disposal of investments.

22) 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 for bad and doubtful accounts and other liabilities - reserve for guarantee liabilities.

23) 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.

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

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.

24) 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.

25) 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.

26) 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.

(Continued)

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

27) 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 "nontrading purposes". Trading purposes include market creation, customer services and other relevant activities. Nontrading 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 nontrading 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 financial assets - current, and the liabilities from evaluation of net losses are recorded as other current liabilities.

28) 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 nontrading 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 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.

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

29) Asset Swaps and Options - Convertible Bonds

The value of convertible bonds is split into corporate bonds and options. The Consolidated Company sells the corporate bonds and options to separate investors. The entry for disposal of corporate bonds, which involve ownership transfer, is the same as for regular bond transactions. Asset swaps belong to off-balance-sheet transactions and are recorded by memorandum entries. The agreed exchange interest payments are recorded as a net amount and valued at the market price.

The Consolidated Company is engaged in convertible bond option transactions. The buyer pays an option premium to the seller and acquires the conversion rights at the strike price in the contract period, and the seller has the obligation to sell the convertible bonds to the holder. The option premium is presented in the balance sheet. Convertible bond option transactions belong to off-balance-sheet activities and are recorded by memorandum entries. As the holder exercises conversion rights, the Consolidated Company will buy back bonds and resell to the holder. Therefore, the entry for the aforementioned transaction recorded in the balance sheet is the same as for regular bond transactions.

30) Structured Note Transactions

The Consolidated Company entered into transactions involving principal guaranteed notes and equity-linked notes.

The principal guaranteed notes are divided into fixed-income investments and embedded equity derivatives, both of which are liabilities to the Consolidated Company.

1. Principal guaranteed notes - fixed-income investments:

Principal is multiplied by a reference portfolio and discounted by the expected interest rate. Its implicit interest should be amortized over the term based on an effective interest method and be accounted for as profit or loss.

2. Principal guaranteed notes - embedded equity derivatives:

This is assessed by the fair value method. The fair value calculated by subtracting the amount of the principal guaranteed notes - fixed-income investments from the principal. The fair value of the principal guaranteed notes - embedded equity derivatives is determined by the principles below:

(a) When the fair value increases

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 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.

(b) When the fair value decreases

The profit will be accounted for in the current period.

The equity-linked notes is divided into fixed-income investments and embedded equity derivatives; for the Consolidated Company, the former are liabilities and the latter are assets.

(Continued)

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

1. Equity-linked notes - fixed-income investments:

The proceeds received from the counterparty are the principal discounted with expected interest rate minus the amount of embedded equity derivatives on the contract date. The Consolidated Company will recognize the implicit interest during the contract period on a straight-line basis and book it as gain (loss) from equity-linked notes.

2. Equity-linked notes - embedded equity derivatives:

This is assessed by the fair value method. The fair value of the equity-linked notes - embedded equity derivatives 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.

31) 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 2002. 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, Fuhwa Capital Management and Fuhwa Securities Investment are amortized over 15 to 22 years, which is the average remaining service period, by using the straight-line method.

(Continued)

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

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.

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.

32) 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 the Company 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 half-year ended June 30, 2004, 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 the Company as the taxpayer. The adjustments resulting from using the Company as the taxpayer to file a consolidated corporate income tax return are recorded under receivable from (payable to) related parties.

(Continued)

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

33) Treasury Stock

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

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

According to the SFC regulations, the treasury stock purchased by the subsidiaries of the Company which was converted into the 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 the 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.

34) 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 2,582,983 thousand shares and 2,480,967 thousand shares as of June 30, 2004 and 2003, 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 2,789,017 thousand shares and 2,782,091 thousand shares as of June 30, 2004 and 2003, respectively.

(3) The Reason for and Effect of Accounting Changes

Please refer to note 2(1).

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FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(4) Cash and Cash Equivalents

	June 30, 2004	June 30, 2003
Cash	\$ 2,729,090,628	1,773,461,810
Deposits in bank	<u>4,330,610,126</u>	<u>5,397,281,421</u>
Subtotal	<u>7,059,700,754</u>	<u>7,170,743,231</u>
Short-term securities:		
Negotiable certificates of deposit	410,442,548	750,000,000
Commercial paper	2,159,409,227	4,270,711,141
Banker's acceptances	2,212,004	-
Treasury bills	<u>331,173,094</u>	<u>14,864,900</u>
Subtotal	<u>2,903,236,873</u>	<u>5,035,576,041</u>
Total	<u><u>\$ 9,962,937,627</u></u>	<u><u>12,206,319,272</u></u>

As of June 30, 2004 and 2003, the composite banking insurance amounted to \$171,500,000 and \$153,500,000, respectively.

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

	June 30, 2004	June 30, 2003
Deposit reserve:		
Deposit reserve - checking account	\$ 1,678,389,001	2,904,845,529
Deposit reserve - demand account	<u>4,827,397,000</u>	<u>3,460,956,000</u>
Subtotal	6,505,786,001	6,365,801,529
Certificates of deposit	17,988,000,000	13,013,000,000
Placement to other banks	<u>608,000,000</u>	<u>66,386,000</u>
Total	<u><u>\$ 25,101,786,001</u></u>	<u><u>19,445,187,529</u></u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(6) Long-term and Short-term Investments

1) Short-term investments

	June 30, 2004	June 30, 2003
Commercial paper	\$ 1,115,801,221	1,662,415,534
Certificates of deposit	-	1,037,056,535
Treasury bills	245,279,440	587,949,110
Banker's acceptances	295,911	-
Government bonds	8,115,300,915	10,412,572,173
Corporate bonds	6,904,797,733	6,176,335,816
Financial debentures	2,553,807,966	1,648,622,782
Convertible bonds	1,104,826,252	45,312,685
Open-ended funds	8,721,913,772	4,714,307,092
Listed stocks	1,486,777,649	1,060,296,749
Overseas debentures	409,220,318	-
Credit-linked notes	880,324,155	49,698,619
Beneficiary securities	141,714,300	34,263,826
Others	<u>73,049,310</u>	<u>-</u>
Subtotal	31,753,108,942	27,428,830,921
Less: allowance for devaluation	<u>215,191,608</u>	<u>444,564</u>
Total	<u>\$ 31,537,917,334</u>	<u>27,428,386,357</u>

2) Long-term investments

	Percentage of ownership	June 30, 2004		Percentage of ownership	June 30, 2003	
		Investment Cost	Amount		Investment Cost	Amount
Equity method:						
Fuhwa Venture Capital Co., Ltd.	100.00	\$ 1,000,000,000	1,009,961,511	100.00	1,000,000,000	990,673,215
Fuhwa Asset Management Co., Ltd.	100.00	1,000,000,000	1,002,085,139	100.00	1,000,000,000	999,206,802
Fuhwa Finance Consulting Co., Ltd.	100.00	50,000,000	54,880,728	100.00	50,000,000	51,219,392
Fuhwa Lease Co., Ltd.	98.56	197,000,000	148,021,867	98.56	197,000,000	108,867,682

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Percentage of ownership	June 30, 2004		Percentage of ownership	June 30, 2003	
		Investment Cost	Amount		Investment Cost	Amount
Fuhwa Property Insurance Agency Co., Ltd.	80.00	\$ 2,880,000	4,874,708	80.00	2,880,000	4,676,384
Fuhwa Life Insurance Agent Co., Ltd.	99.99	1,999,940	43,245,384	99.99	1,999,940	15,636,492
Subtotal		<u>2,251,879,940</u>	<u>2,263,069,337</u>		<u>2,251,879,940</u>	<u>2,170,279,967</u>
Cost method:						
Taiwan Securities Central Depository Co., Ltd.	15.50	166,795,700	172,170,402	15.50	166,795,700	172,170,402
Taiwan Futures Exchange Co., Ltd.	7.33	145,940,000	145,940,000	7.33	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	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	1.15	297,345,000	297,345,000
Li Tin Venture Capital Co., Ltd.	8.70	100,000,000	100,000,000	8.70	100,000,000	100,000,000
Chin Fu Venture Capital Co., Ltd.	-	-	-	10.00	4,000,000	4,000,000
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	74,541,710	74,541,710	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 Co., Ltd.	1.14	46,150,000	46,150,000	1.14	45,500,000	45,500,000
Taipei Forex Inc.	0.40	800,000	800,000	0.40	800,000	800,000
Ornatube Enterprise Co., Ltd.	0.05	154,444	154,444	0.05	154,444	154,444
Taiwan Asset Management Co., Ltd.	0.57	100,000,000	100,000,000	0.57	100,000,000	100,000,000

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Percentage of ownership	June 30, 2004		Percentage of ownership	June 30, 2003	
		Investment Cost	Amount		Investment Cost	Amount
Taiwan Cooperative Bank Co., Ltd.	0.08	\$ 51,429,409	51,429,409	-	-	-
The National Federation of Credit Cooperatives R.O.C.	0.61	890,000	890,000	-	-	-
PKII Venture Capital Corp.	14.29	100,000,000	100,000,000	-	-	-
Global Strategic Investment	2.00	30,000,000	30,000,000	-	-	-
Riselink Venture Capital Co., Ltd.	3.00	40,000,000	40,000,000	-	-	-
Debt Instruments Depository and Clearing Co., Taiwan	1.00	20,000,000	20,000,000	-	-	-
Subtotal		<u>1,745,068,138</u>	<u>1,750,442,840</u>		<u>1,551,447,019</u>	<u>1,556,821,721</u>
Prepayments for stocks:						
Fuhwa Futures Management Co., Ltd.	-	200,000,000	200,000,000	-	-	-
The preparatory office of PKII Venture Capital Corp.	-	-	-	-	100,000,000	100,000,000
Subtotal		<u>200,000,000</u>	<u>200,000,000</u>		<u>100,000,000</u>	<u>100,000,000</u>
Long-term investments in bonds	-	<u>1,108,383,750</u>	<u>1,108,383,750</u>	-	<u>703,438,875</u>	<u>703,438,875</u>
Total		<u>\$ 5,305,331,828</u>	<u>5,321,895,927</u>		<u>4,606,765,834</u>	<u>4,530,540,563</u>

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.

On January 18, 2003, Chin Fu Venture Capital Co., Ltd. was liquidated and returned an investment cost amounting to \$16,000,000 to the Consolidated Company. The Consolidated Company recognized a realized loss on disposal of long-term investments amounting to \$2,800,000 for the half-year ended June 30, 2004.

The Consolidated Company acquired Credit Cooperative of Taidong on June 7, 2004 and recognized 1,776,837 shares of Taiwan Cooperative Bank Co., Ltd. and 9,400 shares of the National Federation of Credit Cooperatives R.O.C., which were previously held by Credit Cooperative of Taidong, as long-term investments.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Consolidated Company acquired Credit Cooperative of Douliou on July 25, 2003 and recognized 88,341 shares of Taiwan Cooperative Bank Co., Ltd. and 7,500 shares of the National Federation of Credit Cooperatives R.O.C., which were previously held by Credit Cooperative of Douliou, as long-term investments.

Furthermore, the Consolidated Company converted 7,500 shares of the National Federation of Credit Cooperatives R.O.C. to 65,000 shares of Financial Information Service Co., Ltd., resulting in a refund of \$100,000 for the original subscription payment.

For the half-year ended June 30, 2004, the Consolidated Company prepaid \$200,000,000 in order to set up Fuhwa Futures Management Co., Ltd., which will be a wholly owned subsidiary after completing all the required procedures for establishment.

For the half-year ended June 30, 2003, the Consolidated Company reversed a capital surplus of \$36,934 thousand due to changes in percentage of ownership of investees under equity method.

(7) Bonds Purchased Under Agreements to Resell

For the half-year ended June 30, 2004

	Amount	Period to resell	Interest rate (%)
Bonds purchased under agreements to resell	\$ <u>2,808,659,027</u>	Jul. 5, 2004 ~ Aug. 3, 2004	0.690 ~ 0.875

For the half-year ended June 30, 2003

	Amount	Period to resell	Interest rate (%)
Bonds purchased under agreements to resell	\$ <u>1,933,663,023</u>	Jul. 1, 2003~ Aug. 29, 2003	0.925 ~ 1.075

(8) Futures Trading Margins

	June 30, 2004	June 30, 2003
Bank deposits for clients' margins	\$ 1,339,715,630	635,330,516
Clearing balance of futures clearing institutions	539,957,741	380,264,112
Clearing balance of other futures brokerage	<u>58,852,272</u>	<u>54,974,623</u>
Total	\$ <u>1,938,525,643</u>	<u>1,070,569,251</u>

(9) Margin Loans and Short Sale Stock Loans

	June 30, 2004	June 30, 2003
Margin loans	\$ 38,079,066,655	25,661,365,741
Less: allowance for bad debts	<u>38,079,067</u>	<u>25,661,366</u>
	\$ <u>38,040,987,588</u>	<u>25,635,704,375</u>

(Continued)

FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the half-years ended June 30, 2004 and 2003, the percentage of margin loans for listed stock ranged from 20% to 60%. Interest rates for pecuniary financing to securities firms ranged from 4.50% to 5.50% and 4.40% to 5.50% per annum for the half-years ended June 30, 2004 and 2003, respectively. Interest rates for pecuniary financing to investors ranged from 5.50% to 6.65% and 5.95% to 6.95% per annum for the half-years ended June 30, 2004 and 2003, respectively.

The stipulated percentage of deposits from the proceeds of short sale stock financing was 90% for the half-years ended June 30, 2004 and 2003. As of June 30, 2004 and 2003, the balance of stock deposits was \$2,438,136,414 and \$3,264,525,422, respectively. The interest rates on the short sale proceeds payable and stock deposits to investors were 0.30% and 0.40% per annum for the half-years ended June 30, 2004 and 2003, respectively.

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

As of June 30, 2004 and 2003, the overdue receivables of pecuniary and securities financing transactions were as follows:

	June 30, 2004	June 30, 2003
Overdue receivables	\$ 4,059,251,220	5,454,269,881
Less: allowance for bad debts	<u>2,683,836,022</u>	<u>3,319,059,425</u>
	<u>\$ 1,375,415,198</u>	<u>2,135,210,456</u>

The memorandum accounts for pecuniary and securities financing transactions recorded by face value were as follows:

Memorandum Account	June 30, 2004	June 30, 2003
Securities held for collateral	\$ 28,313,786,160	22,628,495,940
Short sale stock loans	<u>1,158,690,000</u>	<u>2,287,760,000</u>
	<u>\$ 29,472,476,160</u>	<u>24,916,255,940</u>
Liabilities for holding collateral securities	\$ 28,404,980,070	24,003,620,070
Guarantee effects	1,066,156,090	905,775,870
Securities borrowed	<u>1,340,000</u>	<u>6,860,000</u>
	<u>\$ 29,472,476,160</u>	<u>24,916,255,940</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

Memorandum Account	June 30, 2004	June 30, 2003
Securities held for collateral	\$ 56,348,282,222	40,855,223,713
Short sale stock loans	<u>2,969,265,700</u>	<u>4,684,292,500</u>
	<u>\$ 59,317,547,922</u>	<u>45,539,516,213</u>
Liabilities for holding collateral securities	\$ 57,555,910,322	43,931,356,813
Guarantee effects	1,757,698,000	1,600,534,200
Securities borrowed	<u>3,939,600</u>	<u>7,625,200</u>
	<u>\$ 59,317,547,922</u>	<u>45,539,516,213</u>

(10) Trading Securities

	June 30, 2004	June 30, 2003
Dealing department:		
Listed stocks on TSE	\$ 1,176,736,095	1,236,920,169
Listed stocks on OTC	300,841,006	203,113,755
Emerging stocks	212,529,266	53,646,263
Listed bonds on OTC	10,205,758,231	10,244,767,723
Others	<u>23,104,701</u>	<u>-</u>
Subtotal	11,918,969,299	11,738,447,910
Less: allowance for devaluation	<u>121,632,084</u>	<u>2,291,729</u>
	<u>11,797,337,215</u>	<u>11,736,156,181</u>
Underwriting department - domestic:		
Listed stocks on TSE	50,949,805	67,552,447
Listed stocks on OTC	61,774,372	102,883,215
Other stocks	5,600,000	-
Financial debentures	200,000,000	-
Listed bonds on OTC	<u>293,300,000</u>	<u>267,700,000</u>
Subtotal	611,624,177	438,135,662
Underwriting departments - overseas:		
Overseas corporate bonds	<u>66,450,000</u>	<u>-</u>
Hedge department:		
Listed stocks on TSE	150,785,695	178,457,297
Listed stocks on OTC	<u>271,930,618</u>	<u>-</u>
Subtotal	422,716,313	178,457,297
Less: allowance for devaluation	<u>24,659,582</u>	<u>-</u>
	<u>398,056,731</u>	<u>178,457,297</u>
Total	<u>\$ 12,873,468,123</u>	<u>12,352,749,140</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Loans and Advances to Customers

	June 30, 2004	June 30, 2003
Bills purchased and discounts	\$ 382,375,032	298,519,474
Short-term loans and overdrafts	25,970,138,200	29,220,076,509
Short-term secured loans and overdrafts	14,219,113,996	10,500,611,319
Medium-term loans	44,742,481,097	31,818,527,790
Medium-term secured loans	26,547,862,813	23,868,869,767
Long-term loans	4,474,518,396	4,756,607,109
Long-term secured loans	56,689,099,650	43,895,455,664
Nonperforming loans and overdue receivables	<u>4,836,021,245</u>	<u>5,746,638,902</u>
Subtotal	177,861,610,429	150,105,306,534
Less: allowance for bad and doubtful accounts	<u>2,155,937,958</u>	<u>2,936,781,229</u>
	<u>\$ 175,705,672,471</u>	<u>147,168,525,305</u>

The details of movement of allowance for bad and doubtful accounts were as follows:

For the half-year ended June 30, 2004			
	Specific provision	General provision	Total
Beginning balance	\$ 1,970,927,001	987,787,412	2,958,714,413
Add: Provision for doubtful accounts	1,176,912,185	(140,868,248)	1,036,043,937
Recoveries	43,027,349	-	43,027,349
Acquisition of Credit Cooperative of Taidong	413,556	13,310,688	13,724,244
Less: Write-offs	1,767,171,591	-	1,767,171,591
Foreign exchange transaction adjustments	-	468,774	468,774
Ending balance	<u>\$ 1,424,108,500</u>	<u>859,761,078</u>	<u>2,283,869,578</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

The components of allowance for bad and doubtful accounts were as follows:

	June 30, 2004	June 30, 2003
Loans and advances	\$ 2,155,937,958	2,936,781,229
Account receivables	<u>127,931,620</u>	<u>14,448,818</u>
Total	<u>\$ 2,283,869,578</u>	<u>2,951,230,047</u>

For the half-years ended June 30, 2004 and 2003, the amounts of allowance for bad debt generated from 3% of operating revenue were \$124,269,000 and \$93,953,000, respectively.

As of June 30, 2004 and 2003, the amounts of interest receivables that were not accrued from loans and advances were \$133,407,443 and \$126,383,150, respectively.

(12) Property and Equipment and Nonoperating Assets

The details of nonoperating assets were as follows:

	June 30, 2004	June 30, 2003
Lease assets:		
Land	\$ 423,821,208	408,348,123
Buildings	<u>647,463,756</u>	<u>619,849,758</u>
Subtotal	1,071,284,964	1,028,197,881
Less: accumulated depreciation	<u>119,468,183</u>	<u>100,831,748</u>
	<u>951,816,781</u>	<u>927,366,133</u>
Idle assets	257,810,057	257,810,056
Less: allowance for devaluation	<u>32,093,902</u>	<u>-</u>
Subtotal	<u>225,716,155</u>	<u>257,810,056</u>

(Continued)

FUHWА FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Collateral assets:

Cost	\$	1,059,483,171	564,783,532
Less: allowance for devaluation		<u>67,747,401</u>	<u>3,604,803</u>
Subtotal		<u>991,735,770</u>	<u>561,178,729</u>
	\$	<u>2,169,268,706</u>	<u>1,746,354,918</u>

The major clauses in 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:

July 1, 2004 ~ December 31, 2004	\$	19,943,556
Year 2005		6,264,720
Year 2006		1,804,320
Year 2007		<u>50,000</u>
	\$	<u>28,062,596</u>

As of June 30, 2004 and 2003, the Consolidated Company had insured its property and equipment and nonoperating assets for \$2,917,585,317 and \$2,498,290,601, respectively.

(13) Operating Guarantee Deposits

In accordance with the RGASF, the Rules Governing the Operation of Auxiliary Futures Trading Services by Securities Firms, and the RGAFF, the Consolidated Company had provided time deposits as operating deposits amounting to \$1,135,000,000 and \$1,010,000,000 as of June 30, 2004 and 2003, respectively.

(14) Settlement and Clearing Funds

As stipulated in the RGASF, OTC Securities Exchange regulations and the Taiwan Futures Exchange Co. Ltd. Membership Requirements, the Consolidated Company had deposited \$499,679,649 and \$449,598,552 with the Taiwan Stock Exchange and OTC Securities Exchange for settlement and clearing funds as of June 30, 2004 and 2003, respectively.

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FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(15) Refundable Deposits

	June 30, 2004	June 30, 2003
Financial business guarantee deposits	\$ 624,286,910	634,624,928
Leasehold refundable deposits	403,155,518	429,724,859
Courthouse guarantee deposits	186,750,238	282,504,214
Operating guarantee deposits	10,000,000	10,000,000
Warrant guarantee deposits	60,000,000	60,000,000
Trust fund reserve	57,974,216	59,326,526
Credit card reserve	44,130,284	11,908,652
Computer link deposits	52,500,000	52,500,000
Government funds for securities and futures trading	1,020,000	600,000
Securities firm funds	94,738,174	86,179,835
Others	<u>73,557,573</u>	<u>28,118,347</u>
Total	<u>\$ 1,608,112,913</u>	<u>1,655,487,361</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 deposits 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 branches of the Consolidated 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. Moreover, in accordance with the RGSFE, reserves for trading losses have been provided.

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FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(16) Brokering Transaction Debit Balance, Net

	June 30, 2004	June 30, 2003
Debit balance:		
Cash in banks - settlement amount	\$ 3,589,923	4,666,081
Proceeds receivable from investors	3,791,018,506	2,636,676,446
Accounts receivable - brokering	1,637,173,973	3,239,838,578
Credit transactions	<u>654,019,040</u>	<u>219,164,770</u>
Subtotal	<u>6,085,801,442</u>	<u>6,100,345,875</u>
Credit balance:		
Proceeds payable to investors	4,053,974,114	2,399,962,874
Accounts payable - brokering	1,301,096,466	2,671,342,370
Clearance	<u>714,349,092</u>	<u>1,004,564,099</u>
Subtotal	<u>6,069,419,672</u>	<u>6,075,869,343</u>
Brokering transaction debit balance, net	<u><u>\$ 16,381,770</u></u>	<u><u>24,476,532</u></u>

(17) Short-term Borrowings

1) Short-term loans

	June 30, 2004	June 30, 2003
Credit loans	\$ 9,110,000,000	8,110,000,000
Mortgage loans	<u>870,000,000</u>	<u>410,000,000</u>
	<u><u>\$ 9,980,000,000</u></u>	<u><u>8,520,000,000</u></u>

All short-term loans are due within one year, and the interest rates of the short-term loans were 0.85%~1.80% and 1.05%~2.19% for the half-years ended June 30, 2004 and 2003, respectively.

As of June 30, 2004 and 2003, the Consolidated Company had unused lines of credit of approximately \$13,725,496,300 and \$24,846,300,000, respectively.

2) Short-term paper payable

	June 30, 2004	June 30, 2003
Commercial paper payable	\$ 24,065,000,000	13,180,000,000
Less: discount on commercial paper payable	<u>27,180,427</u>	<u>10,277,729</u>
Total	<u><u>\$ 24,037,819,573</u></u>	<u><u>13,169,722,271</u></u>

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the half-years ended June 30, 2004 and 2003, the interest rates for commercial paper payable ranged from 0.50% to 1.94% and from 0.87% to 1.825%, respectively. According to Article 35 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 June 30, 2004 and 2003, information on bonds sold under agreements to repurchase was as follows:

		June 30, 2004	
	Amount	Period to repurchase	Interest rate (%)
Bonds sold under agreements to repurchase	\$ <u>27,821,749,515</u>	Jul. 1, 2004~ Jun. 6, 2005	0.675 ~ 2.50
		June 30, 2003	
	Amount	Period to repurchase	Interest rate (%)
Bonds sold under agreements to repurchase	\$ <u>19,222,202,780</u>	Jul. 1, 2003~ Jun. 24, 2004	0.80 ~ 3.00

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.

4) Exchangeable Bonds Payable

In accordance with Article 31 of Financial Holding Company Act, Fuhwa Securities Finance should dispose its holding shares of the Company, acquired through stock conversion, within a definite time. In order to raise medium-term and long-term operating funds, Fuhwa Securities Finance issued unsecured bonds exchangeable into the shares of the Company held by Fuhwa Securities Finance in compliance with Article 28-2, Paragraph 1(2) of Securities and Exchange Law. The issuance of the unsecured exchangeable bonds was approved by the SFC on December 24, 2003, and the first issuance was completed on January 13, 2004. As of June 30, 2004, the details of the exchange bonds payable were as follows:

	June 30, 2004
Exchangeable bonds payable	\$ 1,573,915,000
Add: premium on exchangeable bonds payable	<u>12,651,416</u>
	1,586,566,416
Less: current portion of exchangeable bonds payable	<u>1,586,566,416</u>
	\$ <u><u>-</u></u>

(Continued)

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

As of June 30, 2004, the total exercised amount of exchangeable bonds was USD53,400,000 which was equivalent to \$1,800,541,200. Moreover, the exchangeable bonds were converted into 133,239,654 shares of the Company, amounting to \$1,550,909,573 and \$227,697,188 was recorded as gain on disposal of investment. According to SFAS NO.30 "Accounting for Treasury Stock", the Company debited investment income and credited capital surplus - treasury stock, totaling \$227,697,188.

The major issuing clauses of the aforementioned exchangeable bonds are as follows:

1. Issuing amount:

Up to USD 100 million, and the equivalence of \$ 3,371,800,000

2. Issuing period:

January 13, 2004~January 14, 2005

3. Denomination:

US\$1,000

4. Issue price:

Issued at 101.5% of the principal amount, obtained \$3,422,377,000

5. Exchange subject:

The bondholder will have the right to exchange the bonds into common shares of Fuhwa Financial Holding.

6. Rate of interest:

0% per annum

7. Redemption at maturity:

Unless previously redeemed, repurchased or exchanged, the bonds will be redeemed on the maturity date at 100% of their principal amount.

8. Exchange:

The bondholder will have the right to exchange the bonds into common shares of Fuhwa Financial Holding at any time on or after 30 days after the issue date and 30 days prior to the maturity date. No bonds may be exchanged during the following closed periods:

- (a) 5 days immediately preceding the record date set for any distribution of dividends, bonuses or other benefits with respect of Fuhwa Financial Holding; and
- (b) any period at least 3 business days prior to Fuhwa Financial Holding's filing with Taiwan Stock Exchange Corp. for free distribution of shares, dividends and new rights issue, to the record date of such distribution and rights entitlement.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

9. Exchange price:

\$13.55 per share (NTD/USD=1/33.8090); the exchange price will be subject to adjustment (downward only) upon the occurrence of any change in Fuhwa Financial Holding's common shares or distribution of dividends.

10. Redemption at the option of the issuer:

(a) The Company may, at its option at any time on or after December 13, 2004 and prior to January 13, 2005 redeem the bonds, in whole but not in part, at the principal amount thereof, if the closing price of the underlying shares of Fuhwa Financial Holding, translated into US dollars at the prevailing rate, for 20 consecutive trading days immediately preceding the date of our redemption notice, is at least 115% of the exchange price then in effect, translated into US dollars at a fixed exchange rate of NT\$33.809=US\$1.0.

(b) The Company may, at its option at any time, redeem, in whole but not in part, the bonds at the principal amount thereof if at least 95% of the aggregate principal amount of the bonds has already been redeemed, repurchased and cancelled, or exchanged.

(c) The Company may at any time redeem the bonds, in whole but not in part, at the principal amount thereof in the event of certain changes in ROC taxation that would require the Company to gross up for payment of principal, interest, if any, or premium, if any, at a rate greater than 20%.

11. Criteria and names of collaterals: none

(18) Deposits and Remittances

	June 30, 2004	June 30, 2003
Checking deposits	\$ 1,351,254,810	1,417,820,359
Demand deposits	10,215,946,392	9,109,017,735
Time deposits	56,949,304,656	45,662,011,787
Time deposits transferred from Post Office	17,157,905,243	19,076,700,879
Demand savings deposits	46,853,973,029	30,251,036,246
Time savings deposits	61,435,620,507	55,847,859,064
Remittances	<u>32,548,214</u>	<u>19,181,369</u>
Total	<u>\$ 193,996,552,851</u>	<u>161,383,627,439</u>

As of June 30, 2004 and 2003, the time to maturity for the above time deposit and savings deposit accounts, except for demand savings deposits, was within three years.

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

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

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
A2	300,000,000	92.10.27	96.10.27	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
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>\$ 2,900,000,000</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.)

(21) Pension

As of June 30, 2004 and 2003, the pension fund was \$474,278,108 and \$440,999,458, respectively, in the Central Trust of China and China United Trust and Investment Corporation. As of June 30, 2004 and 2003, the accrued pension liabilities were \$339,923,270 and \$287,395,911, respectively.

For the half-years ended June 30, 2004 and 2003, the net pension costs were \$78,215,338 and \$54,877,789.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(22) Other Long-term Liabilities

	June 30, 2004	June 30, 2003
Long-term notes payable	\$ 400,000,000	400,000,000
Less: discount on long-term notes payable	<u>640,610</u>	<u>697,744</u>
Total	<u>\$ 399,359,390</u>	<u>399,302,256</u>

For the half-years ended June 30, 2004 and 2003, the interest rates of long-term commercial paper payables ranged from 1.30% to 1.92% and 1.28% to 1.50%, respectively. The repayment terms were within two years according to the agreements with bills finance companies.

As of June 30, 2004 and 2003, the unused lines of credit for the abovementioned long-term commercial paper payables were approximately \$420,000 thousand and \$100,000 thousand, respectively.

(23) Income tax

Since 2003, the Consolidated Company has adopted to file a consolidated tax return for the year ended June 30, 2004.

The subsidiaries of the Company had to file their 2003 tax returns individually, of which Fuhwa Holding (BVI) Co., Ltd. and Fuhwa Investments Management (BVI) Co., Ltd. are exempt from taxation. In March 2004, the income tax rate for Fuhwa Securities (H.K.) Co., Ltd. was adjusted from 16% in 2003 to 17.5% in 2004 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 for the half-years ended June 30, 2004 and 2003, was as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Current income tax expense (benefit)	\$ 109,508,352	(32,130,403)
10% surtax on undistributed earnings	-	49,440,682
Deferred income tax expense (benefit)	<u>(26,098,372)</u>	<u>163,516,517</u>
Income tax expense	<u>\$ 83,409,980</u>	<u>180,826,796</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 the half-years ended June 30, 2004 and 2003 were as follows:

	For the half-years ended June 30, 2004	For the half-years ended June 30, 2003
"Expected" income tax expenses	\$ 529,273,848	335,999,701
Expenses disallowed for tax purposes	17,000,551	4,824,555
Loss on (gain on reversal of) decline in market value of short-term investments	25,732,140	(5,214,351)
Adjustments for tax effect of separately taxable interest income from commercial paper	(5,730,516)	(5,124,889)
Tax-exempt gain on disposal of trading securities	(150,579,419)	(194,290,788)
Loss on disposal of long-term investments	705,066	-
Net loss on futures contracts	2,503,126	2,329,166
Revenue from issuing stock warrant liabilities	94,917,142	65,812,500
Dividend income	(17,435,682)	(18,177,916)
Investment income from long-term investments under equity method	(63,781,340)	(26,724,132)
(Reversal of) provision for reserve for trading losses	(1,371,531)	6,860,312
Loss (gain) on disposal of land	(830,958)	1,487,204
Adjustments of government bonds for tax report	(14,549,284)	(24,399,118)
Income of OBU exempt from tax	(37,308,711)	(24,688,500)
Investment tax credit	(873,057)	(581,372)
Overestimation (underestimation) of prior years' loss carryforwards	(163,747,727)	116,587,035
Overestimation (underestimation) of prior years' investment tax credit	(420,790)	1,875,447
Underestimation (overestimation) of prior years' income tax	98,504,890	(74,361,453)
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	-	(60,507,127)
Adjustments of deferred income tax assets	(1,800,000)	-
10% surtax on undistributed earnings	-	49,440,682
Disallowed loss carryforwards	-	29,302,012
(Reversal of) valuation allowance for deferred income tax assets	(218,975,611)	81,336,610
Underestimation of related - party receivables due to consolidate tax returns	(7,810,647)	-
Others	(11,510)	2,468
Income tax expenses	<u>\$ 83,409,980</u>	<u>180,826,796</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Deferred pension expense	\$ (5,548,237)	(2,733,011)
Provision for reserve for trading losses	-	(6,048,228)
Provision for reserve for default losses	(1,297,043)	-
Deferred organization cost	-	90,096
Recognition of allowance for bad debt	315,651,138	87,052,927
Recognition of donation expenses	-	5,000,000
Employee welfare expense in excess of legal limitation	225,000	300,000
Unrealized loss on decline in net realizable value of securities foreclosed	(6,790,983)	(398,337)
Unrealized exchange loss	(37,988,323)	(3,757,430)
Unrealized loss on decline in market price of unused assets	(8,023,476)	-
Unrealized loss on decline in market price of short-term investments	(34,852,802)	-
Loss carryforwards utilized	138,342,548	82,325,555
Increase in investment tax credit	(873,057)	(581,372)
Adjustments of prior years' allowance for bad debt	-	(80,961,250)
Underestimation of prior years' loss carryforward	(163,747,727)	-
Overestimation of prior years' investment tax credit	(420,790)	1,875,447
(Reversal of) valuation allowance for deferred income tax assets	(218,975,611)	81,336,610
Loss carryforward not utilized for prior year's consolidated tax returns	(1,800,000)	-
Others	<u>991</u>	<u>15,510</u>
Deferred income tax expenses (benefits)	<u>\$ (26,098,372)</u>	<u>163,516,517</u>

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FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The components of deferred income tax assets and liabilities as of June 30, 2004 and 2003, were as follows:

	June 30, 2004	June 30, 2003
Current:		
Deferred income tax assets	\$ <u>574,135,342</u>	<u>840,530,988</u>
Noncurrent:		
Deferred income tax assets	\$ 2,190,492,614	2,043,343,466
Valuation allowance for deferred income tax assets	(698,199,190)	(526,277,121)
Deferred income tax assets, net	<u>1,492,293,424</u>	<u>1,517,066,345</u>
Deferred income tax liabilities	<u>-</u>	<u>(9,366,221)</u>
Deferred income tax assets - noncurrent, net	\$ <u>1,492,293,424</u>	<u>1,507,700,124</u>
Total deferred income tax assets	\$ <u>2,764,627,956</u>	<u>2,883,874,454</u>
Total deferred income tax liabilities	\$ <u>-</u>	<u>9,366,221</u>
Total valuation allowance for deferred income tax assets	\$ <u>698,199,190</u>	<u>526,277,121</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	June 30, 2004		June 30, 2003	
	Amount	Income tax effect	Amount	Income tax effect
Deferred income tax assets:				
Allowance for bad debt in excess of tax limitation	\$ 3,310,139,788	827,534,948	5,042,459,351	1,260,614,839
Deferred pension expense	319,791,872	79,947,968	278,448,147	69,612,036
Employee welfare expense in excess of tax limitation	6,300,000	1,575,000	1,200,000	300,000
Reserve for default losses	210,493,943	52,623,486	200,730,712	50,182,678
Reserve for trading losses	-	-	24,192,910	6,048,228
Loss carryforwards	6,897,379,010	1,724,344,752	5,976,288,570	1,494,072,141
Unrealized exchange gain (loss)	94,586,482	23,646,622	(37,464,890)	(9,366,221)
Unrealized loss on decline in net realizable value of securities foreclosed	30,768,734	7,692,184	3,604,803	901,201
Unrealized loss on decline in market price of short-term investments	139,411,209	34,852,802	-	-
Investment tax credit	2,869,452	2,869,452	581,372	581,372
Unrealized loss on decline in market price of idle assets	32,093,902	8,023,476	-	-
Others	6,069,061	<u>1,517,266</u>	6,247,836	<u>1,561,959</u>
		<u>\$ 2,764,627,956</u>		<u>2,874,508,233</u>

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of June 30, 2004 and 2003, the components of estimated refundable income tax (recorded as other receivables) and tax payable (recorded as other payables) were as follows:

	2004	2003
Income tax expense	\$ 109,508,352	17,310,279
Separate taxation	(14,937,161)	(18,792,921)
Prepaid and withheld income taxes	(57,185,145)	(56,745,186)
Prior years' refundable income tax	(58,789,920)	-
Prior years' income tax payable	198,142,295	63,250,000
Income tax payable (refundable income tax) from the prior year	(224,855,204)	113,350,232
Overestimation (underestimation) of prior years' income tax	(98,504,890)	74,361,453
Payables to related parties from the prior year	332,286	-
Others	(9,999)	-
Income tax payable (refundable income tax)	<u>\$ (146,299,386)</u>	<u>192,733,857</u>

Since 2003, the Consolidated Company has filed a consolidated tax return. As of June 30, 2004, the details of receivable and payable resulting from income tax were listed as follows:

	Related-party receivables	Payables to related parties	Due from (to) National Tax Administration
Before 2003	\$ -	-	(139,352,375)
2003	-	(332,286)	224,855,204
2004	<u>22,153,750</u>	<u>(197,018)</u>	<u>39,172,111</u>
	<u>\$ 22,153,750</u>	<u>(529,304)</u>	<u>124,674,940</u>

In accordance with the ROC Income Tax Law, assessed net losses can be carried forward for five consecutive years to reduce taxable income. As of June 30, 2004, the amount of losses and the year of expiry were as follows:

Year incurred	June 30, 2004	Year of expiry
2000	\$ 2,351,272,506	2005
2002	3,472,150,311	2007
2003	<u>1,073,956,193</u>	2008
	<u>\$ 6,897,379,010</u>	

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pursuant to the ROC Statute for Upgrading Industries, the Consolidated Company's unused investment tax credit - staff training cost as of June 30, 2004, was as follows:

Year incurred	June 30, 2004	Year of expiry
2003	\$ 1,996,395	2007
The half-year ended June 30, 2004	<u>873,057</u>	2008
	<u><u>\$ 2,869,452</u></u>	

The reconciliation of the balances of current income expense (benefit), deferred income tax expense (benefit), deferred income tax assets and refundable income tax 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:

	For the half-year ended June 30, 2004			
	Current income tax expense (benefit)	Deferred income tax expense (benefit)	Deferred income tax assets, net	Income tax payable (refundable income tax)
Amounts computed under SFAS No. 22	\$ 400,266,675	126,358,866	1,913,971,528	229,629,480
Difference adjustments	<u>(290,758,323)</u>	<u>(152,457,238)</u>	<u>152,457,238</u>	<u>(290,758,323)</u>
Amounts computed for filing consolidated income tax return	<u><u>\$ 109,508,352</u></u>	<u><u>(26,098,372)</u></u>	<u><u>2,066,428,766</u></u>	<u><u>(61,128,843)</u></u>

Fuhwa Financial Holding 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 Capital Management have been assessed by the tax authority. The income tax returns for all fiscal years through 2001 of Fuhwa Bank have been assessed by the tax authority. Moreover, Fuhwa Futures and Fuhwa Securities Investment Trust income tax returns for all fiscal years through 2002 have been assessed by the tax authority.

Fuhwa Securities Finance's ROC income tax return for 2000 was assessed by the National Tax Administration 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, which resulted in an 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.

(Continued)

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

Fuhwa Securities was requested by the tax authorities to pay additional tax for the year 2000 totaling \$21,428,309 due to withholding tax on bond interest. Fuhwa Securities disagreed with the assessment and applied for a recheck. Fuhwa Securities had provided allowance for the aforementioned petition which has not yet been assessed by the ROC tax authorities as of June 30, 2004.

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 deducted as operating cost. 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 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, and the related registration was also completed.

On June 11, 2004, the annual stockholders' meeting resolved to increase capital by transferring \$400,000,000 from capital surplus and \$720,000,000 from unappropriated retained earnings through the issuance of 112,000,000 shares of new common stock, and to distribute cash dividends of \$0.4 per share. Total amount of cash dividends distributed was \$1,121,944,048, which was calculated based on 2,804,860,120 shares of outstanding common stock as of June 30, 2004. The capital increase was approved by the SFC on June 30, 2004, and the date of capital increase was designated as September 11, 2004, by the directors meeting on July 27, 2004.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2) Treasury stock

The changes in the Company's treasury stock held by the Company and its subsidiaries for the half-years ended June 30, 2004 and 2003, were as follows (expressed in thousands of New Taiwan dollars and thousands of shares):

Reason for buyback of shares	For the half-year ended June 30, 2004					
	Beginning balance shares	Share increase	Share decrease	Due to change in reason for buyback of shares	Ending balance shares	Ending balance amount
Held by the Company:						
For transferring to employees	71,461	-	-	-	71,461	\$ 739,682
Held by the subsidiary:						
Fuhwa Securities Finance - For transferring to employees prior to share exchange	41,888	-	23,764	-	18,124	226,324
	<u>113,349</u>	<u>-</u>	<u>23,764</u>	<u>-</u>	<u>89,585</u>	<u>\$ 966,006</u>

Fuhwa Securities Finance had transferred to employees the Company's treasury stock which was bought back as an incentive for employees prior to share exchange, totaling 23,764 thousand shares in the amount of \$332,067 thousand. The total transfer price was \$315,246 thousand, and the difference of \$16,821 thousand was accounted for as capital surplus - treasury stock transaction.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the half-year ended June 30, 2003

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

Fuhwa Bank had transferred to employees the Company's treasury stock which was bought back as an incentive for employees prior to share exchange, totaling 27,155 thousand shares in the amount of \$212,088 thousand. The total transfer price was \$226,755 thousand and the difference of \$14,667 thousand was accounted for as capital surplus - treasury stock transaction.

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.

In accordance with the Securities and Exchange Law, a company's repurchase of its own shares cannot exceed 10% of its total issued outstanding shares, and the total amount of the repurchase cannot exceed the retained earnings plus paid-in capital in excess of par value and realized capital surplus. Based on the Company's financial statements as of March 31, 2004 and 2003, the maximum number of shares that the Company could repurchase was 289,445 thousand shares and 282,683 thousand shares, respectively, and the maximum amount of the Company's repurchase was \$12,307,618 thousand and \$10,783,192 thousand, respectively. For the half-years ended June 30, 2004 and 2003, the maximum number of shares the Company had repurchased were 113,349 thousand shares and 123,775 thousand shares, respectively, and the maximum amount of repurchase was \$1,298,073 thousand and \$1,342,260 thousand, respectively, which complied with the Securities and Exchange Law.

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

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In 2002, the shares of the subsidiaries were converted to shares of the Company in accordance with the Financial Holding Company Act. As a result, due to the cross-investment between the subsidiaries, the subsidiaries held the Company's shares as equity investments totaling to 164,159 thousand shares and 293,810 thousand shares, and the market price was \$2,292,033 thousand and \$3,006,372 thousand for the half-years ended June 30, 2004 and 2003, respectively.

As of June 30, 2004 and 2003, the details of the shares of the Company held by the subsidiaries due to the above paragraph were as follows (expressed in thousands of shares and thousands of New Taiwan dollars) :

		For the half-year ended June 30, 2004	
Subsidiary	Reason for holding the Company's shares	Shares	Amounts
Fuhwa Securities Finance	Stock conversion of Fuhwa Securities	120,913	\$ 1,535,617
Fuhwa Securities Finance	Stock conversion of Fuhwa Bank	25,849	171,349
Fuhwa Securities Finance	Stock conversion of Fuhwa Securities Finance	10,096	158,619
Fuhwa Futures	Stock conversion of Fuhwa Securities Finance	<u>7,301</u>	<u>97,244</u>
		<u>164,159</u>	<u>\$ 1,962,829</u>

In January 2004, Fuhwa Finance Securities issued the exchangeable bonds which grant the bondholders the right to exchange the bonds into common shares of the Company.

As of June 30, 2004, the bondholders exercised the right to exchange the bonds into 133,239 thousand shares of the Company, totaling \$1,550,910 thousand. Moreover, Fuhwa Futures disposed of 200 thousand shares of the Company for the half-year ended June 30, 2004. As a result, due to the aforementioned transactions, Fuhwa Securities Finance and Fuhwa Futures recognized gains on disposal of short-term investments amounting to \$227,697 thousand and \$578 thousand, respectively. In accordance with the rules governing accounting principles for treasury stock, the Company debited investment income and credited capital surplus - treasury stock transactions totaling \$228,275 thousand.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the half-year ended June 30, 2003

Subsidiary	Reason for holding the Company's shares	Shares	Amounts
Fuhwa Securities Finance	Stock conversion of Fuhwa Securities	247,979	\$ 3,086,527
Fuhwa Securities Finance	Stock conversion of Fuhwa Bank	25,221	171,349
Fuhwa Securities	Stock conversion of Fuhwa Securities Finance	9,851	158,619
Fuhwa Futures	Stock conversion of Fuhwa Securities Finance	7,319	99,908
Fuhwa Lease	Stock conversion of Fuhwa Bank	3,440	33,252
		<u>293,810</u>	<u>\$ 3,549,655</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 half-years ended June 30, 2004 and 2003, the subsidiaries of the Company did not repurchase the Company's shares and held the Company's shares solely from the abovesaid situations and transferred to employees some of the Company's shares which were repurchased as an incentive for employees prior to share exchange. As of June 30, 2004 and 2003, total shares of the Company held by subsidiaries were 182,283 thousand shares and 335,769 thousand shares, respectively, and the market prices were \$2,544,854 thousand and \$3,435,611 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 cannot 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 to the amount equal to 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.

In accordance with the aforementioned regulations, certain amounts of shareholders' equity contra account of the Company, which should be retained as special reserve, will not be equal to the amounts of shareholders' equity contra accounts stated in the Company's financial statements. As of June 30, 2004 and 2003, the calculated amounts of subsidiaries' allowance for valuation loss on short-term investments accounted for under the related shareholders' equity contra account were \$15,759 thousand and \$545,227 thousand, respectively. Consequently, for the half-years ended June 30, 2004 and 2003, the amount decreased \$315,178 thousand and increased \$236,327 thousand, respectively. In addition, the aforementioned allowance for valuation loss on short-term investments was not accounted for in the Company's shareholders' equity contra account in the financial reports for the half-years ended June 30, 2004 and 2003. However, the shareholders' meetings on June 11,

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FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2004 and June 6, 2003 had resolved to provide special reserve amounting to \$301,026 thousand and \$29,911 thousand, respectively, from unappropriated earnings in accordance with the aforementioned regulations.

3) Capital surplus

The details of capital surplus were as follows:

	June 30, 2004	June 30, 2003
Paid-in capital in excess of par value	\$ 7,491,571,371	7,891,571,371
Treasury stock transaction	<u>830,625,489</u>	<u>483,519,441</u>
Total	<u>\$ 8,322,196,860</u>	<u>8,375,090,812</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 The 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 the Company resulting from undistributed earnings absorbed from subsidiaries was as follows:

	June 30, 2004	June 30, 2003
Prior to 1997	\$ 1,037,720	1,037,720
1998 and after	<u>716,545,417</u>	<u>716,545,417</u>
Total	<u>\$ 717,583,137</u>	<u>717,583,137</u>

4) Legal reserve

In accordance with 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.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 the 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 follow:

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.

Therefore, the Company will determine an appropriate dividend distribution policy for the current year based on the aforementioned principles. The appropriation of earnings is subject to the resolutions of directors and shareholders meetings.

7) Imputation credit account (ICA)

	June 30, 2004	June 30, 2003
Imputation credit account balance	\$ <u>489,964,840</u>	<u>348,839,427</u>

For the Company's distribution of 2003 retained earnings in 2004, the expected imputation tax credit ratio is 17.53%. When the Company distributed 2002 retained earnings in 2003, the actual imputation tax credit ratio was 17.74%.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(25) Financial Instruments

1) Derivative financial instruments

For the half-years ended June 30, 2004 and 2003, derivative financial instrument transactions were as follows:

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

(a) Stock warrants

As of June 30, 2004 and 2003, stock warrant liabilities recorded in the accompanying balance sheets were as follows:

	June 30, 2004			
	Issued or repurchased units	Issued or repurchased amount	Market value	Gain or (loss) on change in fair value
Stock warrants:				
Fuhwa 10	20,000,000	\$ 53,800,000	14,000,000	39,800,000
Fuhwa 11	24,000,000	64,320,000	14,400,000	49,920,000
Fuhwa 07	20,000,000	75,300,000	1,000,000	74,300,000
Fuhwa 08	24,000,000	82,560,000	7,200,000	75,360,000
Fuhwa 09	30,000,000	83,400,000	21,000,000	62,400,000
Fuhwa P1	8,500,000	40,460,000	67,575,000	(27,115,000)
Fuhwa P2	20,000,000	<u>82,600,000</u>	<u>11,000,000</u>	<u>71,600,000</u>
		<u>482,440,000</u>	<u>136,175,000</u>	346,265,000
Less: gain on change in fair value of call warrant liabilities at beginning of year				68,170,000
Add: revenue from issuing call warrant				165,620,174
Add: gain on nonexercise				<u>2,000,000</u>
Subtotal				<u>445,715,174</u>
Stock warrant liabilities for repurchase:				
Fuhwa 10	10,629,000	\$ 21,775,550	7,440,300	(14,335,250)
Fuhwa 11	13,919,000	21,296,880	8,351,400	(12,945,480)
Fuhwa 07	959,000	3,500,161	47,950	(3,452,211)
Fuhwa 08	922,000	537,535	276,600	(260,935)
Fuhwa 09	68,000	88,598	47,600	(40,998)

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	June 30, 2004			
	Issued or repurchased units	Issued or repurchased amount	Market value	Gain or (loss) on change in fair value
Fuhwa P1	1,707,000	\$ 23,069,208	13,570,650	(9,498,558)
Fuhwa P2	3,352,000	<u>6,816,572</u>	<u>1,843,600</u>	<u>(4,972,972)</u>
		<u>77,084,504</u>	<u>31,578,100</u>	(45,506,404)
Stock warrant liabilities, net			<u>\$ 104,596,900</u>	
Loss from trading stock warrant liabilities repurchased				(156,265,096)
Gain on issuance of stock warrants, net				<u>\$ 243,943,674</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 June 30, 2004
Fuhwa 10	\$ 2.69	33.48	9.255	0.70
Fuhwa 11	2.68	28.88	8.630	0.60
Fuhwa 07	3.77	29.15	7.040	0.05
Fuhwa 08	3.44	49.50	9.590	0.30
Fuhwa 09	2.78	28.05	6.734	0.70
Fuhwa P1	4.76	31.07	5.020	7.95
Fuhwa P2	4.13	47.40	7.657	0.55

Stock warrants	Variety	Maturity	Exercise period	Option for exercise
Fuhwa 10	American style	seven 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 11	American style	seven 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 09	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 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.
Fuhwa P2	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.

June 30, 2003

	Issued or repurchased units	Issued or repurchased amount	Market value	Gain or (loss) on change in fair value
Stock warrants:				
Fuhwa 03	35,000,000	\$ 201,950,000	19,250,000	182,700,000
Fuhwa 04	20,000,000	<u>194,800,000</u>	<u>39,000,000</u>	<u>155,800,000</u>
		<u>396,750,000</u>	<u>58,250,000</u>	338,500,000
Less: gain on change in fair value of call warrant liabilities at beginning of year				481,725,000
Add: revenue from issuing call warrant				262,575,000
Add: gain on nonexercise				675,000
Subtotal				<u>120,025,000</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	June 30, 2003			
	Issued or repurchased units	Issued or repurchased amount	Market value	Gain or (loss) on change in fair value
Stock warrant liabilities for repurchase:				
Fuhwa 03	12,308,000	\$ 15,570,307	6,769,400	(8,800,907)
Fuhwa 04	12,185,000	<u>22,399,669</u>	<u>23,760,750</u>	<u>1,361,081</u>
		<u>37,969,976</u>	<u>30,530,150</u>	(7,439,826)
Stock warrant liabilities, net			<u>\$ 27,719,850</u>	
Loss from trading warrant liabilities repurchased				(61,485,574)
Gain on issuance of stock warrants, net				<u>\$ 51,099,600</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 June 30, 2003
Fuhwa 03	\$ 5.77	24.86	3.92	0.55
Fuhwa 04	9.74	65.65	5.18	1.95
Stock warrants	Variety	Maturity	Exercise period	Option for exercise
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 half-years ended June 30, 2004 and 2003, the Consolidated Company's outstanding TAIEX index futures and options contracts were as follows:

				For the half-year ended June 30, 2004	
Item	Volume		Contract amount or royalty	Fair value	
FIGB index futures	Buys	1	\$ <u>5,612,000</u>	<u>5,612,500</u>	
FITX index futures	Sells	258	\$ <u>290,470,400</u>	<u>296,700,000</u>	
Put option	Buys	2	\$ <u>25,000</u>	<u>9,500</u>	
Call option	Sells	1,123	\$ (6,954,750)	(8,617,950)	
Put option	Sells	802	(4,949,050)	(2,226,200)	
			<u>\$ (11,903,800)</u>	<u>(10,844,150)</u>	

				For the half-year ended June 30, 2003	
Item	Volume		Contract amount or royalty	Fair value	
FITE index futures	Buys	49	\$ <u>40,954,600</u>	<u>41,013,000</u>	
FITF index futures	Buys	6	\$ <u>4,226,200</u>	<u>4,234,800</u>	
FITX index futures	Sells	257	\$ <u>252,355,600</u>	<u>251,089,000</u>	
Put option	Buys	41	\$ 83,800	46,600	
Call option	Buys	53	161,200	99,500	
			<u>\$ 245,000</u>	<u>146,100</u>	
Put option	Sells	57	\$ <u>546,675</u>	<u>584,475</u>	

- a) The maturity dates of the above outstanding TAIEX index futures and options contracts are from July to September in year 2003 and from July to September in the year 2004, 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.

(Continued)

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

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.

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.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 \$29,622,815 and \$79,003,846 as of June 30, 2004 and 2003, respectively.

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

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Futures contracts:		
Futures contract gain - realized	\$ 174,311,350	46,538,650
Futures contract gain - unrealized	500	740,400
Subtotal	<u>174,311,850</u>	<u>47,279,050</u>
Futures contract loss - realized	\$ (161,545,600)	(96,215,050)
Futures contract loss - unrealized	(6,229,600)	(593,200)
Total	<u><u>\$ (167,775,200)</u></u>	<u><u>(96,808,250)</u></u>
Option transactions:		
Option transactions gain - realized	\$ 112,611,470	9,573,970
Option transactions loss - unrealized	1,044,150	-
Total	<u><u>\$ 113,655,620</u></u>	<u><u>9,573,970</u></u>
Option transactions gain - realized	\$ (80,893,655)	(15,984,390)
Option transactions gain - unrealized	-	(136,650)
Total	<u><u>\$ (80,893,655)</u></u>	<u><u>(16,121,040)</u></u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Forward exchange contract, currency swap contract, currency option contract, asset swap option 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

		June 30, 2004	
	Notional amount	Fair value Gain	Loss
Trading purposes:			
Forward exchange contract	\$ 5,158,571,874	34,428,710	50,929,281
Nondelivery forward exchange contract	199,500,000	1,425,010	1,725,000
Currency swap contract	14,158,274,545	35,581,937	117,591,187
Currency option contract	9,863,674,545	141,866,091	125,520,035
Cross currency swap contract	1,789,846,800	20,850,000	-
Convertible bond asset swap - short option	26,000,000	-	4,134,000
Total	<u><u>\$31,195,867,764</u></u>	<u><u>234,151,748</u></u>	<u><u>299,899,503</u></u>
Nontrading purposes:			
Interest rate swap contract	<u><u>\$ 4,550,000,000</u></u>	<u><u>-</u></u>	<u><u>91,148,037</u></u>
		June 30, 2003	
	Notional amount	Fair value Gain	Loss
Trading purposes:			
Forward exchange contract	\$ 2,000,239,000	14,259,142	2,027,884
Nondelivery forward exchange contract	900,285,000	1,387,959	383,000
Currency swap contract	4,017,439,281	57,492,338	15,164,286
Currency option contract	<u>1,424,308,000</u>	<u>8,882,088</u>	<u>7,423,216</u>
Total	<u><u>\$ 8,342,271,281</u></u>	<u><u>82,021,527</u></u>	<u><u>24,998,386</u></u>
Nontrading purposes:			
Interest rate swap contract	<u><u>\$ 3,100,000,000</u></u>	<u><u>98,833,500</u></u>	<u><u>-</u></u>

(Continued)

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

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

The Consolidated Company enters into interest rate swap contracts for nontrading purposes to avoid cash flow risks from issuing financial debentures with floating interest rates.

The fair value is the amount expected to be received or paid if the due date were June 30, 2004 or 2003. The valuation generally contains unrealized gain or loss on outstanding contracts. The Consolidated Company referred to the quotations from financial institutes in evaluation of derivative financial instruments.

(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 the Company entered into derivative financial instrument contracts are banks 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. Interest rate swaps in which the Company engages in have a hedging characteristic, with gains or losses resulting from changes in interest rates offset by gains or losses on the hedge items. Fuhwa Bank maintains all its foreign currency positions within prescribed limits in order to manage market risk.

(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, the Company 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.

(Continued)

FUHWА FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3. Convertible corporate bonds - asset swaps

- (a) As of June 30, 2004 and 2003, the Consolidated Company had entered into convertible corporate bonds - asset swap options contracts as follows:

	June 30, 2004	
	Option cost	Market value
Buy call options	\$ <u>151,139,762</u>	<u>135,059,958</u>
Sell call options	\$ <u>132,987,050</u>	<u>118,802,007</u>

	June 30, 2003	
	Option cost	Market value
Buy call options	\$ <u>18,393,476</u>	<u>51,825,793</u>
Sell call options	\$ <u>11,051,250</u>	<u>51,041,138</u>

- (b) The values of outstanding IRS contract - asset swaps were as follows:

June 30, 2004					
Counter-party	Trading item	Notional principal	Payment date	Due date	Feature
B Commercial Bank	Paying and receiving fixed rate	12,000,000	Quarterly	94.05.18	Trading
B Commercial Bank	Paying and receiving fixed rate	150,000,000	Quarterly	94.05.30	Trading
B Commercial Bank	Paying and receiving fixed rate	150,000,000	Quarterly	94.05.30	Trading
B Commercial Bank	Paying and receiving fixed rate	45,000,000	Quarterly	94.07.31	Trading
B Commercial Bank	Paying and receiving fixed rate	140,000,000	Quarterly	95.04.06	Trading
C Commercial Bank	Paying and receiving fixed rate	10,000,000	Quarterly	94.05.30	Trading
C Commercial Bank	Paying and receiving fixed rate	20,000,000	Quarterly	93.09.06	Trading
C Commercial Bank	Paying and receiving fixed rate	18,000,000	Quarterly	94.03.02	Trading
C Commercial Bank	Paying and receiving fixed rate	12,000,000	Quarterly	94.03.10	Trading
C Commercial Bank	Paying and receiving fixed rate	5,000,000	Quarterly	96.02.23	Trading
E Corporation Ltd.	Paying and receiving fixed rate	50,000,000	Quarterly	95.01.11	Trading

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2004					
Counter party	Trading item	Notional principal	Payment date	Due date	Feature
E Corporation Ltd.	Paying and receiving fixed rate	50,000,000	Quarterly	94.01.29	Trading
F Corporation Ltd.	Paying and receiving fixed rate	10,000,000	Quarterly	94.03.10	Trading
F Corporation Ltd.	Paying and receiving fixed rate	20,000,000	Quarterly	96.02.23	Trading
G Corporation Ltd.	Paying and receiving fixed rate	10,000,000	Quarterly	96.02.23	Trading
H Commercial Bank	Paying and receiving fixed rate	15,000,000	Quarterly	96.02.23	Trading
I Corporation Ltd.	Paying and receiving fixed rate	10,000,000	Quarterly	96.02.23	Trading

June 30, 2003					
Counter-party	Trading item	Notional principal	Payment date	Due date	Feature
B Commercial Bank	Paying and receiving fixed rate	144,500,000	Quarterly	94.05.18	Trading
B Commercial Bank	Paying and receiving fixed rate	150,000,000	Quarterly	94.05.30	Trading
B Commercial Bank	Paying and receiving fixed rate	150,000,000	Quarterly	94.05.30	Trading
C Corporation Ltd.	Paying and receiving fixed rate	20,000,000	Quarterly	94.05.30	Trading
D Corporation Ltd.	Paying and receiving fixed rate	20,000,000	Quarterly	94.08.15	Trading

(c) Transaction risk

a) Credit risk

The Consolidated Company engaged in convertible bond asset swaps and options. As of June 30, 2004, and 2003, unexercised swap contracts amounted to \$727,000,000 and \$484,500,000, respectively. The option contracts outstanding on June 30, 2004, and 2003, amounted to \$569,000,000 and \$467,500,000. The counterparties are mostly reputable financial institutions with good credit rating. Therefore, there is no significant credit risk for transactions.

(Continued)

FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Market risk

The Consolidated Company engages in convertible bond asset swaps. On the settlement date, the Consolidated Company 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) As of June 30, 2004, the unsettled structured notes were as follows:

Item	Principal	June 30, 2004		Book value of embedded equity derivative	Fair value of embedded equity derivative
		Book value of fixed-income instrument	Fair value of fixed-income instrument		
Equity-linked notes	<u>\$ 40,000,000.00</u>	<u>39,847,538</u>	<u>39,847,538</u>	<u>6,811,967</u>	<u>6,863,576</u>
Principal guaranteed notes	<u>\$174,000,000.00</u>	<u>165,702,961</u>	<u>165,702,961</u>	<u>8,946,411</u>	<u>3,361,551</u>

There was no such transaction for the half-year ended June 30, 2003.

(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 Consolidated 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 Consolidated 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 Consolidated 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 June 30, 2004 and 2003, the Consolidated Company had entered into interest rate swaps and convertible bond asset swaps and structured notes expressed on the balance sheets as follows:

	June 30, 2004	
	Derivative financial instruments - assets, OTC	Derivative financial instruments - liabilities, OTC
Asset swaps options	\$ 135,059,958	118,802,007
IRS asset swaps	5,883,409	14,907,191
Equity-linked notes - fixed-income investment	-	39,847,538
Equity-linked notes - embedded equity derivative	6,863,576	-
Principal guaranteed notes - fixed-income investment	-	165,702,961
Principal guaranteed notes - embedded equity derivative	-	3,361,551
Total	<u>\$ 147,806,943</u>	<u>342,621,248</u>
	June 30, 2003	
	Derivative financial instruments - assets, OTC	Derivative financial instruments - liabilities, OTC
IRS contact value - asset swaps	\$ 755,658	-
Asset swaps options	<u>51,825,793</u>	<u>51,041,138</u>
Total	<u>\$ 52,581,451</u>	<u>51,041,138</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the half-years ended June 30, 2004 and 2003, the Consolidated Company entered into convertible bond asset swaps and structured notes expressed on the statements of income as follows:

	For the half-year ended June 30, 2004		
	Gains on derivative financial instruments - OTC	Losses on derivative financial instruments - OTC	Unrealized gains (losses)
Asset swap options	\$ 13,132	-	13,132
IRS asset swaps	814,930	8,198,810	(7,383,880)
Equity-linked notes	6,400,973	246,835	6,154,138
Principal guaranteed notes	6,383,616	1,107,735	5,275,881
Total	<u>\$ 13,612,651</u>	<u>9,553,380</u>	<u>4,059,271</u>

	For the half-year ended June 30, 2003		
	Gains on derivative financial instruments - OTC	Losses on derivative financial instruments - OTC	Unrealized gains (losses)
IRS asset swaps	\$ 1,520,396	764,738	755,658
Asset swap options	51,825,793	39,989,888	11,835,905
Total	<u>\$ 53,346,189</u>	<u>40,754,626</u>	<u>12,591,563</u>

5. Credit-linked notes

- (a) As of June 30, 2004 and 2003, the Consolidated Company engaged in credit-linked notes as follows:

	June 30, 2004		June 30, 2003	
	Book value	Fair value	Book value	Fair value
Credit-linked notes	<u>\$ 880,324,155</u>	<u>840,408,914</u>	<u>49,698,619</u>	<u>49,698,619</u>

(Continued)

FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Transaction risks

a) Credit risk

Credit risk is the risk that the counterparty will default on its obligation. The Consolidated Company engaged in credit-linked notes and the counterparties are mostly reputable banks and companies with good credit ratings. Therefore, there is no significant credit risk.

b) Market risk

In order to evade market risk, the Consolidated Company follows related regulations to choose investment products with less fluctuation in market price.

c) Liquidity risk and cash flow risk

The Consolidated Company has paid the full price for credit-linked notes. As a result, there is no funding risk and significant extra cash requirement. The Consolidated Company will generally hold the notes to maturity although the notes can be redeemed at any time with a reasonable market price.

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.

2) Fair value of nonderivative financial instruments

1. 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 and placement to other banks, 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 for short-term investments 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 bonds are determined by the value on the balance sheet date. The market prices of credit-linked notes are determined by the quotations of banks or issuing house on the balance sheet date.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (c) If trading securities and funds have a market value, that will be their fair 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 nonlisted 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.
2. As of June 30, 2004, and 2003, the related information of nonderivative financial instruments was as follows, not including the nonderivative financial instruments with book value as their estimated fair value: (expressed in thousands of New Taiwan dollars):

	June 30, 2004		June 30, 2003	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Short-term investments	\$ 31,537,917	31,652,816	27,428,387	27,860,380
Trading securities	12,873,468	12,873,643	12,352,749	12,365,823
Long-term investments	5,321,896	6,371,427	4,530,541	6,049,477
Refundable deposits	1,608,113	1,620,964	1,655,487	1,723,812
Financial liabilities:				
Subordinate financial debentures	3,534,000	3,534,000	3,534,000	3,534,000
Corporate bonds payable	2,900,000	2,899,951	-	-
Other long-term liabilities	399,359	399,359	399,302	399,302

3. Market risk

Short-term investments and trading securities are investments in common stock of listed companies, open-end funds corporate bonds, convertible bond, 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 investment management companies and investment trust companies with high credit ratings.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3) Information on significant concentration of credit risk

Concentration of credit risk exists as there is only one party on transaction of financial instruments, or a number of counterparties engaging in similar activities are located in the same region or share other similar economic characteristics that would induce their ability to meet obligations to be similarly attested by changes in economic or other conditions. The concentration of credit risk for the Consolidated Company is not significant.

(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. (Sheng-Hwa Securities Investment trust)	Affiliated company controlled by the same company
Taiwan Bank Co., Ltd. (Taiwan Bank)	Major shareholder of the Consolidated Company
Singfor Life Co., Ltd. (Singfor Life)	Affiliated company controlled by the same company
Fuhwa Venture Capital Co., Ltd. (Fuhwa Venture Capital)	Consolidated Company subsidiary
Fuhwa Asset Management Co., Ltd. (Fuhwa Asset Management)	Consolidated Company subsidiary
Fuhwa Finance Consulting Co., Ltd. (Fuhwa Finance Consulting)	Consolidated Company subsidiary
Fuhwa Life Insurance Agent Co., Ltd. (Fuhwa Life Insurance Agent)	Consolidated Company subsidiary
Fuhwa Property 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. (Fuhwa Lease)	Consolidated Company subsidiary
Fuhwa Investment Management Co., Ltd. (Fuhwa Investment Management)	Consolidated Company subsidiary
Fuhwa Fund	Security investment trust fund raised by the Consolidated Company
Fuhwa II Fund	Security investment trust fund raised by the Consolidated Company
Fuhwa Bond Fund	Security investment trust fund raised by the Consolidated Company
Fuhwa New Balance Fund	Security investment trust fund raised by the Consolidated Company

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name	Relationship
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
Fuhwa Advantage Bond Fund	Security investment trust fund raised by the Consolidated Company
Fuhwa Diamond Fund	Security investment trust fund raised by the Consolidated Company
Others (each related party's deposits and loans are not over 1% of total deposits and loans)	The affiliated companies and their directors, supervisors, and managers and their relatives

2) Significant transactions between related parties

1. Deposits

	June 30, 2004		
Name	Balance	Percentage of deposits (%)	Interest rate (%)
Each related party's deposits are not over 1% of total deposits	\$ <u>206,634,139</u>	<u>0.11</u>	0 13.00

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

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

For the half-years ended June 30, 2004 and 2003, interest expenses paid on the abovementioned deposits totaled \$4,782,134 and \$3,865,819, respectively.

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FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Loans

June 30, 2004			
Name	Balance	Percentage of loans (%)	Interest rate (%)
Each related party's loans are not over 1% of total deposits	\$ <u>82,522,316</u>	<u>0.05</u>	1.25 ~ 5.90
June 30, 2003			
Name	Balance	Percentage of loans (%)	Interest rate (%)
Each related party's loans are not over 1% of total deposits	\$ <u>97,950,709</u>	<u>0.07</u>	1.35 ~ 5.90

For the half-years ended June 30, 2004 and 2003, the interest rate received on loans to the Consolidated Company's affiliates was 1.25%~2.35% and 1.35%~1.70%, respectively; the interest rate received on loans to the Consolidated Company's employees was 2.30%~5.75% and 3.07%~5.90%, respectively. Loans to other related parties are the same as those offered to other customers.

For the half-years ended June 30, 2004 and 2003, interest received on the abovementioned loans totaled \$1,218,448 and \$4,210,583, respectively.

3. Property transactions

- (a) The Consolidated Company invested in open-end funds raised by Sheng-Hwa Securities Investment Trust and Fuhwa Securities Investment Trust as follows:

For the half-year ended June 30, 2004			
Name	Investment amount	Ending balance amount	Gains (losses) on disposal
Sheng-Hwa Securities Investment Trust	\$ 1,220,000,000	300,000,000	1,947,464
Fuhwa Securities Investment Trust	<u>2,018,600,000</u>	<u>1,366,600,000</u>	<u>28,706,151</u>
	<u>\$ 3,238,600,000</u>	<u>1,666,600,000</u>	<u>30,653,615</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the half-year ended June 30, 2003

Name	Investment amount	Ending balance amount	Gains (losses) on disposal
Sheng-Hwa Securities Investment Trust	\$ 150,000,000	153,295,471	3,147,507
Fuhwa Securities Investment Trust	<u>365,000,000</u>	<u>1,175,648,525</u>	<u>(1,911,822)</u>
	<u>\$ 515,000,000</u>	<u>1,328,943,996</u>	<u>1,235,685</u>

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

For the half-year ended June 30, 2004

	Investment amount	Ending balance
Fuhwa Venture Capital	\$ 9,000,000	18,034,092
Fuhwa Finance Consulting	-	35,000,000
Fuhwa Investment Management	-	11,177,879
Fuhwa Property Insurance Agency	-	4,044,503
Fuhwa Life Insurance Agent	-	7,015,902
Fuhwa I Venture Capital	202,829,820	84,769,657
Taiwan Bank	-	100,000,000
Singfor Life	80,000,000	80,000,000
Fuhwa Assets Management	<u>300,000,000</u>	<u>300,000,000</u>
Total	<u>\$ 591,829,820</u>	<u>640,042,033</u>

For the half-year ended June 30, 2003

	Investment amount	Ending balance
Fuhwa Lease	\$ 11,000,000	16,000,000
Fuhwa Venture Capital	-	25,000,000
Fuhwa Property Insurance Agency	-	3,960,404
Fuhwa Life Insurance Agent	-	10,068,272
Fuhwa I Venture Capital	233,000,000	233,000,000
Taiwan Bank	-	100,000,000
Total	<u>\$ 244,000,000</u>	<u>388,028,676</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (c) In the year 2003, the Consolidated Company signed a contract with 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 June 30, 2004, the Consolidated Company had paid the full price of \$1,581,919,668, recorded as equipment and property and nonoperating assets.
- (d) The Consolidated Company entered into contracts with Fuhwa Asset Management to sell nonperforming loans for a price of \$776,021,066. However, the Consolidated Company collected part of the nonperforming loan before the settlement date on December 22, 2003. As a result, the contract price was reduced by \$225,903 to a total of \$775,795,163. As of June 30, 2004, proceeds retained from the abovementioned transaction amounted to \$226,021,066, and the remaining part, amounting to \$549,774,097, was recorded as other receivables.

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 as other operating revenue, as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Fund	\$ 4,726,601	5,138,406
Fuhwa Bond Fund	72,841,719	69,928,824
Fuhwa II Fund	6,041,234	5,499,605
Fuhwa New Balance Fund	18,990,861	11,082,401
Fuhwa System Fund of Funds	2,562,642	-
Fuhwa Classical Fund	53,919,213	-
Fuhwa Advantage Bond Fund	21,167,456	-
Fuhwa Diamond Fund	10,624,864	-
Total	<u>\$ 190,874,590</u>	<u>91,649,236</u>

(Continued)

FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	June 30, 2004	June 30, 2003
Fuhwa Fund	\$ 703,175	816,288
Fuhwa Bond Fund	11,987,445	11,925,784
Fuhwa II Fund	877,134	882,037
Fuhwa New Balance Fund	2,798,625	2,974,287
Fuhwa System Fund of Funds	254,175	-
Fuhwa Classical Fund	6,598,029	-
Fuhwa Advantage Bond Fund	5,628,805	-
Fuhwa Diamond Fund	<u>6,893,332</u>	<u>-</u>
Total	<u>\$ 35,740,720</u>	<u>16,598,396</u>

5. Commission revenue

For the half-year ended June 30, 2004, the Consolidated Company received commission revenue resulting from promoting insurance business on behalf of Fuhwa Life Insurance Agent totaling \$66,779,483.

6. For the half-year ended June 30, 2004 and 2003, the Consolidated Company was engaged in bond repurchase transactions with securities investment trust funds raised by affiliates. The details of such transactions were as follows:

	For the half-year ended June 30, 2004			
	Highest amount	Ending balance	Interest rate (%)	Interest expense
Fuhwa Bank:				
Fuhwa Bond Fund	\$ 1,469,292,205	100,067,407	0.900~1.300	3,820,706
Fuhwa New Balance Fund	329,716,921	-	0.625~1.000	541,970
Fuhwa Advantage Bond Fund	700,198,822	-	0.675~0.825	620,098
Fuhwa II Fund	1,000,000,000	50,014,658	0.625~0.825	28,449
Fuhwa Fund	40,001,507	-	0.625~0.700	3,247
Fuhwa Diamond Fund	300,110,959	-	0.650~0.675	121,648
Sheng-Hwa 1699 Fund	285,875,403	2,569,746	0.635~0.900	216,059
Sheng-Hwa 5599 Fund	80,082,728	<u>50,009,247</u>	0.65~0.75	<u>114,002</u>
		<u>202,661,058</u>		<u>5,466,179</u>
Fuhwa Securities Finance:				
Fuhwa Bond Fund	394,305,031	284,568,561	0.625~0.9	899,211
Fuhwa II Fund	20,000,959	-	0.65~0.875	3,116
Fuhwa Classical Fund	10,000,240	<u>-</u>	0.875	<u>239</u>
		<u>284,568,561</u>		<u>902,566</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the half-year ended June 30, 2004				
	Highest amount	Ending balance	Interest rate (%)	Interest expense
Fuhwa Securities:				
Fuhwa Bond Fund	\$ 4,527,245,072	3,312,336,661	0.625~2.0	19,530,309
Fuhwa Advantage Bond Fund	1,320,802,897	1,320,802,897	0.675~1.35	2,475,244
Fuhwa New Balance Fund	275,154,252	216,095,909	2.0~2.5	2,897,744
Fuhwa Classical Fund	410,537,010	-	0.625~2.0	1,359,746
Fuhwa Diamond Fund	309,231,677	279,303,152	0.7~0.75	101,713
Sheng-Hwa 5599 fund	300,020,342	-	0.8~0.85	50,200
Sheng-Hwa 1699 Fund	101,897,361	-	0.775~0.85	54,289
		<u>5,128,538,619</u>		<u>26,469,245</u>
		<u>\$5,615,768,238</u>		<u>32,837,990</u>
For the half-year ended June 30, 2003				
	Highest amount	Ending balance	Interest rate (%)	Interest expense
Fuhwa Bank:				
Fuhwa Bond Fund	\$ 451,688,152	299,632,568	0.90~0.950	152,978
Sheng-Hwa 1699 Fund	493,369,650	290,403,873	0.90~0.975	278,219
Sheng-Hwa 5599 Fund	119,936,381	-	0.95~0.975	41,013
		<u>590,036,441</u>		<u>472,210</u>
Fuhwa Securities Finance:				
Fuhwa Bond Fund	370,300,713	213,028,953	0.8~1.10	710,244
Fuhwa II Fund	30,003,719	-	0.925	3,801
Fuhwa New Balance Fund	134,066,389	<u>134,066,389</u>	0.9~0.975	<u>79,148</u>
		<u>347,095,342</u>		<u>793,193</u>
Fuhwa Securities:				
Fuhwa Bond Fund	3,008,973,074	2,271,222,991	0.8~2.5	19,538,121
Fuhwa New Balance Fund	1,363,922,863	924,322,604	0.88~3.0	6,938,727
Sheng-Hwa 1699 Fund	341,109,009	30,025,568	0.8~1.25	579,714
Sheng-Hwa 5599 Fund	176,031,148	-	0.8~1.3	267,347
		<u>3,225,571,163</u>		<u>27,323,909</u>
		<u>\$4,162,702,946</u>		<u>28,589,312</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

7. Rent expenses

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

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
KMT	\$ -	6,530,238
Fuhwa Asset Management	<u>12,569,589</u>	<u>-</u>
	<u>\$ 12,569,589</u>	<u>6,530,238</u>

8. Service charges

The Consolidated Company signed a contract with Fuhwa Finance Consulting for investment consulting services and paid each month. For the half-year ended June 30, 2004, expenses paid for the abovementioned service totaled \$1,791,281.

9. Information regarding affiliates acting as borrowers, guarantors, and collateral providers of the Consolidated Company were as follows (expressed in thousands of New Taiwan dollars):

Type	June 30, 2004		Default possibility
	Number of accounts	Amount	
Consumer loans	38	\$ 74,041	No
Mortgage loans for employees	546	592,726	No
Other loans to interested party	204	2,778,772	No
Loans to others with interested parties acted as guarantors	304	314,889	No
Secured loans with collateral from interested parties	193	465,537	No
Type	June 30, 2003		Default possibility
	Number of accounts	Amount	
Consumer loans	65	\$ 118,815	No
Mortgage loans for employees	584	638,399	No
Other loans to interested party	192	1,100,009	No
Loans to others with interested parties acted as guarantors	298	241,191	No
Secured loans with collateral from interested parties	163	365,665	No

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(27) Pledged Assets

Pledged assets	Pledged for	Book Value	
		June 30, 2004	June 30, 2003
516,100 thousand shares of Fuhwa Securities (the shares issued by such subsidiary originally were recorded as long-term investments - equity method, and have been eliminated in the consolidated financial statements)	Short-term borrowings	\$ -	5,904,654,899
306,100 thousand shares of Fuhwa Securities (the shares issued by such subsidiary originally were recorded as long-term investments - equity method, and have been eliminated in the consolidated financial statements)	Short-term borrowings	3,843,547,843	-
94,000 thousand shares of Fuhwa Securities (the shares issued by such subsidiary originally were recorded as long-term investments - equity method, and have been eliminated in the consolidated financial statements)	Short-term borrowings	1,360,908,411	-
44,000 thousand shares of Fuhwa Securities Finance (the shares issued by such subsidiaries originally were recorded as long-term investments - equity method, and have been eliminated in the consolidated financial statements)	Short-term borrowings	-	555,222,170

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pledged assets	Pledged for	Book Value	
		June 30, 2004	June 30, 2003
595,000 thousand shares of Fuhwa Securities Finance (the shares issued by such subsidiaries originally were recorded as long-term investments - equity method, and have been eliminated in the consolidated financial statements)	Bonds	\$ 8,614,260,689	-
Common stock (recorded as long-term equity investments - cost method)	Credit lines of borrowings and overdrafts	-	337,591,000
Beneficiary certificates (recorded as short-term investments)	Credit lines of borrowings and overdrafts	831,500,000	47,500,000
Bonds purchased under agreements to resell	Liabilities for bonds sold under agreements to repurchase	-	3,203,112,315
Negotiable certificates of deposit (recorded as other receivables and the balance as of June 30, 2004 has been eliminated in the consolidated financial statements, due its nature of related-party transactions)	Stock borrowings	200,000,000	160,000,000
Restricted time deposits (recorded as other financial assets - current)	Short-term borrowings, long-term notes payable, credit lines of overdrafts and guarantees for lawsuits	886,958,219	871,800,000
Restricted time deposits (recorded as other financial assets - current)	Guarantees for lawsuits	-	11,730,425
Government bonds (recorded as trading securities)	Liabilities for bills and bonds sold under agreements to repurchase	930,833,306	1,458,330,117

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pledged assets	Pledged for	Book Value	
		June 30, 2004	June 30, 2003
Short-term bills (recorded as trading securities)	Liabilities for bonds sold under agreements to repurchase	\$ 11,471,570,081	6,644,036,854
Trading securities - dealing (recorded as trading securities)	Liabilities for bonds sold under agreement to repurchase	70,327,131	8,786,437,606
Land and buildings (recorded as property and equipment and nonoperating assets)	Credit lines of short-term mortgage loans	2,659,808,344	2,370,592,088
Time deposits (recorded as operating guarantee deposits)	Operating guarantee deposits	1,065,000,000	940,000,000
Negotiable certificates of deposit (recorded as refundable deposits)	Provisional seizure	10,000,000	30,000,000
Government bonds (recorded as refundable deposits)	Provisional seizure	76,663,915	42,856,655
Government bonds (recorded as refundable deposits)	Petition to the National Tax Administration for second review of tax return	2,169,693	-
Government bonds (recorded as refundable deposits)	Operating guarantee deposits for bills and bands - proprietary	84,738,174	75,179,835
Government bonds (recorded as refundable deposits)	Trust custodian	57,974,216	59,326,526
Government bonds (recorded as refundable deposits)	Consumer loan reserves deposited in National Credit Card Center of ROC	44,130,284	11,908,652
Government bonds (recorded as refundable deposits)	Guarantees for provisional seizure	71,754,423	117,658,059
Time deposits (related-party transactions, which have been eliminated in the consolidated financial statements)	Discretionary account investment consigned by clients	59,500,000	52,500,000
Total		<u>\$ 32,341,644,729</u>	<u>31,680,437,201</u>

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(28) Commitments and Contingencies

1) Significant purchase agreements

As of June 30, 2004 and 2003, the Consolidated Company had significant purchase agreements for purchasing assets amounting to \$421,718,093 and \$1,339,792,172, respectively. The unpaid amounts of those agreements were \$239,685,099 and \$1,122,302,837, respectively.

2) Stocks entrusted to custody

As of June 30, 2004 and 2003, the stocks entrusted to the custody of Fuhwa Securities Finance by clients totaled 7,498,000 shares. The market value of these entrusted stocks as of June 30, 2004 and 2003, was approximately \$75,098,890 and \$74,325,310, respectively.

3) Litigation

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

4) Proxy settlement

1. 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.

5) Operating leases

The Consolidated Company has entered into several operating lease agreements that have terms ranging from one to five years. As of June 30, 2004, future leasing commitments were as follows:

Period	Amount
July 1 ~ December 31, 2004	\$ 155,362,748
Year 2005	258,739,788
Year 2006	183,874,697
Year 2007	137,881,147
Year 2008 and after	<u>72,526,029</u>
Total	<u><u>\$ 808,384,409</u></u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

6) Agreements on purchase of operating rights

In February 2004, the Consolidated Company signed contracts with Litton Securities Co., Ltd. for purchase of their operating rights and partial assets as to establish branches of Fuhwa Securities. As of June 30, 2004, aside from the third and fourth payments stated in the purchase contracts which are payable when the market shares of the specified four branches reaches 0.3%, the payments for the purchase of operating rights and partial assets were as follows:

Name	June 30, 2004	
	Contract Amount	Amount Paid
Litton Securities Co., Ltd.	\$ <u>150,000,000</u>	<u>100,000,000</u>

7) Others

	June 30, 2004	June 30, 2003
Consignment collection for others	\$ 18,144,353,817	15,427,112,198
Traveler's checks held on consignment for sale	218,981,871	233,823,135
Consignment securities, custodial goods and others	57,464,080,313	4,434,999,562
Trust assets	<u>25,102,920,646</u>	<u>20,761,619,814</u>
	\$ <u>100,930,336,647</u>	<u>40,857,554,709</u>
Unused lines of credit	\$ <u>109,639,793,628</u>	<u>101,787,148,341</u>
Credit commitment on credit cards	\$ <u>37,434,068,000</u>	<u>20,879,898,000</u>
Other guarantees	\$ <u>11,500,944,291</u>	<u>6,628,011,316</u>
Unused L/C balance	\$ <u>2,937,631,598</u>	<u>2,202,062,935</u>
Securities sold under repurchase agreements	\$ <u>11,849,185,744</u>	<u>6,813,344,719</u>
Securities purchased under resell agreements	\$ <u>199,588,490</u>	<u>598,439,776</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 8) 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
June 30, 2004

Trust assets		Trust liabilities	
Bank deposits	\$ 59,154,598	Trust capital - pecuniary trust	24,608,915,402
Short-term investments	24,971,550,048	Trust capital - securities trust	383,204,700
Real estate	72,216,000	Trust capital - real estate trust	110,800,544
Total trust assets	<u><u>\$ 25,102,920,646</u></u>	Total trust liabilities	<u><u>\$ 25,102,920,646</u></u>

Trust Balance Sheet
June 30, 2003

Trust assets		Trust liabilities	
Short-term investment	<u><u>\$ 20,761,619,814</u></u>	Trust capital - pecuniary trust	<u><u>20,761,619,814</u></u>

Trust Assets List
June 30, 2004

Invested items	Book value
Short-term investments:	
Bonds	\$ 6,978,338,705
Common stock	516,792,079
Fund	17,476,419,264
Others	<u>59,154,598</u>
	25,030,704,646
Real estate:	
Land	<u>72,216,000</u>
	<u><u>\$ 25,102,920,646</u></u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Trust Assets List
June 30, 2003

	Invested items	Book value
Short-term investments:		
Bonds		\$ 2,210,221,265
Fund		<u>18,551,398,549</u>
		<u>\$ 20,761,619,814</u>

(29) Others

1) Employment, depreciation and amortization expenses

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

Function Accounts	For the half-year ended June 30, 2004			For the half-year ended June 30, 2003		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Employment expenses:						
Salary	-	2,089,953,513	2,089,953,513	-	1,251,862,037	1,251,862,037
Insurance	-	105,274,641	105,274,641	-	83,719,330	83,719,330
Pension	-	78,215,338	78,215,338	-	54,877,789	54,877,789
Others	-	62,060,575	62,060,575	-	45,445,043	45,445,043
Depreciation (note 1)	-	196,600,576	196,600,576	-	170,903,404	170,903,404
Depletion	-	-	-	-	-	-
Amortization (note 2)	-	91,622,939	91,622,939	-	58,493,842	58,493,842

Note 1: For the half-years ended June 30, 2004 and 2003, depreciation expenses - leased assets were \$5,745,061 and \$4,870,793, respectively, recorded as miscellaneous expenses.

Note 2: For the half year ended June 30, 2004, amortization expenses - issuance costs for corporate bonds and exchangeable bonds were \$8,735,205 and \$11,715,233, respectively, recorded as miscellaneous expenses.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 2) Net cash equivalents provided by the acquisition of the Credit Cooperative of Taidung were as follows:

Due from Central Bank	\$	55,879,000
Accounts receivable		6,872,523
Loans and advances to customers, net		1,369,375,688
Long-term equity investments under cost method		50,050,867
Other financial assets		26,840,400
Property and equipment, net		141,094,531
Other assets		43,992,733
Accounts payable		(65,529,562)
Deposits and remittances		(2,782,571,268)
Other liabilities		<u>(27,137,751)</u>
Subtotal		(1,181,132,839)
Completion of acquisition of goodwill		268,102,764
- recorded in the other assets account		<u>268,102,764</u>
Net cash equivalents provided by the acquisition	\$	<u>(913,030,075)</u>

- 3) Capital ratio of the Company 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 strengthen the financial holding company's financial status. If the ratio is below the standard, the government authorities will discipline the company in accordance with Article 60 of the Financial Holding Company Act. In addition, the company cannot distribute earnings as cash or other property; otherwise, the government authorities can discipline the company depending on the seriousness of the violation. The capital ratio of a financial holding company is calculated as follows:

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

As of June 30, 2004 and 2003, the capital ratio of the Company was 130.09% and 140.24%, respectively.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 4) The following table represents the Company's subsidiaries' provision of business credit, endorsement or other transactions to the same individual, the same related party or the same affiliated company (expressed in thousands of New Taiwan dollars)

June 30, 2004			
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	12.52
RESA Engineering Corporation	Same unit	2,105,000	5.27
Taiwan Railway Administration	Same unit	2,100,000	5.26
Chong Yang Investment Co., Ltd.	Same affiliated company	1,217,000	6.55
Kuang Hwa Investment Co., Ltd.		500,000	
Yu Hwa Development Co., Ltd.		<u>900,000</u>	
Total		<u>2,617,000</u>	

June 30, 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	4,000,000	10.71
RESA Engineering Corporation	Same unit	2,917,000	7.81
Formosa Chemical and Fibre Corporation	Same affiliated company	1,106,000	6.17
Formosa Petrochemical Co., Ltd.		698,000	
Mai-liao Power Corporation		<u>498,000</u>	
Total		<u>2,302,000</u>	
Designated account for Fuhwa Securities Bond Fund	Same unit	2,271,000	6.08

Note 1: The above table represents the financial holding company's subsidiaries' provision of business credit, endorsement or other transactions to the same individual, the same related party or the same affiliated company. It discloses transactions that reached the lower of 5% of the net value of the financial holding company or three billion New Taiwan dollars.

2: Business credit refers to loans, discounts, overdrafts, acceptances, guarantees and other business activities certified by the government authorities.

3: Endorsement refers to a bills company's endorsement or guarantee.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

	Fuhwa Securities Finance	
	June 30, 2004	June 30, 2003
Current assets	\$ 50,198,866	37,357,124
Long-term investments	2,843,898	2,398,952
Property and equipment	1,051,569	1,066,312
Other assets (including intangible assets)	2,721,597	3,435,375
Total assets	56,815,930	44,257,763
Current liabilities	37,228,250	25,850,068
Long-term liabilities	172,617	170,068
Other liabilities	84	2,830
Common stock	12,200,000	12,200,000
Capital surplus	25,693	25,693
Retained earnings	7,415,610	6,568,538
Treasury stock	(226,324)	(559,434)
Total liabilities	37,400,951	26,022,966
Stockholders' equity	19,414,979	18,234,797

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Fuhwa Securities	
	June 30, 2004	June 30, 2003
Current assets	\$ 21,651,112	17,858,324
Long-term investments	1,828,667	1,427,809
Property and equipment	1,545,023	1,567,363
Other assets (including intangible assets)	2,866,845	2,571,535
Total assets	27,891,647	23,425,031
Current liabilities	16,845,027	14,438,976
Long-term liabilities	399,360	399,302
Other liabilities	510,948	523,161
Common stock (including stock dividend to be distributed)	8,412,986	6,952,986
Capital surplus	89,280	89,280
Retained earnings	1,653,804	1,012,547
Cumulative foreign currency translation adjustments	(19,758)	8,779
Total liabilities	17,755,335	15,361,439
Stockholders' equity	10,136,312	8,063,592
	Fuhwa Bank	
	June 30, 2004	June 30, 2003
Current assets	\$ 238,706,890	200,626,780
Long-term investments	534,908	493,577
Other financial assets	908,933	799,827
Property and equipment	2,674,666	1,593,445
Other assets	3,282,251	2,449,748
Total assets	246,107,648	205,963,377
Current liabilities	225,766,066	189,963,483
Long-term liabilities	4,500,000	4,500,000
Other liabilities	1,037,041	433,167
Common stock (including stock dividend to be distributed)	14,000,000	12,115,136
Capital surplus	14,673	14,667
Retained earnings (accumulated deficits)	814,950	(1,052,836)
Net loss not recognized as pension costs	(25,082)	(10,240)
Total liabilities	231,303,107	194,896,650
Stockholders' equity	14,804,541	11,066,727

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2. Condensed income statements:

	Fuhwa Securities Finance	
	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Operating revenues	\$ 1,382,988	1,039,910
Gross profit	1,092,556	797,838
Operating income	561,918	120,210
Nonoperating revenue and income	679,960	585,042
Nonoperating expenses and loss	38,582	3,223
Net income before income tax	1,203,296	702,029
Net income after income tax	1,030,573	601,810
Earnings per share - before income tax (in New Taiwan dollars)	0.99	0.58
Earnings per share - after income tax (in New Taiwan dollars)	0.84	0.49

	Fuhwa Securities	
	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Operating revenues	\$ 2,982,682	1,607,820
Gross profit	2,230,154	1,283,284
Operating income	555,486	157,364
Nonoperating revenue and income	373,996	214,955
Nonoperating expenses and loss	54,145	28,180
Net income before income tax	875,337	344,139
Net income after income tax	702,802	282,831
Earnings per share - before income tax (in New Taiwan dollars)	1.12	0.49
Earnings per share - after income tax (in New Taiwan dollars)	0.90	0.41

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	Fuhwa Bank	
	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Operating revenues	\$ 5,166,713	3,904,740
Gross profit	2,174,097	1,637,466
Operating income	608,023	561,818
Nonoperating revenue and income	33,490	19,370
Nonoperating expenses and loss	36,275	6,437
Net income before income tax	605,238	574,751
Net income after income tax	543,423	570,788
Earnings per share - before income tax (in New Taiwan dollars)	0.47	0.53
Earnings per share - after income tax (in New Taiwan dollars)	0.42	0.52

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.

(a) Agency

For the half-years ended June 30, 2004 and 2003, Fuhwa Securities earned commission revenue resulting from stock transactions consigned by Fuhwa Securities Finance of \$84,644,242 and \$65,135,060, respectively.

(b) Stock management income

For the half-years ended June 30, 2004 and 2003, commission revenues earned by Fuhwa Securities resulting from stock management for Fuhwa Financial Holding and its subsidiaries were as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Financial Holding	\$ 6,384,893	4,687,269
Fuhwa Securities Finance	60,023	60,015
Fuhwa Bank	65,027	61,359
	<u>\$ 6,509,943</u>	<u>4,808,643</u>

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Brokerage commission revenue for futures

For the half-years ended June 30, 2004 and 2003, Fuhwa Securities conducted futures trading support on behalf of Fuhwa Futures and earned brokerage commission revenue of \$87,379,881 and \$43,640,295, respectively.

(d) Expenses from settlement and clearing

For the half-years ended June 30, 2004 and 2003, expenses from settlement and clearing paid by Fuhwa Securities to Fuhwa Futures amounted to \$3,463,917 and \$2,165,992, 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:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Bank	\$ 3,699,326	12,531,699
Fuhwa Securities	<u>2,472,307</u>	<u>716,032</u>
	<u>\$ 6,171,633</u>	<u>13,247,731</u>

(f) Banking

a) Deposits

As of June 30, 2004 and 2003, deposits in Fuhwa Bank from subsidiaries were as follows:

	June 30, 2004	June 30, 2003
Fuhwa Securities Finance	\$ 3,417,934,292	63,567,794
Fuhwa Securities	137,629,924	73,920,643
Fuhwa Futures	303,536,243	508,723,260
Fuhwa Securities Investment Trust	187,881,958	194,606,806
	<u>\$ 4,046,982,417</u>	<u>840,818,503</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Interest revenue was as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Securities Finance	\$ 14,529,052	280,089
Fuhwa Securities	1,395,013	157,293
Fuhwa Futures	3,002,708	7,061,968
Fuhwa Securities Investment Trust	1,292,309	1,830,304
	<u>\$ 20,219,082</u>	<u>9,329,654</u>

- b) As of June 30, 2004, Fuhwa Securities Finance had purchased negotiable certificates of deposit from Fuhwa Bank of \$400,000,000.
- c) As of June 30, 2004 and 2003, the amounts deposited in Fuhwa Bank by Fuhwa Futures for customers' deposits from futures trading accounts were as follows:

	June 30, 2004	June 30, 2003
Customers' deposits - futures trading accounts	<u>\$ 537,148,136</u>	<u>426,336,563</u>

- d) For the half-years ended June 30, 2004 and 2003, the balance of subordinate financial debentures purchased from Fuhwa Bank by Fuhwa Securities Finance and the related interest revenue were as follows:

	For the half-year ended June 30, 2004	
	Ending balance	Current interest revenue
Subordinate financial debentures	<u>\$ 966,000,000</u>	<u>23,468,266</u>
	For the half-year ended June 30, 2003	
	Ending balance	Current interest revenue
Subordinate financial debentures	<u>\$ 966,000,000</u>	<u>22,308,825</u>

- e) Credit lines

For the half-years ended June 30, 2004 and 2003, in order to obtain short-term borrowing credit lines of \$650,000,000 from Fuhwa Bank, Fuhwa Securities Finance pledged several pieces of land and buildings as collateral. As of June 30, 2004 and 2003, the book value of the abovementioned collateral amounted to \$1,486,648,512 and \$1,502,923,846, respectively.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the half-years ended June 30, 2004 and 2003, in order to obtain short-term borrowing credit lines of \$1,430,000,000 and \$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 June 30, 2004 and 2003, the book value of the abovementioned assets was \$2,004,659,832 and \$1,252,759,242, respectively.

- f) For the half-years ended June 30, 2004 and 2003, in order to engage in discretionary account investment consigned by clients, Fuhwa Securities Investment Trust pledged time deposits of \$59,500,000 and \$52,500,000, respectively, as operating guarantee deposits in accordance with SFC rulings. As of June 30, 2004 and 2003, the abovementioned time deposits of \$50,000,000 were both in the custody of Fuhwa Bank.

(g) Fund-raising

The financial holding company's subsidiaries invested in open-end funds raised by Fuhwa Securities Investment Trust as follows:

	For the half-year ended June 30, 2004	
	Investment amount	Ending balance
Fuhwa Bank	\$ 300,150,000	300,150,000
Fuhwa Securities	1,163,000,000	491,000,000
Fuhwa Securities Finance	500,250,000	500,250,000
Fuhwa Securities Investment Trust	<u>55,200,000</u>	<u>55,200,000</u>
Total	<u><u>\$ 2,018,600,000</u></u>	<u><u>1,346,600,000</u></u>

	For the half-year ended June 30, 2003	
	Investment amount	Ending balance
Fuhwa Bank	\$ -	396,430,334
Fuhwa Securities	365,000,000	425,000,000
Fuhwa Securities Finance	<u>-</u>	<u>354,218,191</u>
Total	<u><u>\$ 365,000,000</u></u>	<u><u>1,175,648,525</u></u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(h) Rent revenue

For the half-years ended June 30, 2004 and 2003, Fuhwa Securities Finance leased offices to Fuhwa Securities, Fuhwa Futures, and Fuhwa Securities Investment Trust and earned rent revenue as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Securities	\$ 6,420,396	7,350,600
Fuhwa Futures	3,977,160	3,977,160
Fuhwa Securities Investment Trust	<u>118,627</u>	<u>-</u>
	<u>\$ 10,516,183</u>	<u>11,327,760</u>

For the half-years ended June 30, 2004 and 2003, Fuhwa Securities leased office space to Fuhwa Securities Finance and Fuhwa Bank rent revenue was as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Securities Finance	\$ 4,506,099	3,654,690
Fuhwa Bank	<u>45,473,964</u>	<u>16,460,982</u>
	<u>\$ 49,980,063</u>	<u>20,115,672</u>

(i) Credit card promotion and processing fee revenue

For the half-years ended June 30, 2004 and 2003, the subsidiaries of Fuhwa Financial Holding conducted credit card promotion on behalf of Fuhwa Bank and were paid processing fees by Fuhwa Bank. Details of fees resulting from the above-mentioned transaction are as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Securities	\$ 1,782,004	1,252,438
Fuhwa Securities Investment Trust	291,426	-
Fuhwa Capital Management	<u>3,145,157</u>	<u>-</u>
	<u>\$ 5,218,587</u>	<u>1,252,438</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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

For the half-years ended June 30, 2004 and 2003, the interest income of Fuhwa Securities that was generated from the investment in bonds or bills with agreements to resell was as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Securities Finance	\$ 2,070,226	3,289,873
Fuhwa Bank	<u>6,154,841</u>	<u>994,271</u>
Total	<u>\$ 8,225,067</u>	<u>4,284,144</u>

(k) Relevant revenues for investment and consulting

Fuhwa Capital Management provided services for the subsidiaries of Fuhwa Financial Holding. For the half-years ended June 30, 2004 and 2003, 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:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Fuhwa Securities Finance	\$ 7,868,996	8,384,722
Fuhwa Securities	945,011	999,242
Fuhwa Bank	<u>3,621,347</u>	<u>476,190</u>
	<u>\$ 12,435,354</u>	<u>9,860,154</u>

(l) Management fee revenue

During 2003, in accordance with securities investment trust contract, Fuhwa Securities Investment Trust had provided investment management services to Fuhwa Securities Finance. The resulting management fee was amounting to \$992,572.

(m) Others

In order to hedge short-term investment risk, Fuhwa Securities Finance and Fuhwa Securities appointed Fuhwa Futures as a futures brokerage and conducted futures transactions. As of June 30, 2004 and 2003, guarantee deposits paid due to the abovementioned transactions was \$32,028,778 and \$284,535,678.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 2004. 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.

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 June 30, 2004, there was no significant transaction or allocation of revenues, costs and expenses.

7) Information of subsidiaries' investments in Mainland China, significant commitments and contingencies, catastrophic loss and subsequent events

1. Information of investment in Mainland China:

For the half-year ended June 30, 2004, the investments of Fuhwa Venture Capital in entities incorporated in Mainland China were as follows (expressed in thousands of New Taiwan dollars):

Name of investees in Mainland China	Main operational items	Issued capital	Method of investment	Beginning balance of foreign investment from Taiwan	Investment movement within this period		Ending balance of foreign investment from Taiwan	Percentage of direct or indirect investment holding	Gain (loss) recognized during the period (note 3)	Book value as of June 30, 2004	Accumulated gain returned to Taiwan at end of period
					Invested amount	Returned amount					
Dong Hwa Image (Su Zhou) Ltd.	TFT-LCD, CHTN-LTD, OLED module	USD 210	(note 1)	USD 895	-	-	USD 895	47.22 %	-	29,982	-
Jie Qun Electronic Technology (Dong Guan) Ltd.	Transistor	USD 9,310	(note 2)	1,980	-	-	1,980	8.94 %	-	66,764	-

Note 1: Samoa Grandlead Holding Ltd., a 47.22%-owned subsidiary of Fuhwa Venture Capital, resides in a third country. Dong Hwa Image (Su Zhou) Ltd. is a wholly owned subsidiary of Samoa Grandlead Holding Ltd.

Note2: Great Team Backend Foundry Ltd. (BVI), a 8.94% owned subsidiary of Fuhwa Venture Capital, resides in a third country. Jie Qun Electronic Technology (Dong Guan) Ltd. is a wholly owned subsidiary of Great Team Backend Foundry Ltd. (BVI).

Note3: Gain or loss on investments were not recognized for the reason that the investees are long-term investments accounted for under cost method.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Units: in thousands of New Taiwan dollars)

Aggregate investment amount remitted from ROC to Mainland China at the end of period	Investment amount approved by Investment Commission of Ministry of Economic Affairs	Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs
USD 2,875	USD 2,875	NTD 406,692

Note: The abovementioned limitations on investments in Mainland China were based on 40% of Fuhwa Venture Capital's net worth of \$1,016,730 thousand.

2. Significant commitments and contingencies: Please refer to note 28
 3. Significant catastrophic loss: none.
 4. Significant subsequent events: none.
- 8) Significant financial and operating conditions of Fuhwa Bank
1. Regulatory capital ratio

	June 30, 2004	June 30, 2003
Self-owned capital ratio (note)	9.41 %	9.60 %
Debt-to-net equity ratio	1,562.38 %	1,761.10 %

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.

2. Asset quality, concentration of credit risk and policies on allowance for bad debts from loans and advances to customers
 - (a) Asset quality

(Units: in thousands of New Taiwan dollars)

	June 30, 2004	June 30, 2003
Overdue loans (includes nonperforming loans)	5,986,362	5,974,157
Nonperforming loans	4,641,872	4,805,437
Overdue loan ratio	3.37 %	3.98 %
Loans-to-be-observed	1,159,129	4,796,441
Loans-to-be-observed to total loans ratio	0.65 %	3.20 %
Recorded loans and reserve for nonperforming loans	2,155,938	2,936,781

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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 nonperforming loans) / (Loan balance + nonperforming 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).

(b) Information on concentration of credit risk (expressed in thousands of New Taiwan dollars).

a) Loans classified by geographical region (expressed in New Taiwan dollars):

	June 30, 2004	June 30, 2003
Domestic	\$ 166,858,627,354	143,081,337,970
Overseas	<u>11,002,983,075</u>	<u>7,023,968,564</u>
Total	<u>\$ 177,861,610,429</u>	<u>150,105,306,534</u>

b) Loans classified by industry (expressed in New Taiwan dollars):

	June 30, 2004	June 30, 2003
Manufacturing	\$ 31,892,733,875	31,171,689,020
General commercial	14,024,308,200	12,511,515,300
Construction	4,397,264,000	5,193,866,000
Private	88,826,313,000	65,163,433,000
Others	<u>38,720,991,354</u>	<u>36,064,803,214</u>
Total	<u>\$ 177,861,610,429</u>	<u>150,105,306,534</u>

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

c) Percentage of loans by industry:

	June 30, 2004		June 30, 2003	
	Industry	Ratio	Industry	Ratio
Concentration of credit risk by industry (top 3)	Individuals	51.34 %	Individuals	46.14 %
	Manufacturing	16.09 %	Manufacturing	19.65 %
	Wholesale and retailing	6.22 %	Services	7.84 %

d) Lines of credit to related parties and ratio of lines of credit mortgaged by stock:

	June 30, 2004	June 30, 2003
Lines of credit to related parties	\$ 3,394,741	1,835,702
Ratio of lines of credit to related parties to total credit lines	1.96 %	1.27 %
Ratio of lines of credit mortgaged by stock	3.17 %	1.85 %

e) Credit card receivables classified by card-holder's age (expressed in New Taiwan dollars):

	June 30, 2004	June 30, 2003
Under 19 years old	\$ -	97,977
20 to 29 years old	521,326,463	141,573,643
30 to 44 years old	1,214,417,662	394,671,788
45 to 64 years old	627,286,971	185,216,302
over 65 years old	15,542,401	5,043,185
Total	<u>\$ 2,378,573,497</u>	<u>726,602,895</u>

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.

(Continued)

FUHWHA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Loans, nonperforming 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 nontrading 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.

3. Information on concentration for credit risk of assets, liabilities and off-balance-sheet items

The credit extensions made by Fuhwa Bank were generally based on credit risk diversification principle. There is no significant concentration of credit risk in terms of a single client or a party to transaction. Fuhwa Bank's credit composition is extensively diversified and spread over all types of industries, products and regions, etc. Fuhwa Bank's contracted amounts with credit risk significantly concentrated were as follows:

- (a) Refer to information on concentration of credit risk for contract amount of balance sheet accounts with credit risk significantly concentrated.
- (b) Financial instruments with off-balance-sheet credit risk

Fuhwa Bank's contract amount of financial instruments with off-balance-sheet credit risk were as follows:

	For the half-year ended June 30, 2004	For the half-year ended June 30, 2003
Unused lines of credit	\$ <u>109,639,793,628</u>	\$ <u>101,787,148,341</u>
Credit commitment on credit card	\$ <u>37,434,068,000</u>	\$ <u>20,879,989,000</u>
Other guarantees	\$ <u>11,500,944,291</u>	\$ <u>6,628,011,316</u>
Unused L/C balance	\$ <u>2,937,631,598</u>	\$ <u>2,202,062,935</u>

(Continued)

FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The unused loan commitments to Fuhwa Bank's customers are determined mainly by whether the credit customers can maintain a certain credit standing. Fuhwa Bank 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. For the half-years ended June 30, 2004 and 2003, loans with collateral made up 56.32% and 54.22%, respectively, of the entire amount of loans. The percentage of guarantees and letters of credits with collateral varies from 0% to 100%. Collateral is usually property such as cash, real estate, marketable securities with high liquidity, and etc. When the customer defaults, Fuhwa Bank will execute its right toward the collateral or other guarantees.

Credit commitment on credit card 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% for the half-years ended June 30, 2004 and 2003.

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 Fuhwa Bank 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. Information on interest-bearing assets and liabilities

	June 30, 2004		June 30, 2003	
	Average amount	Average rate %	Average amount	Average rate %
Assets:				
Cash - due from banks	3,355,802,047	1.29	2,974,345,357	1.47
Due from Central Bank and placement to other banks	27,807,457,136	1.33	17,570,175,785	1.67
Marketable securities	20,879,231,915	4.24	13,305,119,370	4.03
Loans and advances to customers	165,264,353,951	3.72	128,675,666,591	4.20
Liabilities:				
Due to banks	10,033,999,334	1.13	9,678,866,433	1.35
Demand deposits	13,908,788,110	0.27	8,694,034,796	0.39
Demand saving deposits	46,615,073,555	0.65	26,805,630,453	1.10
Time deposits	55,053,006,894	1.19	39,620,644,597	1.81
Time savings deposits	59,779,689,451	1.63	54,431,465,964	2.27
Negotiable certificates of deposit	5,034,645,604	1.20	2,592,914,365	2.07
Appropriated loan fund	122,562,184	2.87	115,940,205	3.12

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Ratios of interest-rate-sensitive assets to liabilities and interest-rate-sensitive spreads to net equity

	June 30, 2004	June 30, 2003
Ratio of interest-rate-sensitive assets to liabilities (%)	74.44 %	81.82 %
Ratio of interest-rate-sensitive spreads to net equity (%)	(333.46)%	(249.06)%

6. Major foreign currency position, net

(Units: in thousands of stated currencies)

	June 30, 2004			June 30, 2003		
	Amount in functional currency	Amount in New Taiwan dollars	Amount in functional currency	Amount in New Taiwan dollars		
Major foreign	USD	1,779	60,071	USD	4,443	153,786
currency	EUR	325	13,279	HKD	2,371	10,526
position, net	HKD	2,266	9,815	SGD	373	7,338
(market risk)	JPY	24,302	7,553	CAD	224	5,744
	CAD	199	4,999	GBP	97	5,569

7. Profitability

- (a) For the half-years ended June 30, 2004 and 2003, information on return on assets, return on net equity and net income to operating revenue was as follows:

	June 30, 2004	June 30, 2003
Return on assets (note 1)	0.27 %	0.31 %
Return on net equity (note 2)	4.62 %	5.39 %
Net income to operating revenue (note 3)	11.86 %	14.97 %

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

Note 2: Return on net equity = Profits before income taxes / Average net equity

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

(Continued)

FUHWANG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Duration analysis of assets and liabilities

	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	\$ 229,426,000	26,805,000	20,292,000	16,161,000	11,108,000	155,060,000
Liabilities	217,863,000	90,525,000	25,580,000	31,393,000	47,120,000	23,245,000
Spreads	11,563,000	(63,720,000)	(5,288,000)	(15,232,000)	(36,012,000)	131,815,000
Accumulated spreads	11,563,000	(63,720,000)	(69,008,000)	(84,240,000)	(120,252,000)	11,563,000

8. Extraordinary events

June 30, 2004

**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 deficiency incurred and warned of by the MOF

Nan-Jing E. Road Branch was corrected by the 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

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.

(Continued)

FUHWA FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The self-owned capital adequacy ratios of Fuhwa Securities Finance and Fuhwa Securities were as follows (expressed as percentage):

	June 30, 2004	June 30, 2003
Fuhwa Securities Finance	812.95	733.92
Fuhwa Securities	221.86	210.71

10) Regulatory financial ratio and executions of futures firm subsidiaries

1. Pursuant to SFC rulings, Fuhwa Securities' financial ratios and executions were as follows (expressed in thousands of new Taiwan dollars):

Rule	Equation	June 30, 2004		June 30, 2003		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Shareholders' equity}}{\text{(Total liabilities - Payable to customer - Reserve for trading losses - Reserve for default losses)}}$	$\frac{291,257}{12,376}$	23.52	$\frac{312,096}{1,331}$	234.48	1	Pursuant to the regulations
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{290,437}{11,815}$	24.58	$\frac{301,002}{1,232}$	244.32	1	Pursuant to the regulations
22	$\frac{\text{Shareholder's equity}}{\text{Minimum capital}}$	$\frac{291,057}{400,000}$	72.76 %	$\frac{312,096}{400,000}$	78.02 %	60% 40%	Pursuant to the regulations
22	$\frac{\text{Adjusted net capital}}{\text{Initial margins required}}$	$\frac{74,622}{52,967}$	140.88 %	$\frac{240,270}{15,676}$	1532.73 %	20% 15%	Pursuant to the regulations

2. Pursuant to SFC rulings, Fuhwa Futures' financial ratios and executions were as follows (expressed in thousands of New Taiwan dollars):

Rule	Equation	June 30, 2004		June 30, 2003		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Shareholders' equity}}{\text{(Total liabilities - Payable to customer - Reserve for trading losses - Reserve for default losses)}}$	$\frac{877,584}{66,519}$	13.19	$\frac{1,224,979}{46,930}$	26.10	1	Pursuant to the regulations
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{3,066,453}{2,518,553}$	1.22	$\frac{2,528,624}{1,523,211}$	1.66	1	Pursuant to the regulations
22	$\frac{\text{Shareholder's equity}}{\text{Minimum capital}}$	$\frac{877,584}{600,000}$	146 %	$\frac{1,224,979}{600,000}$	204 %	60% 40%	Pursuant to the regulations
22	$\frac{\text{Adjusted net capital}}{\text{Initial margins required}}$	$\frac{684,851}{384,008}$	178 %	$\frac{1,168,671}{228,106}$	512 %	20% 15%	Pursuant to the regulations