

HNFHC

HUA NAN FINANCIAL HOLDINGS CO., LTD.

ANNUAL REPORT 2003



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Name: Mao-hsien Liu

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5. Financial report auditors

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HIGHLIGHT

(Consolidated)

	Dec. 31 2002		Dec.31 2003	
	NT million	US million	NT million	US million
BALANCE SHEET ITEMS :				
Total Assets	1,344,960	38,671	1,465,486	43,383
Total Deposits and Remittances Payable	1,069,823	30,760	1,128,033	33,394
Total Loans, Discounts and Bills Purchased	810,229	23,296	862,507	25,533
Stockholders' Equity	58,154	1,672	70,988	2,101
INCOME STATEMENT ITEMS:				
Interest Revenues	43,043	1,238	32,814	971
Total Operating Revenues	53,683	1,544	53,967	1,598
Income before Tax	(38,659)	(1,112)	12,767	338
Net Income	(29,183)	(839)	10,102	299
PROFITABILITY :				
	NT Dollar	US Dollar	NT Dollar	US Dollar
Earning Per Share	(6.54)	(0.19)	2.14	0.06
Operating Revenues Per Person	7,110,331	204,503	6,155,684	182,229
Profit Per Person	(3,865,298)	(111,126)	1,152,224	34,110
ADDITIONAL DATA				
Employees		7,550		8,767
Domestic Branches and office		228		262
Overseas Branches and office		7		6
Note : The Exchange Rate as of December 31, 2002 was NT\$35.007 to US\$1 The Exchange Rate as of December 31, 2003 was NT\$33.780 to US\$1				

I. Message to Shareholders

Ming-Cheng Lin, Chairman

Taiwan's economy in early 2003 continued the rebound that began in the fourth quarter of 2002. However, the US-Iraq War broke out in March and Taiwan faced an outbreak of SARS in late April. These two factors not only dealt a serious blow to export orders, but also caused a decline in consumer confidence and a sharp drop in corporate investment. As a result, Taiwan's economic growth, which stood at 5.21% and 4.52% in the third and fourth quarters of 2002, respectively, headed south. By the second quarter of 2003, the nation's economy contracted 0.08%. In light of the weak economy, demand for capital in the corporate demand shrank. In addition, banks faced weak demand for loans and foreign investors remitted investment funds out of Taiwan. In reflection of this, growth in Taiwan's M1A and M1B money supplies remained below the 10% level. In order to spark consumption, Taiwan's Hua Nan Bank of China maintained a loose monetary policy, enabling market interest rates to fall. The interbank overnight rate fell from 1.515% earlier this year to 1.022% by year-end. Fortunately, the quick resolution to the conflict in the Middle East and efforts to rapidly control the outbreak of SARS provided the basis for a global economic rebound. Taiwan's economic growth began to recover in the third quarter. The composite economic indicator flashed green in July and continued to do so for five months, signifying stable growth. In December, the indicator flashed yellow-red, indicating heated growth. Various financial and monetary activities also recovered in line with the broad economic rebound.

Amid the complex operating environment, HNFHC and its subsidiaries were able to maintain growth thanks to the support and efforts of shareholders, the board, supervisors and all employees. In 2003, South China Insurance and Hua Nan Investment Trust came under the HNFHC umbrella. At the end of 2003, HNFHC's subsidiaries included Hua Nan Commercial Bank, Hua Nan Securities,

Teh-Nan Hsu, President

Hua Nan Bills Finance, South China Insurance, and Hua Nan Investment Trust. HNFHC interests range from banking, securities, bills finance, property insurance and investment trust, to life insurance, futures and securities consultancy. This provides a comprehensive product line to meet the one-stop financial needs of its customers. In 2004, two new companies are being established – Hua Nan Venture Capital Co., Ltd. and Hua Nan Management and Consulting Co., Ltd. – to expand investment banking operations. HNFHC is aggressively promoting joint sales operations in order to boost profitability. At the end of 2003, 42 joint sales points had been established. This number will be expanded to 212 in 2004. Efforts by subsidiary Hua Nan Commercial Bank to undertake financial reform has paid off. The bank wrote off a large amount of distressed loans in 2002, paving the way for the bank to begin registering profits again in 2003. The bank's overdue loan ratio fell to 3.33% in 2003 from 4.16% the year before. Other subsidiaries have also posted handsome profits. South China Insurance's net profit grew 79% in 2003, while Hua Nan Securities saw its net profit rise 51%. After joining HNFHC, Hua Nan Bills Finance also began to post profits. HNFHC continues to establish an asset and liability management system to manage risk. The company also has implemented a funds transfer pricing system, a profit analysis system as well as an internal credit rating system.

HNFHC is enjoying the synergy of cross-sales and marketing afforded it under the umbrella of a financial holding company. This enabled the company to exceed its pre-tax profit goal for 2003. HNFHC posted profits of NT \$10.1 billion for the year, translating to after-tax earnings per share of NT \$2.14. The following provides brief descriptions of the operational results of HNFHC and subsidiaries in 2003.

1. Budgeted Profits:

HNFHC started afresh in 2003 after registering large losses in 2002. Profits of all subsidiaries rose sharply, enabling aggregate net profit for the year to exceed the NT \$10 billion mark at NT \$10.102 billion, equivalent to after-tax earnings per tax of NT \$2.14. HNFHC's profits for the year exceeded its target by NT \$471.93 million (original after-tax EPS projection was NT \$2.11), reaching 104.90% of its original target. The operational state of each subsidiary is described below:

(1) Hua Nan Commercial Bank Co., Ltd.

Hua Nan Commercial Bank registered net profit of NT \$9.007 billion in 2003, translating to net EPS of NT \$2.43. The bank's total deposits as of the end of December stood at NT \$1,133,188 million, up 5.23% from 2003. Overall outstanding loans at December-end (not including interest loans or overdrafts, import/export negotiations or foreign currency purchases) stood at NT \$826,362 million, a rise of 7.56% on the year. The bank's foreign exchange operations amounted to US \$125,670 million, a rise of 19.76% on the year.

(2) Hua Nan Securities Co., Ltd.

Hua Nan Securities posted net profit of NT \$955 million in 2003, equivalent to net EPS of NT \$1.44. Brokerage income in 2003 stood at NT \$2,055 million, a decline of 12.07% from 2002. Underwriting revenues were NT \$177 million, off 32.18% on the year. Revenues from dealing operations (including financial products and futures dealing) stood at NT \$984 million, a rise of 65.38% on the year.

(3) Hua Nan Bills Finance Corp.

Hua Nan Bills Finance's pre-provisioning pre-tax profit in 2003 was NT \$356 million. Post-provisioning after-tax profit was NT \$4 million, equivalent to net EPS of NT \$0.01. In 2003, guarantee issuance of commercial bills stood at NT \$80,398 million, a decline of 23.59% from 2002. Trading of bonds in the secondary market stood at NT \$839,707 million, up 46.37% from 2002.

(4) South China Insurance Co., Ltd.

South China Insurance recorded net profit in 2003 of NT \$179 million, equivalent to after-tax EPS of NT \$0.89. In 2003, direct premium income was NT \$4,285 million, up 7.61% on the year. Reinsurance premium income was NT \$267 million, up 22.37% on the year.

(5) Hua Nan Investment Trust Corp.

Hua Nan Investment Trust posted net profit in 2003 of NT \$99 million, translating to after-tax EPS of NT \$3.33. The size of its equity-related funds at the end of 2003 was NT \$8,064 million, up 752.43% from 2002. The size of its fixed income funds at the end of 2003 was NT \$78,999 million, up 6.83% from the previous year. The size of discretionary business stood at NT \$1,313 million, up 195.06% from 2002.

2. Expenditures and Profitability


HNFHC's operating revenues in 2003 stood at NT \$10,234 million, and operating expenses amounted to NT \$150.7 million, creating pre-tax income of NT \$10,083 million. After deducting net non-operating expense and losses of NT \$134.5 million, the company's pre-tax profit was NT \$9,949 million. After adding income tax income of NT \$116 million, HNFHC's after-tax profit for the year was NT \$10,102 million, equivalent to net EPS of NT \$2.14. Return on assets was 13.99% and return on shareholders equity was 15.34%.

On a consolidated basis, HNFHC's operating revenues for 2003 amounted to NT \$53,967 million, while operating cost and expenses were NT \$50,470 million, resulting in pre-tax income of NT \$3,497 million. Adding net non-operating income and profit of NT \$9,470 million, HNFHC's pre-tax profit stood at NT \$12,767 million and after-tax profit at NT \$10,102 million. Consolidated return on assets was 0.72% and consolidated return on shareholders equity was 15.34%.

Looking ahead to 2004, Taiwan is expected to see further growth in external trade in light of the global economic rebound. Domestically, consumption willingness has already begun to rise and it is expected that private consumption will exhibit stable growth, while private investment will also gain pace. Taiwan's economy in 2003 is anticipated to be better than in 2002. The Directorate General of Budget, Accounting and Statistics forecasts GDP growth this year of 4.74%, which is a clear improvement from 2003's growth of 3.24%.

With the economy on the rebound, now is the perfect time for an expansion of business for a player in the financial sector. In addition to strengthening the operational foundation of all subsidiaries, HNFHC will continue to expand its financial blueprint to boost its competitive ability; promote consumer banking operations to raise service fee income; strengthen joint sales and marketing to provide comprehensive banking services; carry out organizational restructuring to raise operational efficiency; raise capital performance to strengthen fiscal structure; and establish a risk management mechanism to reduce risk for the group. These efforts are hoped to expand HNFHC's economies of scale and to enable HNFHC to reach its 2004 operating income target of NT \$10,478 million and after-tax profit of NT \$10,285 million.

I would like to express thanks to all shareholders for their support over the past year. In the days ahead, HNFHC will continue to utilize innovative operational concepts to boost operations and its corporate image. I hope to continue to receive encouragement and direction from all shareholders to help HNFHC become increasingly vital and register sustained growth.

Chairman 

President 

II. State of Company

1. Company Introduction and Background of Subsidiaries

In order to meet changes in the financial environment, achieve synergy through integrated operations, complement the government's financial reform policies and set the foundation for sustained development, Hua Nan Financial Holdings Co., Ltd (HNFHC) was established on December 19, 2001 when Hua Nan Commercial Bank and Hua Nan Securities converted their stock into HNFHC stock. Mr. Lin Ming-cheng was elected as the Chairman of the Board. The company's headquarters is in Taipei and the company has registered capital of NT \$100 billion. In order to expand its scope, HNFHC on December 16, 2002 invested \$2.3 billion of cash in Hua Nan Bills Finance Corp., acquiring a 57.49% stake in that company. As per articles of the Financial Holding Company Law, Hua Nan Bills Finance became included as a subsidiary of HNFHC.

2. Brief History of HNFHC's Subsidiaries

(1) Hua Nan Commercial Bank Co., Ltd.

K.K. Hua Nan Bank was founded in 1919 by a local entrepreneur, Mr. Lin Hsiung-cheng, and several overseas Chinese. The bank was established to serve the needs of overseas Chinese and to promote domestic and foreign investment. Lin paid visits to Xiamen, Fuchou, Shanghai, Swatow, Hong Kong, Canton, Singapore, Jakarta, Semarang and Surabaya to find investors to establish the bank. The bank was formally created on January 29 of that year and had a capitalization of 10 million yen. Lin served as the bank's first chairman and the bank's headquarters were established in Taipei at what is now No. 45 Kuanchien Road. The bank opened its doors in March and it began setting up branches abroad, in Canton, Haiphong, Saigon, Rangoon, Singapore, Semarang and Tokyo. The branches played a key role in expanding trade with neighboring countries, and business developed steadily. However, Taiwan's private banks faced troubled times in the economically lean 1930s and a round of mergers ensued. Hua Nan pulled through, and Lin served as chairman until 1944 when the bank increased capitalization. The Bank of Taiwan, holding half of Hua Nan's shares, appointed a new chairman, while Lin was honored with an even more respected position.

After Taiwan's retrocession on October 25, 1945, Lin was selected as a representative from Taiwan in the Hua Nan government. In addition, he was responsible for ensuring the continued viability of Hua Nan. A government directive on October 16, 1946 called for creating a Hua Nan Bank organizing committee. Lin headed the committee until his death just a month later. On December 12, banking authorities appointed Mr. Liu Chi-kuang to head the organizing committee. Meanwhile, the government expropriated the assets of K.K. Hua Nan from the Japanese, and these were returned to Hua Nan's organizing committee. The first shareholders' meeting of Hua Nan Commercial Bank was held on February 22, 1947, and Liu was selected chairman. The bank inaugurated operations on March 1 with a capitalization of old Taiwan \$15 million. Initially, the bank focused on expanding business on Taiwan and served with other local banks in the mission of financing the construction of a new Taiwan. On May 3, the bank's shareholders agreed to merge with the

Taiwan Trust Company, which then became the bank's Trust Department. Capitalization was increased to old Taiwan \$25 million. Hua Nan's operations grew, creating an even more stable foundation from which to expand further. By June 1948, the bank had established more than 60 branches throughout Taiwan. Its top-quality staff further helped to expand operations, creating one of Taiwan's most stable and highly regarded commercial banks.

In 1948 Taiwan's economy began feeling the impact of economic instability on mainland China. Hua Nan realigned its business focus to maintain operational stability. It upgraded important offices to branches while closing unprofitable offices in various remote areas. In November of that year, it increased capitalization to old Taiwan \$1 billion in line with revised government regulations. Taiwan's economy began to gain steam after monetary reform was instituted on June 15, 1949. Hua Nan raised its capital to New Taiwan \$1.5 million and over the years has repeatedly increased capital. On May 18, 2001, its shareholders approved a proposal to further raise capital to NT \$37.091 billion, making Hua Nan one of Taiwan's most highly capitalized commercial banks.

On January 22, 1998, the government released shares in Hua Nan, completing the bank's effort to privatize. On November 14, 2001, in line with changes in the banking environment, the need for operational synergy, long-term development needs and in line with government policy objectives, Hua Nan and Hua Nan Securities held extraordinary shareholder meetings at which it was decided that the companies would fully convert their stock into shares of the new Hua Nan Financial Holdings Co., Ltd. Mr. Lin Ming-cheng was elected as Chairman of the Board and HNFHC's shares were listed on the Taiwan Stock Exchange on December 19. Headquartered in Taipei, the company had a registered capital of NT \$100 billion. Hua Nan Commercial Bank is a subsidiary of HNFHC. As of the end of 2002, Hua Nan Commercial Bank maintained 160 branches and 22 offices throughout Taiwan, five overseas branches and one overseas representative office. The bank employs a total of 6,199 people.

(2) Hua Nan Securities Co., Ltd.

Hua Nan Securities was founded in August 1988 under the name Hua Nan Securities, with its major shareholders including Yuan Ding Investment Co., Ltd., Chih Cheng Investment, Yung Ho Coal Mine, and Yi Chen Enterprising Company. Since its founding, the company has posted stable growth due to professional, steady and responsible management principles. At the outset, the brokerage's capitalization was NT \$200 million and it was only licensed to partake in securities broking. It transformed into an integrated securities company in 1990, laying the foundation for long-term development needs by initiating a comprehensive range of operations, including dealing, underwriting and bond operations. In 1992, it received approval from the Securities Exchange Commission to begin margin financing operations. In September of that year, it established Hua Nan Investment Trust. In 1993, it invested in the establishment of Hua Nan Securities Investment Consultant Co., Ltd. and the following year in Hua Nan Futures Co. Ltd. In 1995, Hua Nan's shares began trading on the over-the-counter exchange and it changed its English name to Hua Nan Securities Co., Ltd. It also invested in Hua Nan (BVI) Holding Corp. and Hua Nan Securities (Hong Kong) Co. Ltd.

In order to strengthen its competitive standing, a special shareholders meeting was held on November 14, 2001 to approve a stock swap with Hua Nan Commercial Bank and jointly create Hua Nan Financial Holdings Company Ltd. In May 2003, the company changed its name to Hua Nan Securities. In an effort to expand market share, Hua Nan in 2003 purchased an existing brokerage fairly and transformed it into a branch in Changhua. This brought the number of branches to 41. In addition, the company has four underwriting offices. Altogether, Hua Nan Securities employs 1,336 people.

(3) Hua Nan Bills Finance Corp.

Hua Nan Bills Finance Corp. was established in September 1996. At its establishment, it was named Chung Yang Bills Finance Co. and had a capitalization of NT \$2.528 billion. On October 9 of that year it received a bills finance license from the Ministry of Finance and formally began operation on October 11. The company's branch office in Kaohsiung began operation one week later on October 18.

On November 4, 1998, the company faced a liquidity crisis and the Ministry of Finance appointed Hua Nan Commercial Bank, First Commercial Bank and Taiwan Business Bank to form a team to manage the company. The convener of this team was Mr. Lai Lin-san. On January 7, 1999, the Ministry of Finance approved a proposal by the firm to stage a capital reduction, which was to be followed by a recapitalization. On January 20, the company cut capital to NT \$1 million. On March 10, it staged a cash subscription of NT \$6 billion, bringing stock capital to NT \$6.01 billion. A special shareholders meeting was held on March 24 to elect a new board and supervisor. Mr. Lai Lin-san was elected chairman and he appointed Mr. Lee Hsing-chin as president. On the afternoon of March 24, the period of outside management of the company ended and Chung Yung returned to normal operation, headed by the board and supervisors.

On September 15, 1999, the company's headquarters obtained a license to carry out securities dealing operations and on October 15 began outright trading of government bonds under its own portfolio. On March 5, 2001, the Kaohsiung branch was granted a similar license, enabling it to begin outright trading of government bonds under its own portfolio on March 20. On January 11, 2001, the board passed revisions to the company's organizational charter to improve administrative efficiency. The company's five departments and two offices were reorganized into an auditing office, the operations department, the trading department and the management department.

On March 29, 2003, a new board and supervisor were elected at a general shareholders meeting. After the meeting, board members elected Mr. Li Chin-po as chairman. On April 11 the new board held a second meeting, at which it passed a resolution to employ Mr. Tseng Sen-cheng as president. On May 15, 2002, the headquarters and Kaohsiung branch were granted approval to carry out bond certification, underwriting, broking and dealing operations. On September 27, 2002, a special shareholders meeting was held at which a resolution was passed to reduce capital by NT \$6 billion to erase losses. A cash subscription would then be held to raise NT \$4 billion. The Ministry of Finance approved this plan on October 2 and the capital reduction was carried out on October 11th. Capitalization was cut to NT \$1 million. The cash subscription took place on December 26 and NT \$4 billion was raised, bringing capitalization to NT \$4.01

billion. It was at that time that the company became a subsidiary of HNFHC. Chung Yang's name was changed to Hua Nan Bills Finance in 2003.

(4) South China Insurance Co., Ltd.

South China Insurance Co., Ltd. formally inaugurated operations on May 1, 1963, occupying an office located at No. 15 Hsinyang Street in Taipei. In September 1963, the company moved to No. 44, Section 1, Chungking South Road in Taipei. In reflection of expanding operations and the hiring of more staff, the company moved to a new building at No. 70, Section 1, Hankou Street in Taipei in April 1973. It moved again on May 17, 1986 to the fifth floor, No. 560, Section 4, Chunghsiao East Road. Operations continued to expand and the company needed even more office space. Therefore, in July 1998 it moved the headquarters' business department to the third and fourth floors, No. 176, Section 1, Keelung Road in Taipei.

Initially, the company had only promotion and underwriting departments, and financial, administration and accounting offices. As operations grew, the company continued to add personnel to meet business needs. After various internal reorganizations, the headquarters now has the following departments: Fire Insurance, Marine Insurance, Casualty Promotion, Casualty Underwriting, Motor Underwriting, Motor Claims, Business Promotion I, Business Promotion II, Business Promotion III, Administration, Financial, Accounting, and Planning. It also has an Auditing Department, Computer Center as well as a unit focusing on internal controls and regulations. South China has seven branches throughout Taiwan in Taipei County, Taoyuan, Hsinchu, Taichung, Yuanlin, Tainan and Kaohsiung, and has 27 representative offices to provide service to all corners of Taiwan.

Over the past four decades, South China Insurance had adhered to a corporate philosophy focusing on honesty, integrity, kindness, rationality and diligence. It stresses professional, innovative and efficient operations to provide service to its customers. As the company's capital has increased over the years, it began selling shares publicly in 1991 to strengthen organizational development, boost operational and managerial efficiency and enable the public to share in its operational achievements. In 1999, the company was granted approval to list on the stock market and did so on May 20 of that year. In light of trends in the financial industry, the need to expand the scale of operations, reduce costs and boost competitiveness, South China Insurance staged a share swap with HNFHC on August 15, 2003, which marked its entrance as a member of HNFHC. In order to provide the public more comprehensive coverage, South China is actively promoting the concept of damage prevention. By undertaking preventive measures, damages from accidents can be substantially alleviated. This concept has been quite successful. A team of highly trained professionals and a prudent management and organizational structure will continue to play important roles in achieving the goal of providing even more comprehensive service to customers.

(5) Hua Nan Investment Trust Corp.

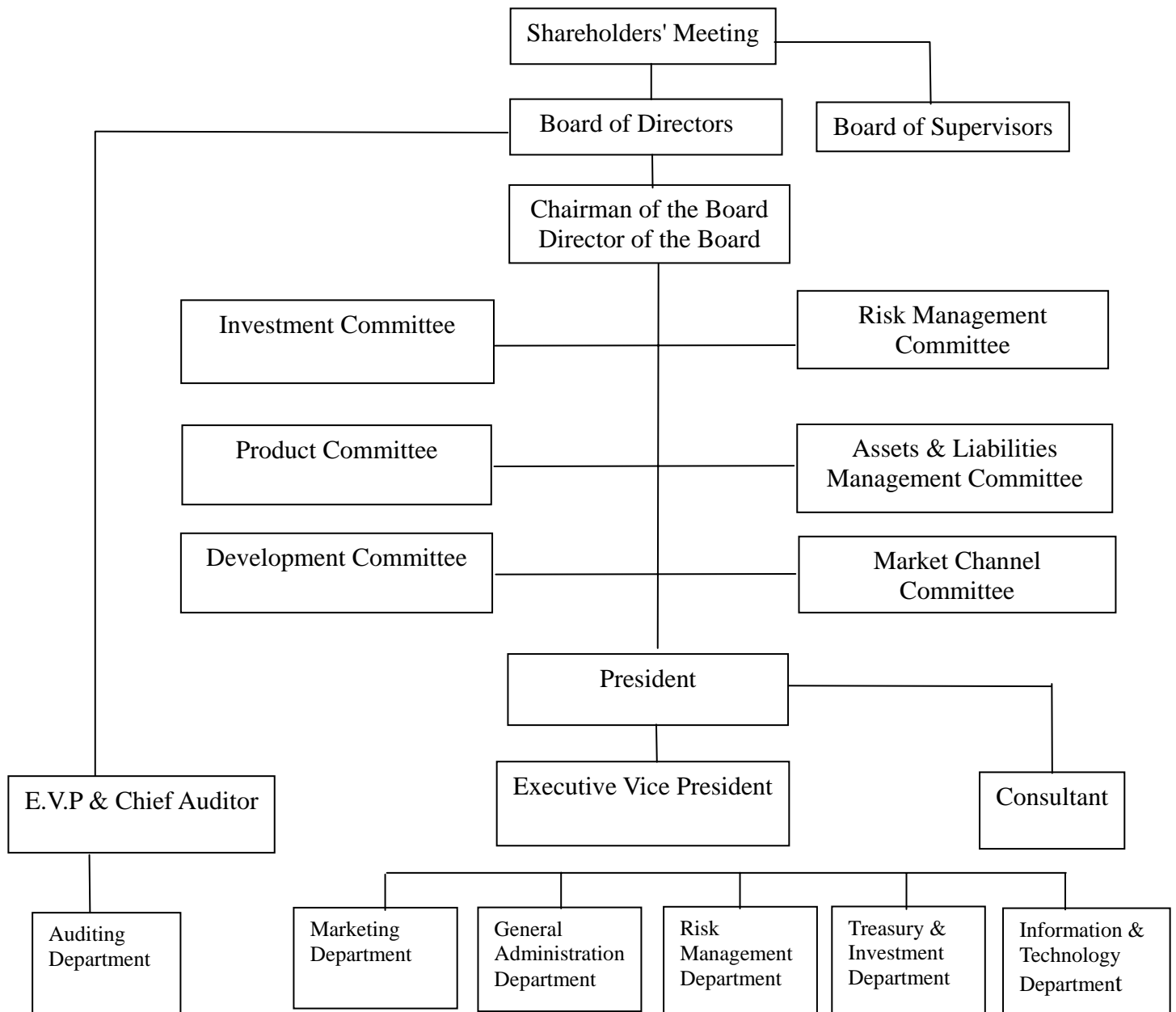
Hua Nan Investment Trust Corp. (originally known as Hua Nan Investment Trust) was established in September 1992 with a capital of NT\$300 million. In light of a changing financial environment here with the

introduction of financial holding companies and in order to strengthen competitiveness, the company and HNFHC staged a share swap on August 15, 2003, which formally brought the company into HNFHC. In the future, the company will abide by the corporate spirit of working with its clients over a lifetime. In addition, the company aims to provide one-stop shopping under the HNFHC financial blueprint, providing customers with comprehensive financial services.

Hua Nan Investment Trust has adjusted its operational strategy. In the past, it focused on raising the amount of funds under management. This has given way to strengthening the structure of assets under management. The company now pursues growth both in quality and quantity and is expanding its product lines to meet the diversified needs of customers. Not including discretionary investment operations that were approved in September of 2001, as of the end of 2003, the company maintained two stock funds, two balanced funds and two bond funds. To provide better personal finance service to investors throughout Taiwan, the company has opened a Taichung branch in August 2002 and a Kaohsiung branch in October 2003. Step by step, the company has become a diversified investment management company that provides outstanding personal finance services.

3. Company Organization

(1) Organization Chart



(2) Board of directors and supervisors

2003.9.8.

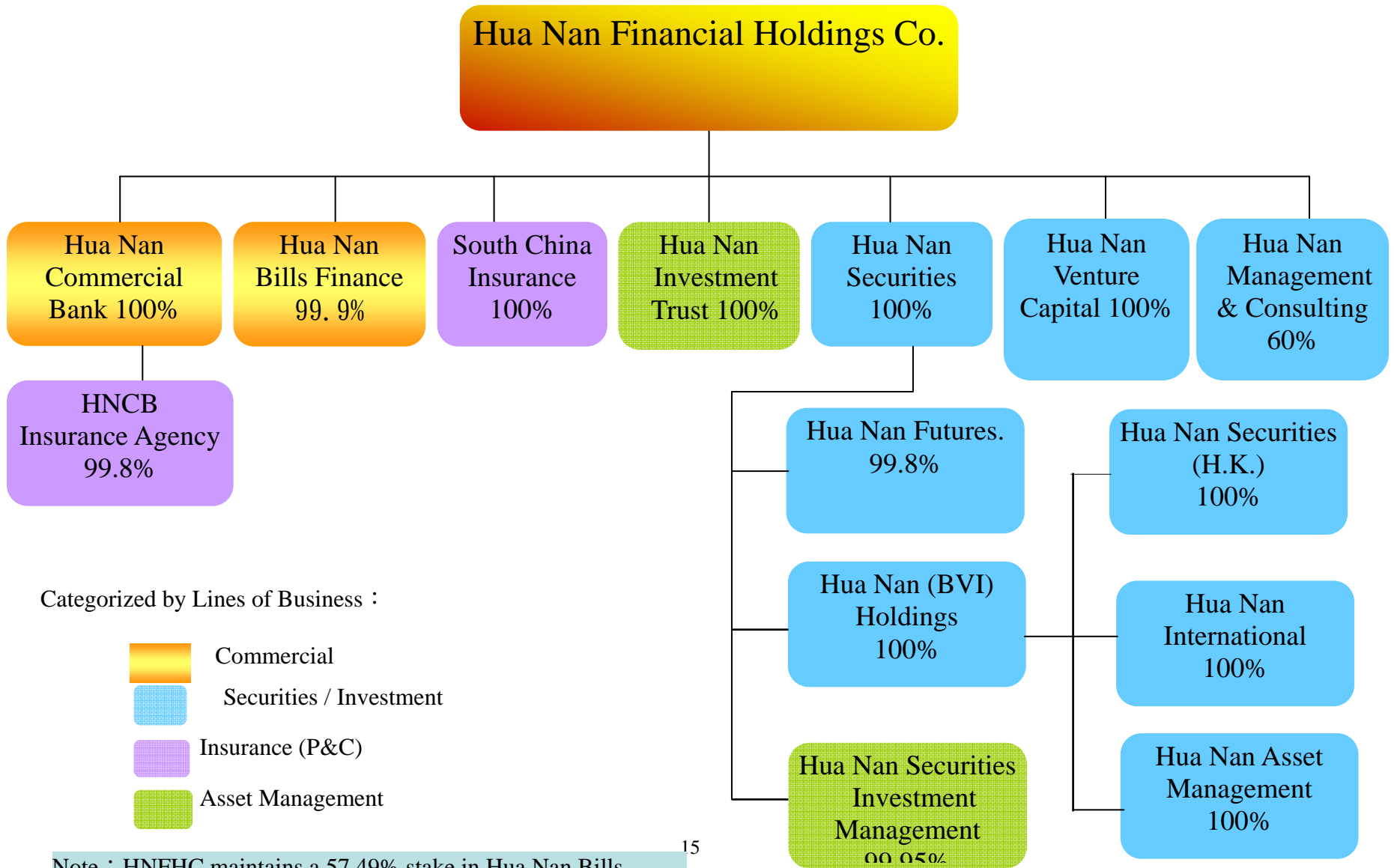
<u>NAME</u>	<u>CURRENT POSITION</u>	<u>EXPERIENCE</u>	<u>EDUCATION</u>
<i>Ming-cheng Lin</i>	Chairman, Hua Nan Financial Holdings Co., Ltd. Director, The Hua Nan Bank of China. Chairman, Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen	Vice Chairman, Hua Nan Commercial Bank, Ltd. President, Ta-Yung Shing Yeh Corp.	Master of Laws, Keio University, Japan.
<i>Teh-Nan Hsu</i>	Managing Director & President, Hua Nan Financial Holdings Co., Ltd.	President, Taiwan cooperative Bank.	Banking Department, Cheng Chi National University.
<i>Chen, Shuh</i>	Managing Director, Hua Nan Financial Holdings Co., Ltd. Administrative Vice Minister, Ministry of Finance.	Chairman, Securities & Exchange Commission, Ministry of Finance. Director, Division Forth, Executive Yuan.	Ph.D., of Business Administration, National Taiwan University.
<i>Hsieh, Teng-Lung</i>	Managing Director, Hua Nan Financial Holdings Co., Ltd. S.V.P. & General Manager, Loans & Discounts Dept., Bank of Taiwan.	Vice President & Deputy General Manager, Loans & Discounts Dept., Bank of Taiwan.	Banking & Insurance Dept., National Taichung Institute of Commerce
<i>Hsien-Hsien Hsu</i>	Managing Director, Hua Nan Financial Holdings Co., Ltd. Director, Prince Motors Co., Ltd. Assistant to the Chairman of Shin-Kong Wu Ho-Su Memorial Hospital	Director & Supervisor, Shin-Kong Life Insurance Co., Ltd.	Department of Economics, Meiji University, Japan.
<i>Wang Kao-Chin</i>	Director, Hua Nan Financial Holdings Co., Ltd. Executive Vice President, Bank of Taiwan.	S.V.P. & General Manager New York Agency and Los Angeles Branch. Supervisor, Hua Nan Commercial Bank, Ltd.	National Taiwan University. North Dakota State University, U.S.A.
<i>Ya-hwei Yang</i>	Director, Hua Nan Financial Holdings Co., Ltd. Research Fellow, Chung-Hua Institution for Economic Research.	Director, Division of Taiwan Economy.	Ph.D. of Economics, National Taiwan University.
<i>Soushan Wu</i>	Director, Hua Nan Financial Holdings Co., Ltd. Professor of Finance & Information Systems, National Chiao-Tung University.	Chairman of management Science Dept., Director of management science Institute, National Chiao-Tung University. Academic Advisor to Ministry of Education.	Ph.D. University of Florida, U.S.A.
<i>Yun Lin</i>	Director, Hua Nan Financial Holdings Co., Ltd. Professor, Dept. of Finance, National Taiwan University.	Chairman of Finance Dept., National Taiwan University.	Ph.D. Univ. of Illinois Urbana Champaign, U.S.A.
<i>Chen Shiu-Hsiung</i>	Director, Hua Nan Financial Holdings Co., Ltd. President, Maxwell Electric co., Ltd.	President, Maxwell Electric co., Ltd.	M.B.A. City University of Washington, U.S.A.

<i>Chang, Hsu Hsueh</i>	<i>Director, Hua Nan Financial Holdings Co., Ltd. Supervisor, Fu Chuan Enterprises Co., Ltd.</i>	<i>Supervisor, Fu Chuan Enterprises Co., Ltd.</i>	<i>Taipei First Girl High School. Tokyo Kyalite College, Japan.</i>
<i>James Hui-jan Yen</i>	<i>Director, Hua Nan Financial Holdings Co., Ltd. Chairman, Asia Jewelry Co., Ltd.</i>	<i>Chairman, Asia Jewelry Co., Ltd. Director, Memorial Scholarship Foundation to Mr. Lin Hsiung-Chen. Director, Chinese National Export Enterprises Association.</i>	<i>Tamkang University</i>
<i>Yen Hui-Wei</i>	<i>Director, Hua Nan Financial Holdings Co., Ltd. Chairman, Taiwan Mineral Resources & Industry Co., Ltd. Supervisor, Evergreen realestate & construction Corp.</i>	<i>Director, Chang Hwa commercial Bank, Ltd. Instructor of University.</i>	<i>Ph.D. Hawaii Pacific University, U.S.A.</i>
<i>Tommy Lin</i>	<i>Director, Hua Nan Financial Holdings Co., Ltd. Special Assistant To The Chairman, Yong Da Construction Co., Ltd.</i>	<i>Fund Manager, Mercury Asset management Co., Ltd. (Japan)</i>	<i>J.D. Law, Univ. of California Los Angeles, U.S.A.</i>
<i>Hsu, Po-Wei</i>	<i>Director, Hua Nan Financial Holdings Co., Ltd. Chairman, En Trust Securities Co., Ltd.</i>	<i>President & CEO, En Trust Securities Co., Ltd.</i>	<i>Master of Chemical Engineer, University of South California, U.S.A.</i>
<i>Chen, Chan-Sheng</i>	<i>Standing Supervisor, Hua Nan Financial Holdings Co., Ltd. President, Hua Nan Deposit Insurance Corp.</i>	<i>Manager, Bank Examination Dept., The Hua Nan Bank of China. President, Hua Nan Deposit Insurance Corp.</i>	<i>Tamkang University Accounting Dept.</i>
<i>Wen-yuh Tsai</i>	<i>Supervisor, Hua Nan Financial Holdings Co., Ltd. Chairman of Sin-Jang CPAS office.</i>	<i>CPA, Audit, Tax- Planning, Business Management etc. Instructor of University.</i>	<i>M.B.A. Cheng Chi National University.</i>
<i>Justin J. L. Wei</i>	<i>Supervisor, Hua Nan Financial Holdings Co., Ltd. S.V.P. & General Manager, Public Treasury Dept., Bank of Taiwan.</i>	<i>Vice President & Deputy Chief Secretary, Board of Directors, Bank of Taiwan.</i>	<i>Master of Economics, Soochow University.</i>
<i>Shu-shai Yen Chen</i>	<i>Supervisor, Hua Nan Financial Holdings Co., Ltd. Manager, Wellin Investment Co., Ltd.</i>	<i>Director, Taipei Business Bank</i>	<i>Shih Chien University.</i>
<i>Wang Kuei-Foug</i>	<i>Supervisor, Hua Nan Financial Holdings Co., Ltd. BNP Paribas Peregring Capital Ltd.(H.K.)</i>	<i>Vice President, BNP Paribas Peregring Capital Ltd.(H.K.)</i>	<i>M.B.A. New York University, U.S.A.</i>

(3) Top Management

<i>Position</i>	<i>Name</i>	<i>Experience</i>	<i>Education</i>
<i>President</i>	<i>Teh-nan Hsu</i>	<i>President, Taiwan Cooperative Bank, Hua Nan Commercial Bank</i>	<i>Banking Department, National Cheng Chi University</i>
<i>Executive Vice President and G.M. of General Administration Department</i>	<i>Mao-hsien Liu</i>	<i>Senior Vice President & General Manager, Banking Dept., Treasury Dept., Hua Nan Commercial Bank</i>	<i>Economics Department, Chinese Culture University</i>
<i>Executive Vice President and G.M. of Risk Management Department</i>	<i>James H. J. Liu</i>	<i>General Manager, Financial Management, Chinatrust Commercial Bank Vice President, Global Market Group, Union Bank of California</i>	<i>Economics & Finance, UCLA, University of Delaware, National Taiwan University</i>
<i>Executive Vice President and Chief Auditor</i>	<i>Shou-lu Chang</i>	<i>Senior Vice President & General Manager, Hua Nan Commercial Bank, International Banking Dept. Planning Dept. Manager, Domestic and Overseas branches.</i>	<i>Economics Department, National Taiwan University</i>
<i>General Manager of Marketing Department</i>	<i>Shing-shyong Chen</i>	<i>Senior Vice President & General Manager, Hua Nan Commercial Bank, Business Administration Dept. Information Technology & Administration Dept.</i>	<i>Economics Department, National Chung Hsing University</i>
<i>General Manager of Treasury & Investment Department</i>	<i>Ching-yuh Wu</i>	<i>Senior Vice President & General Manager, Hua Nan Commercial Bank, Accounting Dept.</i>	<i>Business Department, National Open University</i>
<i>General Manager of Information Technology & Administration Department</i>	<i>Chi-chieh Lin</i>	<i>Senior Vice President & General Manager, Hua Nan Commercial Bank, Information Technology & Administration Dept.</i>	<i>Statistics Department, Feng Chia University</i>

(4) Flowchart of HNFHC Group



Note : HNFHC maintains a 57.49% stake in Hua Nan Bills Finance Co. while subsidiary HNCB holds a 42.41%

4. Capital and Issuance of Domestic Stock (including preferred shares)

Units: NT \$1, 1 share Date: Dec. 31, 2003

Date	Share Face Value	Approved Capital		Registered Capital		Note
		Shares	Value	Shares	Value	Source of Capital
Dec. 19, 2003	\$10	10,000,000,000	100,000,000,000	4,146,799,357	\$41,467,993,570	Shares converted 41,467,993,570
Sep. 19, 2003	\$10	10,000,000,000	100,000,000,000	4,478,543,305	\$44,785,433,050	Accumulated earnings converted into capital 3,317,439,480
Aug. 19, 2003	\$10	10,000,000,000	100,000,000,000	4,728,503,594	\$47,285,035,940	Shares converted 1,696,952,890 (South China Insurance) 802,650,000 (Hua Nan Investment Trust)

Note 1: Annual report information based on fiscal 2003 data

Issuance of Preferred Shares: None.

5. Issuance of Corporate Bonds (including overseas corporate bonds)

a. Corporate Bonds Still Outstanding

Type of Corporate Bond (Note 1)	2002 No. 1 Domestic Subordinate Bond
Issue Date	November 8-22, 2002
Face Value	NT\$ 1,000,000
Issue and Trading Place	Taiwan
Issue Price	100% of Face Value
Total Amount (Note 4)	NT\$ 6,000,000,000
Interest Rate	Type A Coupon: 3.00%, Type B Coupon: 2.9778%
Term	5 Years for All Types
Guarantor	None
Commissioned Agency	Chinatrust Commercial Bank
Underwriter	None
Certification Lawyer	Kuo Fang-kwei Legal Firm Kuo Fang-kwei
Certification Accounting	Deloitte & Touche Chih-rung Lee, Jih-yen Chang
Method of Repayment	1. Methods to Calculate and Pay Interest: Interest Paid on Type A Bonds Once a Year from Issuance Based on Face Value. Interest Compounded Every Six Months for Type B Bonds and Paid Out Once A Year Based on the Issue Date. Interest Paid on Every NT \$1 Million of Bonds, With the Final NT Paid Based on Rounding Up or Down According to the .5 Decimal Rule. 2. Methods of Payment of Principal: Principal Repaid in Full on the Fifth Anniversary of Issuance.
Amount Outstanding	NT\$6,000,000,000
Redemption or Early Repayment	None
Restrictive Articles (Note 3)	None

<i>Name of Ratings Agency, Date of Rating, Rating of Corporate Bond</i>		<i>Credit Rating Agency: Taiwan Ratings Rating Date: September 10, 2002 Company Rating: twA</i>
<i>Conversion (Swap) Rights</i>	<i>Converted (Swapped) Shares, Overseas Depositary Receipts, or Other Securities</i>	<i>None</i>
	<i>Issuance and Conversion (Swap) Methods</i>	<i>None</i>
<i>Name of Custodian Institution for Conversion</i>		<i>None</i>

Note 1: Adjusted for the actual number of times that bonds have been issued.

Note 2: Overseas corporate bonds also listed.

Note 3: Restrictive clauses could include such things as maintaining a specific assets ratio, limits on the payment of cash dividends and foreign investment.

Note 4: The amount of corporate bonds issued totaled NT \$6 billion. Different issuance conditions pertained to Type A and Type B bonds. A total of \$3.7 billion of Type A bonds were issued. These bonds were divided into 11 series based on their issuance date, including AA, AB, AC, AD, AE, AF, AG, AH, AI, AJ, and AK. A total of \$2.3 billion of Type B bonds were issued and were divided into 10 series based on issuance date, including BA, BB, BC, BD, BE, BF, BG, BH, BI and BJ. A total of \$1 billion of AB bonds were issued, and \$500 million of AF bonds were issued. \$300 million of bonds were issued for each of the AC, AD, AE, AK, BA, BD, and BE series. Meanwhile, \$200 million of bonds were issued for the AA, AG, AH, AI, AJ, BB, BC, BF, BG, BH, BI and BJ series. The face value of the bonds was \$1 million.

b. Corporate Bonds to Mature Within One Year: None.

c. Market Price of Convertible Bonds and Conversion Price: None.

d. Swapped Corporate Bonds: None.

6. Issuance of Overseas Depositary Receipts: None.

III. State of Operations

1. Business Scope of HNFHC

A. Business Scope

(1) Businesses Permitted According to the Financial Holding Company Law

- Banking*
- Bills finance*
- Credit cards*
- Trust*
- Insurance*
- Securities*
- Futures*
- Venture capital*
- Overseas financial institutions (subject to regulatory approval)*
- Other financial-related operations as specified by authorities*

(2) Management of aforementioned invested businesses.

(3) HNFHC must apply to authorities for approval to invest in businesses not included in the First Category.

(4) HNFHC can invest in other businesses subject to approval by regulatory authorities.

B. Operations Weighting Over Recent Three Years

<i>Item \ Year</i>	<i>Fiscal 2001</i>		<i>Fiscal 2002</i>		<i>Fiscal 2003</i>	
	<i>Amount</i>	<i>% of Total</i>	<i>Amount</i>	<i>% of Total</i>	<i>Amount</i>	<i>% of Total</i>
<i>Long-term Equities Investment (Net)</i>	167,569	100	(26,370,373)	100	10,233,771	100

C. Plans for Development of New Financial Products and Services

With the arrival of the consumer banking age and a wider variety of personal finance options for the public, HNFHC continuously develops various integrated products that draw on all of its subsidiaries. This provides customers with one-stop shopping and comprehensive personal finance services.

2. Operations of Subsidiaries and Planned Development of New Financial Products

(1) Hua Nan Commercial Bank Co., Ltd.

A. Business Scope

- Accepts checking deposits and other deposits
- Handles loans and credit discounts
- Handles domestic and foreign exchange
- Handles exchange of commercial drafts
- Issues letters of credit
- Handles domestic and overseas guarantees
- Handles financial trust operations
- Handles trust-related operations
- Invests in securities
- Underwrites and deals in securities
- Provides certification for stocks and bonds
- Trades government bonds
- Handles short-term bills certification, underwriting and dealing
- Trades and acts as an agent for gold ingots, gold coins and silver coins
- Acts as agent for payments
- Handles warehousing, acts as a depository and provides agent services for various payments
- Buys and sells foreign currencies
- Establishes OBUs to handle international banking operations
- Establishes foreign branches to handle banking operations approved by local governments
- Handles consumer banking operations and issues credit cards
- Serves as an agent for operations related to the public welfare lottery
- Issues financial bonds

B. Operations Weighting Over Recent Three Years

Unit: NT \$1,000

Year Item	2001 (Dec. 31)		2002 (Dec. 31)		2003 (Dec. 31)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Demand Deposits	373,075	36.96	437,526	40.63	535,666	42.27
Time Deposits	574,558	56.91	576,942	53.58	544,182	48.02
Interbank Deposits	61,896	6.31	62,405	5.79	53,340	4.71
Total	1,009,529	100.00	1,076,873	100.00	1,133,188	100.00

C. State of Operations in Recent Years

(A) Deposits

Unit: NT \$1 million

Year Item	2001 (Dec. 31)		2002 (Dec. 31)		2003 (Dec. 31)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Demand Deposits	373,075	36.96	437,526	40.63	535,666	42.27
Time Deposits	574,558	56.91	576,942	53.58	544,182	48.02
Interbank Deposits	61,896	6.31	62,405	5.79	53,340	4.71
Total	1,009,529	100.00	1,076,873	100.00	1,133,188	100.00

As of December 31, 2003, total deposits stood at NT \$1,133,188 million, an increase of 5.23% or \$56,315 million from the end of 2002. After deducting deposits by other financial institutions, deposits stood at \$1,079,848 million, a rise of 6.54%.

(B) Loan

Unit: NT \$1 million

Year Category	2001 (Dec. 31)		2002 (Dec. 31)		2003 (Dec. 31)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Short-term Loans	358,007	47.66	342,774	44.62	362,288	43.83
Medium-term Loans	151,464	20.16	184,661	24.04	209,310	25.33
Long-term Loans	241,760	32.18	240,813	31.35	254,825	30.84
Total	751,231	100.00	768,248	100.00	826,363	100.00

Note: Includes overseas branches and OBUs

Total loans as of December 31, 2003 (not including loans to other financial institutions or overdrafts, import/export negotiations and foreign exchange purchases) reached NT \$826,363 million, a rise of 8% or \$58,115 million from the end of the previous year.

(C) Foreign Exchange

Unit: US \$1 million

Year Subject	2001 (Dec. 31)		2002 (Dec. 31)		2003 (Dec. 31)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Import	6,565	6.40	7,507	7.15	8,773	6.98
Export	6,161	6.01	6,219	5.93	6,786	5.40
Foreign Remittance	89,786	87.59	91,209	86.92	110,109	87.62
Total	102,512	100.00	104,935	100.00	125,670	100.00

In 2003, the bank handled 1,545,727 foreign exchange cases, 137,402 cases more, or 9.76% from 2002. However, the amount of funds involved totaled US \$125,669 million, an increase of 19.76% from the previous year. The breakdown of business was as follows:

- Import letters of credit issuance and collections: A total of 73,392 cases were handled, down 3,569 cases from 2002 and equivalent to a decrease of 4.64%. Monetary value totaled US \$8.774 billion, a rise of \$1,266.52 million, or 16.87% from the previous year.*
- Export negotiations and collections: A total of 117,531 cases were handled, down 7,912 cases on the year, translating to a fall of 6.31%. Monetary value totaled US \$6.786 billion, up \$56.75 million, or 9.13% from the previous year.*
- Foreign remittance and foreign currency deposits: A total of 1,354,804 cases were handled, up 148,883 cases, or 12.35% from 2002. Monetary value totaled US \$110.109 billion, a rise of \$18.900 billion, or 20.72%, on the year.*

(D) OBUs and Foreign Branches

Foreign currency deposits in overseas units in 2003 totaled US \$1.520 billion, up \$2.335 million, or 18.15% from 2002. Foreign currency loans amounted to \$1.490 billion, a rise of \$60.534 million, or 4.24% from 2002. In 2003, Hua Nan's five foreign branches and OBUs had pre-tax profits of \$54.88 million, up \$39.14 million or 248.52% from the previous year. Mainly for the reason of NPL clearance.

(E) Trust

- Investment in local and foreign securities by trust funds with designated uses*

a. Foreign currency trust funds:

(a) Foreign constructive notes:

The amounts handled in 2003 were US \$123.59 million and the total trust fund assets were US \$95.53 million. The handling fee income was NT \$161.08 million.

(b) Foreign government or organization bonds:

The total trust fund assets were US \$11.62 million in 2003 and the handling fee income was NT \$2.43 million.

b. NT dollar trust funds:

(a) Foreign mutual funds:

The amounts handled in 2003 were US \$ 12,697.66million and the total trust fund assets were US \$19,922.83 million. The handling fee income was NT \$135.94 million.

(b) Domestic securities trust funds or constructive products:

The amounts handled in 2003 were US \$ 65,592.70million and the total trust fund assets were US \$31,182.50 million. The handling fee income was NT \$44.04 million.

- Trust funds for specific clients*

a. Securities certification

In 2002, Hua Nan handed certification of shares and bonds for 660 companies, including Formosa Petrochemical. The amounts handled in 2003 were NT \$ 745,200 million and the generating handling fee income of NT \$10.50 million.

b. Safe deposit box rental

A total of 61,781 safe deposit boxes were rented as of the end of 2003, representing 62.60% of total boxes available. Rental income for the year stood at NT \$73.52 million.

c. Custodial services

Hua Nan commenced custodial services for six more securities investment trust funds in 2003, bringing the number of funds for which it provides custodial service to 32. Presently, 106 clients have solely commissioned Hua Nan for custodial services, with the commissioned custodial amount at NT \$88.11 million. Total funds under custodial service amount to NT \$139.302 billion.

d. Corporate bond issuance

In 2002, Hua Nan issued corporate bonds on behalf of 14 companies. The aggregate amount of bonds issued was \$20.16 billion, generating handling fee income of \$1.79 million.

e. Property trusts

At the end of 2003, assets of these trusts amounted to NT \$4,254.52 million, generating trust handling income for the year of \$5.15 million.

(F) Securities

•Stock broking

Hua Nan sold its securities broking department to Hua Nan Securities on July 19, 2002. To the end of June, the department brokered NT \$40.943 billion of securities, with the operation generating a profit of \$57.62 million.

•Securities Underwriting

Hua Nan served as underwriter for nine companies in 2003, including stock for Formosa Petrochemical Corp., convertible corporate bonds for three companies, and beneficiary certificates for five funds. The bank generated income of NT \$13.28 million on these operations.

(G) Domestic Remittance and Agency Services

Hua Nan processed NT \$7,683,552 million of outward remittances in 2003, up \$1,916 million from 2001. It served as an agent for checks amounting to \$572,563 million, down \$5,714 million from 2002. Hua Nan serves as an agent for government bonds, insurance premiums, tax, telecommunications fees, electricity bills, water bills, gas bills, tuition, laborer and worker insurance premiums and subscriptions for corporate rights issues. It also is an agent in bidding for government bonds, selling gold and silver coins, and selling public welfare lottery tickets. Furthermore, it handled payment of interest and principal on government bonds, cash dividends on securities, payment of lottery winnings based on government unified invoices and payment of public welfare lottery winnings.

(H) Bank Portfolio Trading of Government Bonds and Bills

• Government Bonds

In 2003, the bank purchased NT \$341,614 million of government bonds outright, while selling \$331,651 million outright. Income from outright trading amounted to \$2,549 million (not including interest income). A total of \$205,695 million of government bonds were dealt on a repurchase basis, while \$27,712 million were handled on a resale basis.

- **Bills**

In 2003, the total amount of short-term bills bought on an outright basis was NT \$410,049 million, while \$405,154 million was sold. Income from this trading amounted to \$2,837 million. Bills repurchase transactions amounted to \$54,417 million, and the outstanding balance is \$35,183 million.

- **Financial Bonds**

In 2003, Hua Nan Commercial Bank issued NT \$25.67 billion financial bonds, including NT \$10.1 billion of subordinate financial bonds. Combined with the previous year's issuance, the bank has \$50.67 billion of bonds outstanding.

(I) Consumer Banking

Hua Nan presently emphasizes the issuance of joint-branded theme credit cards. In September 2002, it jointly issued a national recreational card with the Taiwan Association of Travel Agents. In November, Hua Nan was selected to be one of five banks to issue the "National Tourist Card" to public servants as well as to cover acquirer service. As of the end of 2002, business in this area was as follows:

- **International credit cards**

- a. **Card issuance**

At the end of 2003, the bank had issued a total of 680,756 cards, a rise of 125,555 cards.

- b. **Acquirer Service**

Contracted merchants numbered 4,771, a rise of 842 merchants from 2002 and equivalent to growth of about 22%.

- c. **Handling fee income**

This income stood at NT \$383.02 million, a rise of \$252.98 million from the end of 2002 and equivalent to growth of about 194.54%. Aggregate trading value was \$22,993.25 million, a rise of 173.72%, or \$ 14,593.25 million, from 2002.

(J) State of Overdue Loans

Hua Nan Commercial Bank is determined to deal with overdue loans. In 2001, the bank wrote off NT \$52.59 billion of overdue loans, bringing its overdue loans ratio down from 8.27% early in the year to 4.16% at the end of 2002, following the year of 2003 to 3.33%(3.89% international). By the warming global economy, we shall expect lower overdue loans ration.

(K) Plans to Develop New Financial Products and Services

- a. *To print "Rewards Program Guide" that helps to maintain contact with cardholders and will also provide special deals and prizes that can be redeemed.*
 - b. *For pushing the business of cash card, we set up cash card windows, well equipped with specialized persons and information system.*
 - c. *To offer a complete line of packaged and integrated mortgages and consumer loans to provide customers with more options.*
 - d. *To employ direct marketers to promote cash card and small-sized loan operations.*
 - e. *To establish strategic alliances to market B2C operations.*

- f. To plan and establish a personal loan computer credit rating system and to develop an on-line loan approval system (e-Loan).*
- g. To continue to establish personal finance windows at branch offices and gradually open other VIP personal finance management centers in north, Hua Nan and south Taiwan based on the model of the flagship at the Changchun branch as well.*
- h. To strengthen classification and management of loan assets in line with the introduction of asset-backed securities.*
- i. To continue to strengthen the function of the Shenzhen representative office and to prepare for the upgrading of the office into a branch.*
- j. To plan and introduce “New Taiwan Dollar investment products” in line with development of the Information Office.*
- k. To strengthen trust services, products, and regulatory and tax coursework, and to produce a manual for marketing executives in this business. On-line coursework will also be offered to raise the trust expertise of staff.*
- l. To develop custodian services for new types of financial products to expand business and income.*
- m. To develop concentrated management and utilization of trust funds, mutual fund operations and securitized trusts as such areas are liberalized by government authorities.*

(2) Hua Nan Securities Co., Ltd.

A. Business Scope

- Broking of securities on the Taiwan Stock Exchange*
- Broking of securities on other exchanges*
- Trading securities under its own portfolio on the TSE*
- Trading securities under its own portfolio on other exchanges*
- Underwriting securities*
- Acting as a securities agent*
- Providing margin buying and margin selling of securities*
- Accepting orders for trading of foreign securities*
- Handling operations related to futures trading*
- Handling other securities-related futures operations*
- Handling other securities-related business approved by authorities*

B. State of Operations and Weighting in Recent Three Years

Unit: NT \$1,000

<div> <div>Year</div> <div>Item</div> </div>	2001 (Dec. 31)		2002 (Dec. 31)		2003 (Dec. 31)	
	Amount	Amount	Amount	% of Total	Amount	% of Total
<i>Broking</i>	1,575,041	2,336,859	2,336,859	52.32%	2,055,315	60.65%
<i>Dealing (Including Futures)</i>	1,018,735	594,710	594,710	33.84%	948,284	29.05%
<i>Underwriting</i>	63,740	261,312	261,312	2.12%	177,270	5.23%
<i>Others (Non-core Business Income)</i>	353,029	167,686	167,686	11.72%	171,968	5.07%
<i>Total</i>	3,010,545	3,360,567	3,360,567	100.00%	3,388,834	100.00%

(A) Broking

Taiwan's economy in 2003 started out weak, but recovered in the latter half. The uncertainty associated with the US-Iraq War rattled the stock and currency markets in the first quarter. The outbreak of SARS in the second quarter caused Taiwan's economy to contract. Fortunately, the situation improved in the third quarter as foreign investors remitted in investment funds. For the year, the stock market rose 1,438 points, or 32%, to close at 5,890 points. The New Taiwan dollar appreciated 2% against the US dollar. The yield on the ten-year Hua Nan government bond rose about 0.5 percentage point. At the end of 2003, Hua Nan Securities had 41 branches (including the acquisition of a brokerage in June) that became designated as the Changhua branch, and the company's market share stood at 2.79%. Broking handling fee income fell to NT \$2,055 million, or 12%, from 2002's NT \$2,337 million, and it accounted for 60.65% of total company income, down from 69.54% the previous year.

(B) Underwriting

The US-Iraq War and SARS in the first half of 2003 had a major impact on underwriting operations. While an economic recovery unfolded in the second half, there was still a lag in terms of new underwriting jobs. It is expected that the division will register strong growth in the first half of 2004. In 2003, Hua Nan provided underwriting assistance services to 67 companies, served as underwriter to 70 companies, and acted as custodian for 76 companies. For the year, underwriting income fell 32% to NT \$177.3 million from 2002's NT \$261.3 million, and underwriting accounted for 5.23% of the company's income, down from 7.77% in 2002.

(C) Dealing

Stock, futures and bond dealing operations posted profits in 2003, bolstered by a rebounding economy and stock market in the second half of the year, as well as low interest rates. Both income and profitability rose sharply compared with 2002. In 2003, Hua Nan's dealing

operations (including dealing of financial products and futures) contributed 29.05% of total company income, up from 17.70% the year before. Income from these operations in 2003 stood at NT \$984.3 million, up 65% from 2002's NT \$594.7 million.

C. Plans for Development of New Financial Products and Services

In 2003, further easing of securities and finance regulations resulted in the liberalization of various financial products. In addition, rules were changed to denote which areas of business securities brokerages could not partake in, rather than the business in which they could engage. As a result, Taiwan's main brokerages actively began researching and planning new products and training personnel. In light of a liberalized regulatory environment, Hua Nan Securities this year will evaluate and begin carrying out the following areas of business:

- a. To develop comprehensive investment banking services: The government is encouraging brokerages to transform into investment banks. In light of this, Hua Nan will develop corporate restructuring, mergers and acquisition, and financial consulting operations. It will also initiate a wider range of broking and underwriting activities.*
- b. To promote overseas securities operations: Hua Nan will promote trading of foreign securities to satisfy the desire among local investors for more diversified investment options amid the trend toward global investment.*
- c. To develop underwriting business in the areas of subordinated bonds and asset-backed securities.*
- d. To design and promote business regarding warrants, asset swaps, structured products and other financial derivatives.*
- e. To actively be a market-maker in futures, Taiwan index and stock options, and exchange traded funds. Hua Nan's Financial Products Department and Futures Dealing Department will continue to develop market-making activities and boost trading activity of futures-related products.*
- f. To develop interest rate futures and interest rate swaps: Hua Nan has been granted approval to allow the Financial Products Department, Bond Department and Underwriting Department to work together on developing business in these areas.*

(3) Hua Nan Bills Finance Corp.

A. Business Scope

- Certification and underwriting of short-term bills*
- Broking and dealing in short-term bills*
- Guaranteeing and endorsing short-term bills*
- Acts as a broker for inter-bank financing among financial institutions*
- Deals in government bonds*
- Certification and underwriting of financial bonds*
- Broking and dealing in financial bonds*
- Provides consulting services for corporate financing.*

B. State of Operations and Weighting in Recent Three Years

Unit: NT \$1 million

Year Item	2001 (Dec. 31)		2002 (Dec. 31)		2003 (Dec. 31)	
	Amount	Amount	Amount	% of Total	Amount	% of Total
Short-term Bills Certification	313,598	304,631	304,631	13.57%	189,903	8.05%
Short-term Bills Underwriting	313,598	304,631	304,631	13.57%	189,903	8.05%
Short-term Bills Dealing	1,102,806	1,107,939	1,107,939	47.74%	1,058,203	44.88%
Short-term Bill Guarantees	119,866	105,223	105,223	5.19%	80,398	3.41%
Government Bond Dealing	460,330	573,757	573,757	19.93%	839,807	35.61%

C. Plans for Development of New Financial Products and Services

Plans to develop new financial products and services are as follows:

In recent years, supervisory authorities have opened the door to interest rate products with the hope of enabling bills finance companies to become specialists in the field of trading fixed return products. As a result, how to effectively boost the quality of manpower and sport innovation, create diversified products that can adapt to rapidly changing markets and develop new business is the focus of Hua Nan Bills Finance. The company is focusing on the following:

- (A) To provide NT dollar interest rate swaps, forward rate agreements and interest rate future operations in order to offer hedging against movements in interest rates and provide market participants a variety of products to trade.*
- (B) To engage in financial debentures and corporate bond business in order to diversify operations.*
- (C) To engage in fixed rate commercial paper certification, underwriting, broking and dealing, to assist customers to lock in issuing costs and to participate in secondary market trading in order to expand the size of the market.*
- (D) To strengthen internal controls and management of assets and liabilities in order to implement a risk management mechanism.*

(4) South China Insurance Co., Ltd.

A. Business Categories :

- (1) Fire Insurance (Residential and Commercial)*
- (2) Fire & Allied Named Perils Insurance*
- (3) Residential Earthquake Insurance*
- (4) Cargo Insurance*
- (5) Marine Hull Insurance*
- (11) Motor Third Party Liability Insurance*
- (12) Motor Theft Insurance*
- (13) Compulsory Motor Insurance*
- (14) Compulsory Motorcycle Insurance*

- | | |
|--|---|
| (6) Fishing Vessel Insurance | (15) Construction/Erection All Risk Insurance |
| (7) Fishing Vessel Third Party Liability Insurance | (16) Credit/Guarantee Insurance |
| (8) Inland Transportation Insurance | (17) Liability Insurance |
| (9) Aviation Insurance | (18) Other Property Insurance |
| (10) Motor Physical Damage Insurance | (19) Injury Insurance |
| | (20) Reinsurance |

B. Composition of Operations over Past Three Years:

Unit: NT \$1,000

<div>Year</div> <div>Item</div>	2001 (Dec. 31)		2002 (Dec. 31)		2003 (Dec. 31)	
	Amount	Amount	Amount	% of Total	Amount	% of Total
Fire Insurance	590,522	16.03	691,051	16.54	844,166	18.55
Marine Insurance	174,927	4.75	212,787	5.09	277,622	6.10
Vehicle Insurance	2,079,209	56.44	2,288,582	54.78	2,336,556	51.32
Accident Insurance	636,346	17.27	779,952	18.67	826,674	18.16
Total Premium Income	3,481,004	94.49	3,972,371	95.08	4,285,509	94.13
Premium Discount	44,056	1.20	12,923	0.31	0	0
Net Premium Income	3,436,948	93.29	3,959,448	94.78	4,285,509	94.13
Reinsurance Income	247,223	6.71	218,286	5.22	267,118	5.87
Total	3,684,171	100.00	4,177,734	100.00	4,552,627	100.00%

C. Plans for Development of New Financial Products and Services

In addition to following developments in regulatory screening of various products, the company will continue to develop new products based on the needs of different markets. New products will include loan guarantee insurance, travel third party liability insurance, travel agency contract guarantee insurance, and added motor physical damage insurance.

(5) Hua Nan Investment Trust Corp.

A. Areas of Business

- (A) Issuance of beneficiary certificates to raise capital for securities investment trust funds.
- (B) Utilizing securities investment trust funds to engage in investment in securities and other related products.
- (C) Carries out discretionary trading on behalf of customers.
- (D) Other business that is approved by the Securities and Futures Commission.

B. Composition of Operations over Past Three Years

Unit: NT \$1,000

<i>Business</i>	<i>Year</i>		<i>2001</i>		<i>2002</i>		<i>2003</i>	
			<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>Management Income</i>			134,812	97	262,947	100	312,261	100
<i>Sales Income</i>			3,871	3	1,045	-	1,508	-
<i>Total</i>			138,683	100	263,992	100	313,769	100

C. Plans for Development of New Financial Products and Services

<i>Category</i>	<i>Name</i>	<i>Forecast Establishment</i>
<i>Funds</i>	<i>Fortune Principal Guaranteed Fund</i>	<i>March 2004</i>
	<i>Global Balanced Fund</i>	<i>July 2004</i>
	<i>Fund of Funds</i>	<i>October 2004</i>
	<i>Hedge Fund</i>	<i>2005 (Planned)</i>
	<i>Global Growth Fund</i>	<i>2005 (Planned)</i>
<i>Personal Finance Services</i>	<i>Constructive Retirement Fund Products</i>	<i>2005 (Planned)</i>

3. Market Analysis

(1) THE ECONOMY IN GENERAL

In early 2003, Taiwan's economy continued on the road to recovery that began at the end of the previous year. In February, the leading indicator and the coincident indicator both rose. On March 20, however, the US-Iraq War broke out and in late April, many Asian nations and Canada succumbed to the outbreak of SARS. These events impacted export orders for Taiwan companies and also led to a rapid decline in consumer confidence and corporate investment. From the 5.21% and 4.52% GDP growth recorded in the third and fourth quarters of 2002, respectively, economic growth slid to 3.53% in the first quarter of 2003 and then contracted 0.08% in the second quarter. The economic indicator light in April flashed "blue" that symbols recession, it was seen for three consecutive months. The leading and coincident indicators also fell. The industrial production index dropt contracted in May, which indicated the blow that these two events was having on Taiwan's economy.

Fortunately, the global economy began to recover thanks to the quick resolution to the US-Iraq War and containment of the SARS outbreak. Taiwan's economy has been recovering gradually since the third quarter of 2003. Taiwan's exports have been especially strong due to the rapid global recovery. Exports have displayed double-digit growth since August. Meanwhile, the composite indicator began emitting a "green" light in July, which indicates healthy growth. This indicator was seen for five straight months. In December, the indicator even moved into the "yellow-red" zone, signifying heated growth. External trade in the third quarter made a greater contribution to economic growth than originally

expected. Production and sales activity on Taiwan gradually returned to normal after the end of the SARS outbreak. Private investment, however, was still primarily concentrated in the opto-electronics and other high-tech sectors. Private consumption displayed only modest growth and domestic consumption was flat. The combination of domestic and foreign demand enabled Taiwan's GDP growth for the third quarter to rise to 4.18%.

Expansion in external trade further boosted GDP growth to 5.17% in the fourth quarter, which brought growth for the year to 3.24%. Overall, 2003 was a year that saw the economy recover quite nicely as the year progressed.

(2) INDUSTRIAL PRODUCTION

Annual growth in industrial production in January and February 2003 was 8.35% and 9.23%, respectively, thanks to continued strengthen in external trade. Starting in March, however, industrial production began to slide due to the US-Iraq War and then the SARS outbreak. Growth in March slowed to 2.11% and just 0.08% in April before contracting 3.38% in May. In the second half of the year, output was benefited by a global economic rebound and a trend to replace machinery. Growth was particularly strong in telecommunications products and consumer electronics items, such as monitors. The rebound was further fueled by large orders from foreign factories for a new generation of upstream semiconductor products as well as traditional demand in the fourth quarter. For the year, export orders stood at US\$170,030 million, which was a growth of US\$19,080 million, or 12.64%, from the previous year. Growth in industrial output rebounded to 6.77% in July and further heated to 12.42% by December. Overall, industrial production in 2003 grew 5.48% from 2002.

(3) FOREIGN TRADE

Taiwan's external trade in the first half of last year was impacted by the US-Iraq War and the SARS outbreak.

Imports and exports in February were each below US\$10 billion at US\$8.41 billion and US\$9.83 billion, respectively. The situation, however, improved substantially in the second half of the year. In August, imports and exports returned to registering double-digit growth, at 14.2% and 12.9%, respectively. In light of global demand for consumer electronics, telecommunications and computers in the second half of the year, as well as contract manufacturing orders received by local companies, Taiwan's exports for the year were tallied at US\$144,240 million, a rise of 10.4% on the years, while imports stood at US\$127,260 million, a rise of 13.1%. Taiwan registered a trade surplus for the year of US\$16,980 million, which was a decline of 6.0% from 2002.

(4) INFLATION

There was little pressure on prices to rise in 2003 due to weak domestic and foreign economies, rising domestic unemployment, a weak stock market, the effect of "shrinking wealth" for many people, and the outbreak of SARS, which pummeled consumer confidence. Entertainment and transport service fees both fell. For the year as a whole, the consumer price index and the core consumer price index fell 0.28% and 0.61%, respectively. On the other hand, wholesales prices were impacted by high international oil prices as well as global rises in steel and petrochemical raw material prices. These

factors boosted import costs and resulted in the wholesale price index rising 2.48% on the year._

(5) MONEY SUPPLY

Economic weakness in the first half of the year, a decline in corporate investment, moribund loan growth among financial institutions, light trading in the stock market and an outflow of foreign investment funds due to redemptions overseas caused growth in the M1A and M1B money supplies to fluctuate at a level below 10%. This situation continued until August when the economy began to strengthen, which sparked growth in the money supplies to return to double-digit growth. In December, annual growth in the M1A and M1B stood at 18.53% and 18.10%, respectively. Growth in the M2 slowed in the first half of the year (annual growth for January-June at 2.53% -- within the Hua Nan Bank's target range of 1.5%-5.5%) due the flow of funds into local bond funds and overseas financial products. The "M2 + bond fund" growth rate stood at 4.00%, which was within the target level of 3%-7%. In the second half of the year as the economy rebounded, loan growth among banks strengthened, the trade surplus widened and foreign investment funds flowed in, causing annual growth in the M2 to hasten. For the year as a whole, the M2 money supply grew 3.77%, while the "M2 + bond funds" growth stood at 5.25%. Both of these figures were within target ranges set by the Hua Nan bank, and even stood near the mid-levels of the ranges.

4. Operational Goals and Strategies

(1) Operational Goals

HNFHC's operational strategy is to investment in the four major pillars of the financial sector – banking, insurance, securities and asset management. Banking is the core of the company, with other subsidiaries in securities, bills finance, life insurance, property insurance, investment trust, insurance agency, futures, securities consulting, venture capital and management consulting. HNFHC will pursue horizontal development and will boost capital to fund expansion. It aims to establish a comprehensive financial group that offers a one-stop financial trading platform. In the short term, HNFHC seeks to become one of the top three Taiwan financial groups in terms of asset size and profitability. Its medium- and long-term goal is to become one of the top three financial groups in Greater China and Asia.

Presently, HNFHC already has a bank, securities brokerage, property insurer, bills finance company, investment trust, venture capital firm, management consultancy, futures brokerage and insurance agency under its umbrella. It is presently planning for the establishment of a bank insurance company. With this, the company's financial blueprint is for the most part complete. In order to increase its size and rapidly expand market share, HNFHC does not rule out merging with or acquiring other financial holding companies.

HNFHC has already established a platform for members of the group to exchange opinions on short-term investments. Each subsidiary provides its professional assessment of various investment opportunities, which helps to reduce short-term investment risks. This mechanism also results in more efficient use of short-term investment funds.

➤ *Short-term Investment Plans :*

- *With a top-quality bank as its center, HNFHC has adopted a “One large core, ten small satellites” as its investment strategy.*
 - ✧ *Establish a group-wide basic financial exchange platform.*
 - ✧ *Execute core investment plans.*
 - ✧ *Carry out small- and medium-sized acquisitions.*
 - ✧ *Establish a healthy fiscal and capital structure for each subsidiary.*

➤ *Medium-term Investment Plans :*

- *HNFHC will actively look to expand in order to raise the group’s market share.*
 - ✧ *Establish a group-wide comprehensive financial exchange platform.*
 - ✧ *Expand the size of capital and market share for each subsidiary.*
 - ✧ *Carry out large-sized mergers and acquisitions.*
 - ✧ *Implement an overseas expansion investment plan.*
 - ✧ *Enable the movement of capital within the group to achieve the best use of funds.*
 - ✧ *Carry out a plan to support investments.*

(2) Positive and Negative Factors in Development Outlook

A. Positive Factors

(A) Large Group Asset Scale

As of the end of 2003, HNFHC’s aggregate assets stood at NT \$1.513 trillion. The company has enormous capital resources and is larger than many other Taiwan financial holding companies. This gives it a competitive advantage amid increasing international financial interaction and competition with international financial groups.

(B) Healthy Financial Structure

In addition to aggressively writing off bad loans, Hua Nan Commercial Bank is actively disposing of distressed assets. At the same time, it is closely monitoring and managing loans to maintain credit quality. It has implemented a credit assessment system to prevent new overdue loans. It has a healthy asset and liability management system, comprehensive auditing and risk management, as well as a high degree of financial transparency.

(C) Stable Shareholding Structure

The government holds a 31.46% stake (including Taiwan Business Bank with a 29.47% stake and the Ministry of Finance with a 1.99% stake), providing a solid foundation and benefiting the company in terms of sustained operations and strong corporate ratings.

(D) Close-knit Sales and Marketing Network

HNFHC has a total of 262 business outlets on Taiwan, creating a close-knit operational and customer service network.

(E) Large Client Base

Client information from each subsidiary is entered into a database which is then used to strengthen the relationship with customers and providing the client with appropriate products. This also increases client loyalty.

(F) Sound Risk Management System

All on and off balance sheet risk of HNFHC and its subsidiaries, such as credit risk, market risk, liquidity risk, sovereign risk, operational risk, legal risk and information risk, are evaluated according to the most advanced risk management system. The most appropriate balance of risk capital/economic capital is sought to pursue the greatest value for shareholders.

(G) Leading Corporate Banking and Foreign Exchange Operations

Hua Nan Commercial Bank's corporate lending and foreign exchange operations hold a leading position when compared with counterparts. In addition, the bank is further strengthening marketing of its foreign exchange operations. Business departments are promoting traditional foreign exchange operations, and the bank is actively developing new foreign exchange investment products.

In recent years, Hua Nan Commercial Bank has developed e-commerce. Its Venus Plan provides companies with comprehensive electronic solutions. Its outstanding performance in the area of e-commerce was recognized by the Ministry of Economic Affairs, which awarded the bank the Outstanding e-Commerce Award. The bank also won the United Nations AFACT eASIA Award. In addition, electronic transaction services assist small- and medium-sized enterprises in obtaining financing. As a result, the bank won Commonwealth Magazine's Outstanding Service Award. In October 2003, it issued Asia's first electronic check, becoming Asia's first bank to establish an electronic check clearing system.

(H) Comprehensive Product Line

HNFHC is home to a wide range of subsidiaries, providing a diversified range of products. Subsidiaries include a bank, securities brokerage, bills finance company, property insurer, investment trust, life insurer, futures brokerage and securities consultancy.

(I) Outstanding Reputation

Subsidiary Hua Nan Commercial Bank is known as one of Taiwan's Big Three commercial banks. Hua Nan is a well-known household brand name that focuses on trustworthy, sincere and innovative service, and which provides comprehensive banking services.

B. Negative Factors

- (A) Information released by a financial holding company must be even more transparent than that of just a bank or securities brokerage. A financial holding company comes under more scrutiny. In addition, a financial holding company has the duty of rescuing subsidiaries at times of crisis, which increases operational risks.*
- (B) In the wake of Taiwan's entry into the WTO, large foreign financial groups, with their enormous capital resources, comprehensive range of financial products and advanced monetary techniques will create further competition in the domestic market.*

5. Staff Background

(1) HNFHC

Year		2002	2003
Number of Employees		30 (Note 1)	34
Average Age		37	35
Academic Background	Graduate School	63%	65%
	University	30%	29%
	Technical College and High School	7%	6%

Note 1: HNFHC was formed at the end of 2001 and was staffed by existing personnel at that time. In 2002, the company gradually hired specialized personnel and many of the initial employees were relieved of their new duties. The number of employees in 2002 is only that of specialized personnel.

(2) Subsidiaries

Hua Nan Commercial Bank had 6,598 employees, Hua Nan Securities 1,336 employees, Hua Nan Bills Finance 62 employees, Hua Nan Investment Trust 92 employees and South China Insurance 645 employees.

6. Cross-Investment

Unit: NT \$1,000; shares

Cross-Invested Company (Note 1)	Primary Business	Investment Cost	Book Value	Share Investment		Net Equity	Market Value	Accounting Method	Return on Investment for Most Recent Year		Amount of Company Shares Held
				Number of Shares	% of Shares Outstanding				Invest-ment Profit/Loss	Distributed Dividends	
Hua Nan Commercial Bank	Banking	79,513,393	58,678,818	3,709,100,000	100%	58,378,818	-	Equity	9,006,874	-	-
Hua Nan Securities	Securities	7,566,192	8,855,256	711,174,346	100%	8,855,278	-	Equity	941,402	424,115	-
Hua Nan Bills Finance	Bills	2,300,000	2,302,415	230,000,000	57.49%	2,303,172	-	Equity	2,415-	-	-
South China Insurance	Insurance	2,217,643	2,222,602	200,138,625	100%	2,222,602	-	Equity	178,823	90,883	-
Hua Nan Investment Trust	Investment and Trust	508,539	447,405	30,000,000	100%	447,405	-	Equity	99,898	90,000	-
Debt Instruments Depository and Clearing Taiwan	Custodian	60,000	60,000	6,000,000	2.99%	58,984	-	Cost	-	-	-

Note 1: These are long-term investments of HNFHC

7. Risk Management

(1) HNFHC

A. Categories of Risk Management

HNFHC and its subsidiaries detail risk management categories for areas of operation within and outside of its balance sheet, such as credit risk, market risk, liquidity risk, sovereign risk, operating risk, legal risk and information risk.

B. Policy Objectives

The goal of HNFHC's risk management is for the parent company and subsidiaries to recognize, measure, monitor and control all risks in all areas of operation. Risks are to be controlled within an acceptable level in all areas. HNFHC also intends to rationalize risk return of the group under the circumstance that the group's risk capital is maintained at a level great than risk assets.

C. Methods to Control Risk

HNFHC and its subsidiaries set operational rules governing relevant risk factors for every business according to the risk management policy and guidelines of the company. These operational rules are set based on the type of operation and include the setting of risk limits, periodic position review, and risk indicator/alarm mechanism establishment. Risk measurement and back-testing are performed in a quantitative way.

D. Risk Reports

The risk management divisions of HNFHC and its subsidiaries produce real-time, daily or regular risk management reports for various levels of managers based on the type of operation. In addition, the board of directors is regularly briefed on the state of risk management. By doing so, managers and board members can determine whether risk management is within an acceptable level and then take the information into consideration when making decisions.

E. Future Three Directions of Work

(A) Quantifying Risk

HNFHC last year selected the Oracle risk management system, which it began to implement in July. The system will integrate risk-related information among HNFHC and its subsidiaries, and will be a tool to strengthen the management systems of subsidiaries. The management systems include dynamic asset and liability management, funds transfer pricing, capital pricing, and economic profit analysis. The development and application of internal credit rating models is a first step in strengthening credit risk management. The model parameters will be used in the soon-to-be established risk management system.

(B) Hua Nanizing Risk Management

Advanced risk measurement techniques must be established in a rational management structure in order to be effective. Advanced risk estimation relies on the analysis of large amounts

of information, while a rational risk management structure depends on the understanding of risk among managers, who combine their knowledge with the company's operational strategies. Hua Nanized management assists the company in reaching the aforementioned goal. Another purpose of Hua Nanization is to assign risk to units that have the ability to manage risk. After risk is assessed and is managed by risk managers, these managers can then carry out proactive management, opposed to passive management. Proactive management includes the reallocation of assets to maximize returns on risk.

(C) Rationalization of Risk Returns

The Value at Risk (VaR) of all operations will be transformed into risk capital, which will be borne by the unit that undertakes the risk. This will directly force each division to calculate risk costs as a portion of business costs. In addition, it will gradually improve the return on assets and return on equity of each subsidiary. In order to ensure the interests of both managers and shareholders, HNFHC is planning to apply a shareholder value added management framework to each subsidiary, which makes the mission of managers to create shareholder value.

F. Risk Management Organizational Framework

HNFHC has an asset and liability task force and a risk control and management task force. The former reviews the calculation of the group's capital adequacy ratios, asset and liability management, budgets, settlements and financial reports. The latter monitors the establishment and implementation of risk management systems, various types of risk assessment and management, financial firewall standards and management of capital adequacy ratios.

HNFHC has a Hua Nan risk management office, while each subsidiary sets up independent risk management departments based on their needs. In some cases, operations management departments are responsible for carrying out the task of risk management and appoint specialists to monitor risk management on a daily basis.

(2) Subsidiaries

A. Hua Nan Commercial Bank Co., Ltd.

•Categories of Risk Management

Hua Nan institutes risk management for all operations that are listed both on and off the balance sheet, including credit risk, market risk, liquidity risk, operational risk, legal risk, sovereign risk and derivatives products risk.

•Methods of Risk Management

Hua Nan's risk management methods are based on policies and directives set by the parent company. Areas that are targeted include deposits, loans, foreign exchange, international banking and investment operations, with each having specific guidelines concerning the evaluation and management of risks. Risk limitations, trading limits, risk indicators and an early warning

mechanism have been introduced. In addition, evaluations and auditing of various risk positions are undertaken to ensure that risk is controlled within an acceptable level.

- **Risk Reports**

Hua Nan produces real-time, daily or regular risk management reports, based on the type of operation, to various levels of managers. In addition, the board of directors is regularly briefed on the state of risk management. By doing so, managers and board members can determine whether risk management is within an acceptable level and use this information when making decisions.

B. Hua Nan Securities Co., Ltd.

- **Categories of Risk Management**

Hua Nan engages in a wide range of risk management in its operations on and off the balance sheet. Types of risk include market risk (dealing and underwriting), credit risk (broking), liquidity risk (dealing, underwriting and broking), operating risk (all types of operations) and legal risk (all types of operations). Risk management applies to the whole company, specific divisions and persons responsible for trading.

- **Methods of Risk Management**

Hua Nan Securities has set risk management measures for each division. Reports on the execution of these measures are monitored on a daily basis by the risk office. In addition, to comply with the Basel agreement on capital adequacy and increase the accuracy and efficiency of management systems, Hua Nan Securities has set up a Firm-wide Internal Risk Management System (FIRMS). This system evaluates the positions of dealing divisions each day and calculates Value at Risk. The system also encompasses other indicators, such as transaction limits, VaR (Value at Risk), warnings and stop-loss. The risk management office leads the efforts in the broking division. The auditing office audits all broking units on their operations, with the focal point primarily being on designated securities and specific clients. The audits examine the credit risk and liquidity risk associated with credit trading by clients and with specific stocks to ensure effective management. On-line management systems monitor activities during trading hours and various reports are printed after trading hours.

- **Risk Reports**

Utilizing FIRMS provides the board of directors and various managers with the various data they need after trading each day to monitor the positions of the whole company, various divisions and specific traders, the state of profit or loss, and risk value. In addition, the level of examination is tailored to each department. Reports are produced daily, weekly and monthly on the company in general, specific departments and traders.

C. Hua Nan Bills Finance Corp.

- **Categories of Risk Management**

Hua Nan Bills engages in a wide range of risk management in its operations on and off the balance

sheet. Types of risk include credit risk (guarantee operations), trading risk (bills and bond trading, and underwriting) and liquidity risk (bills and bond trading, and underwriting). Risk management applies to the whole company, specific divisions and persons responsible for trading.

- **Methods of Risk Management**

Hua Nan Bills has set the following risk management measures according to the company's risk management bylaws as well as regulations set by supervisory agencies:

(A) Credit risk

In order to manage credit risk, Hua Nan Bills requires the highest amount of collateral in its lending and underwriting business. Limits are set on credit to any specific company, related person or related subsidiary. The company also requires a credit rating and credit evaluation that examines risk of any specific company. There is a multi-level review process before the company handles short-term bills for any company in the primary or secondary market. The company also has clear rules and policies on reviewing credit operations, handling collateral for any company seeking a guarantor and requiring credit ratings and asset evaluations for any prospective company that seeks a guarantor.

(B) Trading Risk

In order to reduce trading risks for short-term bills and bonds, the company sets daily quotas for an individual trader in terms of trading amount, trading with a specific party and a band for interest rates of bills. Hua Nan Bills has set rules governing the purchase of bills in their initial trading day and short-term bills trading, as well as risk management in trading government bonds.

(C) Liquidity Risk

Hua Nan Bills has designed special rules to effectively monitor liquidity risk in the event of sudden changes in the financial environment that could lead to a rapid tightening of liquidity and a sharp rise in short-term interest rates.

- **Risk Reports**

Hua Nan Bills produces real-time, daily and monthly risk management reports, based on the type of operation, to various levels of managers. These reports provide various managers and the board of directors with timely information on the level of risk borne by the company. Risk is assigned differently to various divisions, and reports detail risk of the company in general, various divisions and individual traders. Trading division managers are able to assess risk of bills, bonds and liquidity positions according to previously set guidelines, which also set out measures to be taken in the event sudden financial changes. In addition, credit risk reports on the level of credit provided to any specific financial institution are provided to the president for review on a daily basis. Meanwhile, a special management committee discusses various risk topics each month. Risk quotas differ from company to company, but credit granted to a specific company, related individual or related company is managed on a daily basis. The Chairman of the Board is provided reports each month, and various evaluations of credit risk are provided to regulatory agencies on a monthly basis. Credit is provided based on a schedule that is reviewed every six months by the board of directors.

IV. Operations and Capital Utilization Plans

1. 2004 Operations Plans

(1) HNFHC

A. Seeking Alliance Partners to Strengthen Financial Blueprint

HNFHC is actively pursuing strategic alliances and interaction with international financial institutions that have a strong track record in order to raise its operational performance, corporate image, level of internationalization and competitiveness. HNFHC is establishing a venture capital company and a management consultancy to round out its corporate banking services.

B. Creating a Unique Corporate Image

HNFHC will continue to adhere to the tenets of reliability, sincerity and innovation, to promote its corporate image, provide direction for employees, and establish its name among a new generation of clients. It will continue to pursue an even better relationship with investors and stress informational transparency and corporate governance.

C. Utilizing Cross-Sales and Cross-Marketing

HNFHC will utilize the branch network of each subsidiary as well as employees in these offices to carry out joint sales and marketing. Information and equipment will be shared among the subsidiaries to achieve the goal of increasing the number of service points and reducing sales and marketing costs, and at the same time raising business opportunities among mutual clients. Other marketing avenues outside of branches will be utilized, such as direct marketing and telephone marketing, to promote products of all subsidiaries.

D. Managing Relationship with Clients

The company will continue to overhaul its database and use this as a foundation to better manage relationships with clients. Information in the database will be analyzed and applied to reveal the various product needs of each customer and achieve customer segmentation. This will create closer relationships between customers and each subsidiary, raise service quality for customers and boost customer loyalty.

E. Boosting Quality of Manpower Resources

The company continues to strengthen the professional knowledge and ability of its employees to increase the passion among employees toward their work. Training is carried out to hone staff able to market a wide variety of financial products and to enable staff to understand the latest market developments. This will help employees of HNFHC and subsidiaries to perform better than industry counterparts and will boost HNFHC's competitiveness.

F. Establishing a group-wide financial e-portal

In order to strengthen integrated services, HNFHC is establishing a single e-portal for customers as well as allowing that portal to be personalized for each customer.

(2) Subsidiaries

A. Hua Nan Commercial Bank Co., Ltd.

(A) Expand and fine-tune the network

- a. The Bank decided to move its Yenching branch on March 29 to the Nankang Software Industrial Park and rename it the Nankang branch. Operations of the Yenching branch were merged with those of the Chunghsiao branch, meaning that customers were not inconvenienced.*
- b. The Bank may relocate branches that are situated in commercial areas that are facing declining business or that are located too close to other branches. This will create a more appropriate operations network that enables greater efficiencies.*

(B) Develop new financial products

- a. To introduce combo cards.*
- b. To introduce ACH operations.*
- c. To provide Hua Nan government bond loans and settlement.*
- d. To create a platform for e-trading of small amounts of funds.*
- e. To launch foreign currency financing under Plan C.*
- f. To be involved in the expressway electronic toll system.*
- g. To introduce cash cards in an effort to increase high-return products for the Bank, as well as personal non-collateralized loans.*
- h. To promote no-risk interest return and handling fee income operations, such as transferable L/C with substitution of documents, HK Branch reissued local L/C, D/A forfaiting, outright sales of forward L/C, forward currency trading, and exchange rate options.*
- i. To promote international factoring to provide local exporters with financing services.*
- j. To promote B2B on-line factoring and financing services.*
- k. To promote e-Financing under Plan C to provide companies with financing services in each part of the production process.*
- l. To select top-quality investment vehicles at home and abroad, such as mutual funds, structured notes, foreign government bonds and other securities for designated use trust investment.*
- m. To promote foreign currency trust fund investment in overseas securities.*
- n. To continue to develop custodian operations.*
- o. To introduce tuition, insurance, retirement and shareholding trust operations.*
- p. To develop operations related to the Hua Nanized management of trust funds, mutual funds and securitized trusts.*
- q. To develop interest rate futures operations in line with such products introduced by the Taiwan Futures Exchange. Hua Nan will then be able to hedge its interest rate assets.*
- r. To apply to be authorized to lend out government bonds so clients can undertake hedging and arbitrage in line with trading of government bonds in the over-the-counter market. This will boost handling fee income.*
- s. To introduce New Taiwan Dollar interest rate swaps.*

(C) Enhance automation services and management

- a. To develop a cash card system: Hua Nan has been cooperating with Japan's FIE to develop a cash*

card system in line with its aim to expand consumer banking. The system includes (i) a Hua Nan operations system (real-time accounts system); (ii) a credit system (including initial and intermediate credit systems); and (iii) a performance management system (including operations information, liability management and supervision support systems). Hardware must be purchased to implement the system, such as cash card machines and test machines, as well as equipment required in 138 branches to set up cash card windows.

- b. To develop a combo automatic teller and credit card system: Hua Nan is developing a multi-functional card to relieve customers from having to carry many cards. This card will serve as an ATM card, can be used for cash advances, withdrawals overseas and acts as a credit card. Magnetic strips are being replaced with IC chips, which facilitate the development of such cards. The development of these cards is expected to ultimately boost card issuance and overall revenues.
 - c. To develop an e-Commerce system: In order to hasten development of B2C and C2C markets and opportunities, Hua Nan is creating a network platform for the payment and receipt of small amounts of funds.
 - d. To develop a debt management system: This system focuses on the management of distressed assets and looks to integrate credit and collateral information, MIS systems, loan account information and credit card data to provide to operational departments for reference and for use in electronic debt management. The system will enable bank units to rapidly access data regarding overdue loans, loans being recalled or bad loans, and will help to boost operational efficiency. This will ultimately strengthen risk management and prevent the rise of distressed assets.
 - e. To develop a foreign currency deposit account loan system: This system will list foreign currency short-term collateralized loan operations into a passbook that designates the demand and time deposit amounts of various foreign currencies, creating a product that encompasses foreign currency demand and time deposits, and loans.
 - f. To develop a corporate database management system: This system will utilize fiscal information released by public companies to create an interface and assist operating units in finding public companies that have significant potential and that would be strong candidates for loans. This will raise the quality of loans and the Bank's profitability.
 - g. The Credit Office-established "corporate database management system" will be used to strengthen interaction between the Bank and listed or public companies that yet to have a relationship with the Bank.
 - h. In order to effectively monitor credit risk and strengthen the Bank's e-loan operations, the Bank is designing a computerized credit rating system and is developing an on-line credit approval system.
 - i. For simplifying interest receipt operations, the computerizing solution is under discussion.
- (D) Strengthen competitiveness
- a. Will work with other HNFHC subsidiaries to stage joint marketing and sales activities, and will set up windows to offer securities or insurance services. This will raise overall synergy.
 - b. Will establish regional operations centers and establish a division of labor to raise work efficiency. Intermediate and post-deposit and remittance operations will be handled by the operations center.
 - c. Will continue to re-organize operational procedures to realize the goal of enabling tellers to handle

all types of operations.

- d. Will further promote fund flow mechanisms under Plan C to industries outside of the high-tech sector, making the plan even more effective.*
- e. Will continue to promote Internet banking and telephone voice operations.*
- f. Will adjust the location of its branches and will install ATMs in convenience stores, supermarkets and hypermarkets.*
- g. Will develop bank insurance operations to boost non-capital-based income.*
- h. Will look to become an agent for various businesses, such as fund collection when mutual funds raise capital, collection of funds when companies stage cash subscription projects, and the payment of cash dividends.*
- i. Will seek Taiwan companies as customers for its fund adjustment center for those with corporate operations in China, Hong Kong and Taiwan. Will strengthen the Internet banking functions of its DBUs, OBU's and Hong Kong branch. This will expand "electronic global fund movement" operations under Plan C.*
- j. Will complement government policy in providing strategic loans to companies to assist in corporate development.*
- k. Will complement the implementation of major government infrastructure projects by providing loans to contractors and carrying out bid bond operations for the Public Construction Commission.*
- l. Will strengthen the marketing and distribution of trust products and will integrate such services with other bank services and distribution channels under HNFHC to achieve synergy.*

B. Hua Nan Securities Co., Ltd.

As the economy gradually improved in the second half of last year, the Taiwan stock market came back to life and now presents a number of business opportunities. Market turnover is expected to remain active, which is beneficial to stock dealing and broking operations. In addition, supervisory authorities continue to promote financial reform and are encouraging domestic brokerages to transform into investment banks, which will boost their international competitiveness. Various regulations are being relaxed regarding the scope of operations for brokerages as well as new financial products. New regulations will more simply list businesses and products that are not approved, rather than which businesses and products have been approved. This will provide an enormous boost to underwriting operations and the development of new financial products. Taiwan's 14 financial holding companies are instituting any number of strategies to get ahead -- by looking to merge with counterparts, expanding their financial blueprints, providing VIP personal finance services, and carrying out cross-marketing. The prelude of mergers among financial holding companies is expected this year. This year is full of opportunities and challenges for Taiwan's financial holding companies and brokerages. The savvy of management teams will be tested over and over. Hua Nan Securities will continue to stress the operational philosophies of stability, trustworthy service and R & D innovation. It will continue to implement a wide variety of measures, listed below, to provide a comprehensive range of investment services for both the corporate sector and individuals.

(A) Broking Division

- a. To continue to merge with or acquire branches of counterparts to increase business outlets.*
- b. To strengthen efficiency and auditing in order to raise branch and employee productivity.*
- c. To continue to strengthen the functionality of electronic trading and to distinguish services.*
- d. To strengthen institutional investor business.*
- e. To analyze client habits in line with the establishment of the second stage of HNFHC's CRM system and to maintain a close relationship with customers, to be able to provide appropriate products and services when needed.*
- f. To utilize the island-wide network of Hua Nan Commercial Bank and other subsidiaries to mutually introduce clients, and to jointly market banking, securities and insurance products.*
- g. To strengthen training of employees to boost their sales techniques and to improve service quality. This will raise customer satisfaction.*
- h. To control risk, to raise service quality and to boost employee training and education.*

(B) Underwriting Division

- a. To develop investment banking operations in line with regulatory amendments and government policy.*
- b. To work together with the venture capital company and management consultancy formed by HNFHC in developing relationships and providing a wide range of financial services for cross-invested companies*
- c. To integrate the resources of HNFHC to provide customers with comprehensive services, including serving as lead underwriter, assisting underwriter, or lead assisting underwriter, or underwriter for cash subscription projects.*
- d. To utilize the island-wide network of Hua Nan Securities and Hua Nan Commercial Bank to expand services related to companies on the market for emerging companies.*
- e. To increase underwriting for domestic convertible bonds and to establish a mechanism for quota sales. Also, to work with the International Division and the Hong Kong branch in developing foreign fund-raising operations, such as ECBs.*
- f. To utilize the group's manpower, branch network and its specialized underwriting team to create income as a financial consultant.*
- g. To participate in cross-strait securities-related business or investment in the wake of China's entry into the WTO and the liberalization of investment rules for securities brokerages.*
- h. To develop strategic clients that will help raise awareness of the company's name.*
- i. To regularly stage employee education and training to boost the quality of staff.*
- j. To carefully select underwriting projects, strictly monitor risk, and create higher productivity.*
- k. To actively pursue underwriting projects and raise its market participation rate to 30%.*
- l. To develop strategic alliances with an accounting agencies, ventures capital firms and banks.*

(C) Dealing Division

- a. To take advantage of this year's bullish stock market to strengthen research and stage careful stock selection. At appropriate times, positions will be increased to generate profits.*
- b. To implement a system in which multiple traders carry out trades in order to lead to trading flexibility and diversify risks.*

- c. *To design a multi-faceted bonus system to raise team spirit and motivate individual employees.*
- d. *To strengthen interaction between the investment and research arms.*
- e. *To strictly implement risk management and control regulations.*

(D) Bond Division

- a. *To develop various strategies and expand business in light of the liberalization of interest rate futures.*
- b. *To develop new institutional clients, such as banks and bond funds managed by investment trusts, with the aim of raising institutional business to 40% of its total business.*
- c. *To work in conjunction with the OTC government bond trading system to participate in the trading of bonds, with the aim of becoming one of Taiwan's top five brokerages in bond trading.*
- d. *To strengthen training of new traders to improve their pricing and quoting abilities.*
- e. *To work in tandem with Hua Nan Commercial Bank in assisting the bank's clients in underwriting corporate bonds.*
- f. *To work with Hua Nan Commercial Bank in its asset-backed securities business by underwriting bonds.*

(E) International Division

- a. *To strengthen professional training for employees and develop derivatives trading strategies for foreign investors in an effort to boost business.*
- b. *To have employees at Hua Nan's Hong Kong office periodically visit clients to maintain and boost loyalty.*
- c. *To segment products, develop focal points of business and create areas in which Hua Nan will have a competitive advantage. This will cement its leading position in the market.*
- d. *To carefully select overseas partners and develop strategic alliances to create business opportunities.*
- e. *To work together with overseas subsidiaries and related domestic divisions to develop an international reputation, and fund management and discretionary trading business. A long-term goal is also to expand its operations in the Greater China securities market.*
- f. *To utilize computer hardware and software to boost product research and development and practical applications. This will help in developing product lines and provide customers with more value-added products and service.*
- g. *To develop business in the Hong Kong market and to use electronic trading to give it a competitive edge in broking. Also, to develop systems to enable customers to place orders from afar and to develop computer programs for dealing investment.*
- h. *To expand international underwriting operations to assist Taiwan companies in Hong Kong, mainland China, and the US to list on exchanges in those places and to raise capital.*

(F) Financial Products Division

- a. *To introduce foreign financial products and to design new products in light of a broad liberalization in the regulatory environment here.*
- b. *To issue domestic warrants and carry out hedging.*

- c. *To utilize fiscal engineering to combine securities and derivatives products in order to create value-added personal finance products for clients.*
- d. *To utilize an array of financial tools to plan the most appropriate hedging strategies for the company's positions as well as the portfolios of customers. Also to use VaR management tools to effectively control market risk.*
- e. *To cooperate with overseas subsidiaries to develop ECB and GDR business.*
- f. *To be qualified to carry out business in all types of OTC products and to develop asset swap operations.*
- g. *To be a market-maker in stock options and ETF, becoming a major participant in the market. To train staff in such business, helping to raise market awareness of the company.*

(G) Futures Dealing Division

- a. *In addition to arbitrage-related trading, to increase trading for profit.*
- b. *To research exchange traded funds and other new financial products as well as creating new models for arbitrage.*
- c. *To develop for-profit computer program trading systems.*
- d. *To introduce financial products that can be short sold.*
- e. *To research the characteristics of interest rate futures products as well as trading strategies.*

C. Hua Nan Bills Finance Corp.

(A) Bills Operations:

- a. *To expand business of underwriting non-guaranteed bills, increasing the amount of bills issuances and raising market share.*
- b. *To continue to develop bills trading clients, diversifying sources of capital and raising pricing.*
- c. *To participate in the bidding to underwrite bills for large-sized companies. Using its advantage as a member of a financial holding company to seek to become the leading underwriter in NIF syndicate loans.*
- d. *To initiate fixed interest rate commercial paper operations and 30-day bills interest rate futures.*

(B) Bond Operations :

- a. *To develop banking, securities brokerage and investment trust clients in an effort to reduce bond repo capital costs and raise returns.*
- b. *To participate in the OTC bond yield trading and pricing system. This will boost bond trading and will enable Hua Nan to become a leading market trader.*
- c. *To carry out financial debenture and corporate bond operations, helping to diversify the company's business.*
- d. *To offer interest rate swap, interest rate futures and interest rate options operations, increasing interest rate hedging and options for trading.*

(C) Capital Settlement Operations:

- a. *To work in tandem with the Hua Nan bank's RTGS real-time settlement mechanism, managing fund flows and accounts. This reduces idle capital and reduces payment and receipt costs.*

- b. To work in tandem with the online bills settlement and custodian system, and to plan non-physical bills. This reduces settlement risks and cuts operational costs.*

D. South China Insurance Co., Ltd.

- (A) To utilize HNFHC's customer relationship management mechanism to expand joint sales and to develop new products and raise service quality for long-term customers. This will raise market share and operational performance.*
- (B) To continue to develop new products to expand business opportunities. It will also introduce diversified insurance products to meet the needs of different customers and to strengthen competitiveness.*
- (C) To expand its sales and marketing network and to increase business outlets. The company will also expand the facilities and function of its customer service center in order to raise service satisfaction among customers and boost competitiveness.*
- (D) To boost the professional abilities of its sales executives in order to raise productivity.*
- (E) To strengthen employee training and to introduce a "study passport" system. To train core managers and to raise service quality.*
- (F) To integrate information systems and create an e-commerce environment. Also, to develop an electronic operations platform, improve operational processes and reduce operational costs.*
- (G) To implement a mechanism to prevent losses and create an awareness among clients on methods to avoid losses. By improving the risk value of insured items, the rate of loss can be reduced, which will boost operational performance.*
- (H) To strengthen the fund receipt mechanism and boost the utilization of capital. To introduce an investment portfolio analysis model in which positions can be adjusted immediately as necessary. This will boost investment returns.*

E. Hua Nan Investment Trust Corp.

- (A) To develop new financial products, raise competitiveness, remain abreast of market trends, develop a comprehensive product line, and plan issuance of:*
 - a. Principal guaranteed funds*
 - b. Global balanced funds*
 - c. Portfolio funds*
 - (a) To improve asset management structure: emphasize on the development of equity assets management °*
 - (b) To strengthen the structure of clientele: Information from the financial holding company as well as the marketing network will help strengthen the composition of customers.*
 - (c) To raise the ability to manage international assets: The company will cooperate with well-known foreign institutions to raise its ability to manage international assets.*
 - (d) To increase automated services:*
 - (i) To expand telephone voice services*
 - (ii) To establish an Internet fund redemption system.*

2. 2004 Plans to Acquire or Dispose of Real Estates or Long-Term Investments Schemes

(1) Plans to Acquire or Dispose of Real Estates: None.

(2) Long-term Investment Schemes

A. Adoption of Long-term Investment Plans

(A) HNFHC's core long-term investment plan can be divided into four areas:

- a. Banking : Focuses on commercial banking, and supported by a bills finance company. This plan also looks to develop an industrial bank, a foreign bank and a fully integrated investment bank.*
- b. Securities : Focuses on an integrated securities brokerage, and aims to expand the size of capital and boost market share.*
- c. Insurance : Focuses on parallel development of life insurance and property insurance.*
- d. Asset Management : Focuses on developing securities investment trust business, securities investment consultant operations and venture capital business.*

(B) In order to execute the above core long-term investment plans, HNFHC will continue to look for appropriate merger or acquisition targets. It will raise capital, carry out joint investment or raise funds on its own to achieve such. Projected investment plans for this year include:

- a. Cash Subscription: HNFHC will participate in Hua Nan Securities' NT \$1-billion cash subscription project this year.*
- b. Share Swap : To meet needs to carry out stock swaps, HNFHC may issue new stock to have ample holdings to swap with others.*
- c. Joint Investment : Expects to utilize NT \$1.02 billion to jointly establish a bank insurance company with a foreign company.*
- d. Other Investment : Suitable investments will be made based on the needs of the group's financial exchange platform or to create even greater economies of scale.*

(3) Disposal of Long-term Investment Plans: None.

3. Research and Development

(1) HNFHC

A. R & D Accomplishments over Past Two Years

In the current era of low interest rates, customers are looking for financial products that maintain principal but also generate profits. Over the past two years, Hua Nan Commercial Bank has introduced such products. In 2002, it unveiled the "3A Advantage Account" that not only enables customers to save

interest, but also adds flexibility to capital utilization. In 2003, the bank entered into a strategic alliance with insurance companies that integrated the products of HNFHC subsidiaries. In July, it introduced an investment-style insurance product. Hua Nan Securities is also developing new derivative products, such as warrants, convertible corporate bond asset swaps. In July 2003 it introduced NT dollar principal return structured notes. In terms of corporate banking, Hua Nan Commercial Bank has developed a foreign currency investment product called Just for You. It is also developing e-commerce. Its Venus Plan can assist companies in raising funds globally and seamlessly handling other financial transactions. Furthermore, in light of the needs of corporations carrying out production globally, Hua Nan provides non-collateralized electronic financing services to significantly reduce production financing costs. HNFHC is also gradually establishing a customer relationship information warehouse and has completed an enterprise application integration system. Meanwhile, the company's corporate network aids personal finance executives to carry out client management and provide effective management of personal finance services.

B. Future R & D Projects

(A) To Rapidly Develop Joint Sales & Marketing Utilizing CRM and Compound Products

- a. Utilizes the customer relationship model and data mining technology to establish a model detailing the consumption habits for each customer and predicting customer needs. This also evaluates customer risk and segments customers, helping to maintain contact with and provide services to clients during marketing and sales activities. The system highlights valuable clients and customers with the greatest potential of generating business. It also divides customers into different grades, allowing different services to be targeted at different customer groups.
- b. Goes one step further in analyzing the needs of each type of financial product for customers, segments clientele and then unites the strengths of subsidiary companies in designing compound financial products for special client bases.
- c. Integrates all types of resources and systems, including branch counters, ATMs, short message services or voice reply systems, Internet banking, direct marketing and phone marketing and sales. At the most appropriate time, the most effective network will be used to target potential customers and to provide suitable products and services. This will create a high level of operational profits and not only boost customer satisfaction, but also loyalty.

(B) To Evaluate and Research All Types of Risk Assets

a. New Basel Capital Accord

HNFHC is the lead of the Bureau of Monetary Affairs and Bankers Association's New Basel Capital Accord credit risk standards law committee and is the co-sponsor of the internal rating law and market risk committee. The goal of the committees is to study the content of the New Basel Capital Accord, determine its differences with current regulations, highlighting the impact and challenges that the new accord has on Taiwan's banking sector, and make suggestions for non-appliance sectors and committee advices, those who do not comply with the new agreement. The committees also will research any legal amendments needed and will publicize the contents of the new accord. The research work is expected to be completed by the end of 2006. The committees will research utilization of bank internal rating to estimate probability of default, loss

given default, and exposure at default, and will calculate risk assets and depreciable risk assets. These models are more sensitive than standard methods and are better able to accurately reflect credit risks that a bank is exposed to. The market risk committee's research focuses on the issue of market risk capital and suggestions in utilizing internal rating, the supervision of internal risk evaluation systems, and appropriate risk management mechanisms for the use on Taiwan.

b. Asset and Liability Management, Funds Transfer Pricing and Post-Risk Adjustment Performance Measurement

In an effort to achieve financial transparency and achieve risk-return tradeoff, HNFHC has established a post-risk adjustment performance measurement system and a method to re-allocate resources. The company is presently building asset and liability management, fund transfer pricing and post-risk adjustment evaluation systems. In the present stage, the systems will cover HNFHC, Hua Nan Commercial Bank and Hua Nan Securities. The systems are expected to be fully in place in the second half of 2004. Meanwhile, work to establish such systems in three other subsidiaries that entered HNFHC last year (Hua Nan Bills Finance, South China Insurance and Hua Nan Investment Trust) is presently taking place.

(a) Asset and Liability Management, (ALM)

Comprehensive asset and liability management in coordination with post-risk adjustment performance measurement enables a bank to pursue the largest amount of profit with limited risk. The goal of asset and liability management is to accurately assess present interest rates and liquidity risks, and to forecast the level of future exposure. This information is then provided to managers for their reference in medium- and long-term investment. In the process of judging risk, expense and returns, the bank's assets and liabilities can be allocated to generate the greatest amount of income. This boosts shareholders equity in the short term, while in the long run, the bank should benefit from a hike in external ratings and corporate image.

(b) Funds Transfer Pricing (FTP)

The new funds transfer pricing mechanism is used to improve interaction between Hua Nan Commercial Bank and other banks. The spirit of the system is to introduce a market pricing mechanism. Meanwhile, fund pricing will be decided based on the state of liquidity at the bank, and this will be reflected in the pricing of various products. Under this system, Hua Nan will be able to price funds post-risk adjustment. This concentrates management of interest rate risk and raises fairness and objectivity of performance measurement.

(c) Performance Measurement (PM)

This provides calculation of post-risk adjustment returns and can be applied to performance measurement and budget planning throughout the entire bank. The significance of post-risk adjustment returns is that in considering the risk of a certain operation, managers can determine the extra return for shareholders. The new system provides comprehensive risk capital and cost sharing functions to calculate post-risk adjustment returns. This is used to set product pricing, performance measurement and budget planning. Only by forcing operational bodies to have a sense for the cost of risk will managers be able to get a grasp on hidden risk.

(d) Credit Risk

Assistance is being provided to Hua Nan Commercial Bank in its corporate finance risk management as well as in establishment of an internal credit rating system and a bad loan loss data bank. The results of quantified ratings will be incorporated into the pricing function for reference prior to the loan and for post-risk adjustment performance measurement. This will improve the credit risk management of the bank and effectively control asset quality.

(e) Market Risk

Hua Nan Securities already utilizes the FIRMS system to assess value at risk (VaR). HNFHC also uses Bloomberg functions to evaluate the VaR of other subsidiaries, which helps to compile the VaR of the entire company's trading positions. HNFHC plans on designing restrictions on notional principal for the entire company to make sure that VaR remains at a reasonable level. It is also considering establishing an integrated market risk management platform.

(2) Subsidiaries

A. Hua Nan Commercial Bank Co., Ltd.

(A) R&D accomplishments in the past three years

Research and development has yielded significant results over the past three years, with 424 reports accepted. Financial rewards provided to employees as a result amounted to NT\$286,800. The suggestions provided have helped raise operational efficiency and strengthen service quality.

(B) Future R&D projects

- a. To introduce credit card installment payment operations.*
- b. To sign contracts with five city and county governments to jointly hold tourism activities. This is expected to boost purchases using credit cards.*
- c. To print "Rewards Program Guide" that helps to maintain contact with cardholders and will also provide special deals and prizes that can be redeemed.*
- d. To create an independent and comprehensive information system that promotes cash card operations.*
- e. To offer a complete line of packaged and integrated mortgages and consumer loans to provide customers with more options.*
- f. To employ direct marketers to promote cash card and small-sized loan operations.*
- g. To establish strategic alliances to market B2C operations.*
- h. To plan and establish a personal loan computer credit rating system and to develop an on-line loan approval system (e-Loan).*
- i. To continue to establish personal finance windows at branch offices.*
- j. To complete training of 600 personal finance executives and to have 2-3 stationed at each branch office. Also, to provide periodic supplemental training to finance executives.*
- k. To gradually open other VIP personal finance management centers in north, Hua Nan and south Taiwan based on the model of the flagship at the Changchun branch.*

- l. To establish a fiscal marketing consultancy to help personal finance executives to hone the knowledge to select appropriate products and design portfolios, in addition to marketing techniques.*
- m. To continue to offer preferential housing loans in line with government policy and as part of the Cabinet's latest provision of NT\$480 billion of funds slated to be loaned at a preferential interest rate.*
- n. To continue to offer loans to small- and medium-sized firms in line with government policy to assist in SME development and boost investment willingness.*
- o. To continue to offer small-sized loans to small- and medium-sized firms in line with government policy to help SMEs obtain required operational capital.*
- p. To continue to provide loans and credit guarantees to traditional industrial companies in line with government policy to assist traditional industrials obtain operational capital.*
- q. To strengthen classification and management of loan assets in line with the introduction of asset-backed securities.*
- r. To continue to strengthen the function of the Shenzhen representative office and to prepare for the upgrading of the office into a branch.*
- s. To expand its global service network to more places where there is a concentration of Taiwan-owned companies.*
- t. To continue to introduce "investment foreign currency products" to satisfy the investment and capital management needs of customers.*
- u. To plan and introduce "New Taiwan Dollar investment products" in line with development of the Information Office.*
- v. To strengthen trust services, products, and regulatory and tax coursework, and to produce a manual for marketing executives in this business. On-line coursework will also be offered to raise the trust expertise of staff.*
- w. To continue to select outstanding domestic and foreign investment targets for designated use and asset trusts. To continue to introduce foreign structured and government agency bonds to customers with a high level of investment funds but who seek conservative management. To introduce a variety of domestic equity structured products given the recent strength of the stock market.*
- x. To develop custodian services for new types of financial products to expand business and income.*
- y. To continue to promote equity trust business in light of low market interest rates.*
- z. To develop concentrated management and utilization of trust funds, mutual fund operations and securitized trusts as such areas are liberalized by government authorities.*

B. Hua Nan Securities Co., Ltd.

(A) R & D Accomplishments over Past Two Years

Over the past two years, Hua Nan's International Division, Financial Products Division and Futures Dealing Division have cooperated, hired and trained a number of outstanding staff to research and design new financial products. Computer information systems have also been used to achieve the following accomplishments:

a. Strengthening Position as Market Leader

The company uses its integrated computer systems to provide real-time information to assist clients in various investment strategies, whether it is arbitrage, hedging or trading. As a result, the company maintains a leading industry position in the hedging, arbitrage and trading of closed-ended funds, GDRs, convertible bonds, warrants, preferred shares, options on individual stocks, index futures and exchange traded funds.

b. High-performance Operations

The company utilizes a variety of computer programs to rapidly and accurately execute customer orders, satisfying the need among any customers for large-sized trades, large-sized share transfers, portfolio trading or specific time or price trades.

c. Team-oriented Service

Cooperation between the operations and R & D teams provides customers a single window for top quality and efficient broking and information services. This improves customer satisfaction and loyalty.

d. Outstanding Product Design Ability

Research personnel from the international, financial products and futures dealing divisions have formed a specialized fiscal engineering team to develop all types of arbitrage and tailor-made products to meet the needs of domestic and foreign clients.

(B) Future R & D Projects

a. As the regulatory environment permits, the company will develop a variety of new products that can be traded on the market for emerging stocks, convertible corporate bond asset swaps, interest rate cross swaps, trading of foreign stocks, domestic warrant issuance, index and individual stock options and futures, asset-backed securities, and exchange traded funds.

b. The expertise of the international, financial products and future dealing divisions will be pooled to carry out research on and institute arbitrage trading of financial products. The development of software systems by the information division will boost computer program trading of financial derivatives, arbitrage and hedging. Coupled with trading decisions by employees based on technical analysis, the company will sport an ideal environment in selecting the best points at which to trade in order to maximize profits.

c. Hua Nan's financial products and futures dealing divisions will continue to be market-makers in the index and individual stock options markets. The divisions will create various investment strategy models and will train staff. They will also continue to aim to win various market-maker awards in an effort to boost the company's image and credibility.

d. Hua Nan is already a participant in exchange traded funds. In the future, it will participate in seed funds and take part in related R&D and planning.

e. The company will expand investment in hardware and software, and will strengthen development of electronic trading and other electronic commerce services. It will also pursue alliances with other market participants, organize a personal finance network, and introduce consolidated personal financial accounts that combine stocks, bonds, funds, deposits, insurance and items that help to alleviate tax burden. This will meet the need among customers for integrated and comprehensive services.

- f. *Hua Nan will continue to establish a company-wide internal risk management system with the value-at-risk model as its foundation. This will estimate the downside risk for the company's positions and will include the legal framework for financial institutions and international risk management regulations. This will also be instrumental to the introduction of an alarm mechanism for risk. The system will provide risk analysis of the company's investment portfolio and will create a defensive and active investment decision-making information risk management system. The ultimate result will be to enable Hua Nan to supervise risk and generate stable profits.*
- g. *Under the framework of HNFHC, Hua Nan will seek to acquire or merge with industry counterparts in order to further add to its business scale and to ensure sustained operational growth.*

C. Hua Nan Bills Finance Corp.

(A) R & D Accomplishments over Past Two Years

In 2002 and 2003, the company spent NT \$321,000 and NT \$447,000 on R & D expenditures, respectively, raising the professional expertise of employees and boosting operational performance. The company is also developing a paperless bills settlement and custodian system. In addition to reducing costs, the company also further integrated its internal information systems.

(B) Future R & D Projects :

- a. *Hua Nan will strengthen interest rate risk management and develop derivatives products for hedging and trading.*
- b. *The company will reduce bond trading risk by introducing short sales of bonds and bond futures trading.*
- c. *The company will diversify operations by initiating corporate bond and financial debenture business.*
- d. *Hua Nan will strengthen asset and liability management, and will establish comprehensive internal controls and auditing.*
- e. *The company will provide training for employees and will encourage staff to participate in financial license examinations.*

D. South China Insurance Co., Ltd.

(A) R & D Accomplishments over Past Two Years

New property insurance products are developed by the product development team. Over the past two years, premium income derived from newly developed products has amounted to NT \$10 million. These products are as follows :

- a. *Auto excess liability insurance*
- b. *Integrated travel insurance*
- c. *Hua Nan credit card comprehensive insurance*
- d. *Liability insurance of board members, supervisors and high-ranking staff*
- e. *Hiring liability insurance: This is a product developed by South China exclusively. To this point, advertising images exceed premium income.*

(B) Future R & D Projects

- a. Liquid petroleum gas comprehensive insurance
- b. Bank loans and credit insurance
- c. Motor third party damage liability insurance with multi-protection insurance
- d. Travel agency liability insurance
- e. To introduce compound products in coordination with other subsidiaries.

E. Hua Nan Investment Trust Corp.

(A) R & D Accomplishments over Past Two Years

Hua Nan Investment Trust has created an inter-departmental product design committee that is responsible for developing new financial products that satisfy the personal finance needs of investors. Over the past two years, the best performing fund has been innovating progressive funds, such as Flamingo Balanced Fund.

(B) Future R & D Projects

Category	Name	Expected Date of Establishment
Funds	Principal Guaranteed Fund	March 2004
	Global Balanced Fund	July 2004
	Fund of Funds	October 2004
	Hedge Fund	2005 (Planned)
	Global Growth Fund	2005 (Planned)
Personal Finance	Retirement Fund Products	2005 (Planned)

4. Capital Utilization Plans

- (1) The content, capital sources, operational budgets and possible returns on possible merger or acquisition of other financial institutions, investments, or fixed assets for this year:

A. *Project Contents* :

According to Article 36 of the Financial Holding Company Law, HNFHC is allowed to partake in financial business investment as its core business. Presently, investments under its umbrella include a bank, securities brokerage, property insurer, bills finance company, investment trust, venture capital firm, management consultancy, futures brokerage, securities consultancy and insurance agency. The company is currently in the process of setting up a bank insurance company, which will round out its financial exchange platform. The company's widening scale will boost operational performance and will cement its position as a leader in Taiwan's financial market. HNFHC is interested in making further acquisitions of companies with similar operational strategies and corporate cultures, a strong financial structure and complementary operations, with the aim of expanding market share and generating profit growth. HNFHC will not rule out merging with or acquiring other top quality financial holding companies.

B. Capital Sources and Estimated Budgets

Unit: NT \$100 million

			Capital from Corporate Bond Issuance	Operating Capital	Total
		Inventory Capital as of Dec-end, 2003	22.00	20.85	42.85
Add :	1	Subordinated Bond Issuance	40.00		40.00
	2	Forecast Dividend Payment for 2003 by Subsidiaries		39.06	39.06
	3	Forecast Interest Income on Remaining Capital		0.24	0.24
Less :	4	Forecast 2004 Operation and Capital Expenditures(Cash)		1.09	1.09
	5	Forecast Interest Expense (2004)		1.80	1.80
	5-1	Investment in Venture Capital and Management Consultancy	10.06		10.06
	5-2	Investment in Insurance Company	10.20		10.20
	5-3	Investment in EnTrust Securities (cash subscription)	10.00		10.00
	5-4	Investment in Other Companies	17.00		17.00
	6	Forecast Board Member and Supervisor Salaries and Employee Bonuses		0.97	0.97
	7	Forecast HNFHC Cash Dividend Payment		9.46	9.46
		(NT \$0.2 per share)			
		Forecast Cash at end-2004	14.74	46.83	61.57

C. Capital Utilization Efficiency

(A) Short-term Capital Utilization Returns

HNFHC mobilizes short-term capital based on security, liquidity and returns, with the foremost concern being safety. In addition, the maturity of the investment must correspond with the timeframe of company capital requirements. According to Article 39 of the Financial Holding Company Law, short-term capital utilization by financial holdings companies is limited to investment in fixed-return financial products. As such, short-term returns are in the form of interest income.

(B) Long-term Capital Utilization Returns

HNFHC's long-term capital utilization is based on the group's developmental strategies. Long-term equity investment will be used to expand its financial blueprint and create operational synergy. Therefore, returns on long-term investment will be in the form of investment returns. In 2003, audited after-tax profit stood at NT \$10,102 million, equivalent to after-tax EPS of NT \$2.14. Return on assets stood at 13.99% and return on shareholders equity was 15.34%. These outstanding figures indicate the success of HNFHC's investments.

Table Comparing Profitability of HNFHC and Subsidiaries in 2002 and 2003 :

	2003 Audited Data				2002 Audited Data			
	After-tax Profit (NT \$1,000)	EPS (NT \$1)	ROE (%)	ROA (%)) After-tax Profit (NT \$1,000)	EPS (NT\$1)	ROE (%)	ROA (%)
<i>HNFHC</i>	10,101,554	2.14	14.18	13.99	-26,506,134	-5.63	-	-
<i>Bank</i>	9,006,874	2.43	16.62	0.66	-27,187,822	-7.33	-	-
<i>Securities</i>	954,596	1.44	12.31	3.99	631,124	1.12	9.91	2.82
<i>Bills Finance</i>	3,872	0.01	0.10	0.04	-3,954,088	-8.38	-	-
<i>Insurance</i>	178,823	0.89	8.21	2.53	99,884	0.51	4.83	1.56
<i>Investment Trust</i>	99,898	3.33	22.48	19.79	102,596	3.42	26.30	23.59

Note: The investment trust subsidiary set aside loss reserves of NT \$24.3 million, causing profitability in 2003 to decline slightly.

It is expected that with the continued economic expansion in 2004 as well as the rise in synergy from cross-sales and marketing among HNFHC subsidiaries, the company's cross-investment returns (long-term capital utilization returns) will continue to exhibit steady growth.

- (2) Previous cash subscription projects that were not completed and analysis of capital utilization projects over the past two years in which returns have yet to be seen: None.

V. Financial Profile

1. Simplified Balance Sheet for 2003

Financial Data for Past Two Years

Unit: NT \$1,000

Item/Year		2003	2002
Current Assets		\$ 4,946,043	\$ 5,517,966
Long-term Investment		72,566,497	58,654,592
Fixed Assets – Net		14,379	6,957
Other Assets		44,018	23,983
Current Liabilities	Pre-Distribution	574,429	39,656
	Post-Distribution	-	-
Long-term Liabilities		6,008,327	6,000,000
Other Liabilities		345	9,529
Capital		47,285,036	44,785,433
Capital Surplus	Pre-Distribution	13,359,502	40,212,984
	Post-Distribution	-	-
Retained Earnings (accumulated loss)	Pre-Distribution	(10,352,814)	(26,693,288)
	Post-Distribution	-	-
Cumulative Translation Adjustments		(9,494)	19,423
Treasury Stock		(22)	(170,239)
Total Assets		77,570,937	64,203,498
Total Liabilities	Pre-Distribution	6,582,101	6,049,185
	Post-Distribution	-	-
Stockholders' Equity	Pre-Distribution	70,987,836	58,154,313
	Post-Distribution	-	-

Notes: 1. HNFHC was established on December 19, 2001.

2. The 2002 financial statement was audited and signed by accountants Chih-rung Lee and Jih-yen Chang without reserve.

2. Simplified Income Statement for 2003

Unit: Except for earnings (loss) per share in NT \$, others in NT \$1000

Item	2002 (Jan 1-Dec 31)	2002 (Jan 1-Dec 31)
Operating Revenues	\$ 10,233,771	\$ -
Operating Costs	-	26,572,852
Operating Expenses	150,744	123,989
Non-Operating Expenses (net)	134,464	11,772
Operating Income (Loss)	9,948,563	(26,708,613)
Net Income	10,101,554	(26,708,613)
Earnings (Loss) Per Share	2.14	(5.99)

Notes: 1. HNFHC was established on December 19, 2001.

2. The 2002 financial statement was audited and signed by accountants Chih-rung Lee and Jih-yen Chang without reserve.

3. Financial Analysis for 2002

(1) Important Financial Ratios

Analyzed Item	Year	2003	2002
Financial Structure (%)	Liabilities to Assets Ratio	8.49	9.42
	Fixed Assets to Net Value Ratio	0.02	0.01
Ability to Repay Debt	Current Ratio	861.04	13,914.58
Operational Ability	Turnover of Total Assets (Times)	0.13	Note 2
	Average Revenues Per Employee	300,993	Note 2
	Average Profit Per Employee (Note 2)	297,105	(890,287)
Profitability	Return on Assets (%)	14.18	(35.51)
	Return on Shareholders' Equity (%)	15.34	(37.04)
	Net Profitability (%)	98.71	Note 2
	Earnings (Loss) Per Share (NT \$1)	2.14	(5.99)
Cash Flow	Cash Flow Ratio (%)	(212.31)	6,752.11
	Cash Flow Adequacy Ratio (%)	(4,611.81)	323.17
	Cash Re-Investment Ratio (%)	(1.58)	2.88
Leveraging	Operational Leveraging (%)	103.01	-
	Fiscal Leveraging (%)	101.82	-
Merged Basic Capital Adequacy Ratio (%) (Self-computed)		113.74	101.79

Notes: 1. HNFHC was established on December 19, 2001.

- (2) All subsidiaries of a financial holding company face limitations on providing credit or guarantees to an individual, a related person or a related corporate. Please refer to “V. Financial Profile” and “VI. Auditor’s Report on 2002 Financial State, Related Information” Table 4

4. Net Share Value, Profits, Dividends and Market Price for 2003

Analyzed Item		Year	2003	2002
Net Share Value	Pre-Distribution (NT \$1)		15.01	13.02
	Post-Distribution (NT \$1)		14.79	-
Earnings Per Share	Weighted Average Shares (1,000 shares)		4,720,126	4,458,789
	Pre-Retroactive Earnings Per Share (NT \$1)		2.14	-5.99
	Post-Retroactive Earnings Per Share (NT \$1)		-	-
Dividends Per Share	Cash Dividends (NT \$1)		0.2	-
	Stock Dividends	Stock Dividend on Profits(NT \$1)	1.6	-
		Stock Dividend on Capital Surplus(NT \$1)	0.2	0.80241
	Accumulated Dividends Not Yet Paid		-	-
Share Market Price	High (NT \$1)		28.60	29.20
	Low (NT \$1)		19.50	14.85
	Average (NT \$1)		24.19	21.40

Notes: 1. HNFHC was established on December 19, 2001.

5. Supervisors Review of 2003 Financial Statements

Supervisors Auditing Report

We hereby approve the 2003 business report, financial statements (including consolidated financial statements), and earnings allocation statement that the board of directors has prepared. Auditors Lee Chih-jung and Chang Jih-yen of T.N. Soong & Co were retained to audit the statements and provide an audit report thereto. The reports have been examined as being correct and accurate by the undersigned, the supervisors of Hua Nan Financial Holdings Co., Ltd. According to Article 219 of the Company Law, we hereby submit this report.

Hua Nan Financial Holdings Co., Ltd.

2004 Shareholders Meeting

Supervisor Chen Chan-sheng

Supervisor Tsai Wen-yu

Supervisor Wei Chiang-lin

Supervisor Yen Chen Hsiao-hsia

Supervisor Wang Kui-feng

VI. Special Notes

1. Information about Subsidiaries

(1) Flowchart of Subsidiaries

Please refer to the flowchart of the HNFHC Group in “2. Brief History of HNFHC”

(2) Basic Information of Subsidiaries

Unit: NT \$1,000 (As of Dec 31, 2003)

Company Name	Date of Establishment	Address	Capital	Primary Business
Hua Nan Commercial Bank	February 22, 1947	No. 38, Chungching South Road., Sec. 1, Taipei	37,091,000	Operations permitted under Article 71 of the Banking Law
Hua Nan Securities Co., Ltd.	June 17, 1988	5F, No. 54, Minsheng East Road, Sec. 4, Taipei	7,111,743	Securities broking, dealing, underwriting, and futures dealing
Hua Nan Bills Finance Corp.	September, 9, 1996	10F, No. 188, Nanjing East Road, Sec. 5, Taipei	4,001,000	Bills and bond dealing
South China Insurance Co., Ltd.	April, 11, 1963	5F, No. 560, Jungshiau East Road, Sec.4, Taipei	2,001,386	Insurance
Hua Nan Securities Investment Trust Co., Ltd.	September, 29 1992	3-1F, No. 54, Minsheng East Road, Sec. 4, Taipei	300,000	Securities Investment Trust
HNCB Insurance Agency Co., Ltd.	March 5, 2001	2F, No. 96, Yenping North Road, Sec. 2, Taipei	50,000	Life insurance agent
Hua Nan Investment Management Co., Ltd.	September 27, 1993	4F-1, No. 54, Minsheng East Road, Sec. 4, Taipei	137,200	Securities investment consulting
Hua Nan Futures Co., Ltd.	April 30, 1994	3F-9, No. 54, Minsheng East Road, Sec. 4, Taipei	500,000	Futures broking
Hua Nan (BVI) Holdings Corp.	March 17, 1997	Omar Hodge Building, Wickhams Cay 1, P.O. Box 362 Road Town, Tortola, British Virgin Islands	378,855	Holding company
Hua Nan Securities Hong Kong Ltd.	March 26, 1997	Room 2102, 21F, Tower One, Lippo Center, 89 Queensway, Hong Kong	HKD 79,975	Securities
Hua Nan Securities International (Cayman) Ltd.	February 29, 2000	P.O. Box 1787, George Town, Grand Cayman	USD500	Securities
Hua Nan Global Management (Cayman) Ltd.	February 29, 2000	P.O. Box 1787, George Town, Grand Cayman	USD150	Securities

2. Company Dividend Policy and State of Implementation

(1) HNFHC's dividend policy is carried out according to Article 35 of the company's charter:

In order to continue to expand the scale of the company and increase profitability, as well as to abide by related regulations, HNFHC has adopted a residual dividend policy.

Conditions of distribution, timing and amount: If the company has profit when the books are closed for a fiscal year, this money must first be used to pay tax and cover any losses from previous years. It then sets aside a regulated surplus reserve and when necessary a special surplus reserve for operational needs. The remainder is distributed as follows:

- A. No more than one percent can be used for remuneration of board members and supervisors. This amount is determined annually and reported to the shareholders meeting.*
- B. The sum for employee bonuses can amount to between 0.02% and 0.16%, with the exact amount to be determined by the board on an annual basis. This decision is made at a meeting at which at least two-thirds of all board members are present and at least half of all board members agree on an amount. The board decides whether to allocate all of the funds or just a portion, and new shares are issued and used as bonuses. A report is made to the shareholders meeting on the decision. Only employees affiliated with HNFHC are eligible for share bonuses.*
- C. Shareholder dividends are calculated by also mobilizing undistributed profit from the previous year, and a decision on the distribution of profits is made at the shareholders meeting. Shareholder dividends are decided based on the company's operational plans and are divided into cash and stock dividends. Cash dividends shall be no less than 10% of the total dividend to be distributed. When the cash dividend is less than NT \$0.1 based on this formula, the cash dividend will not be distributed unless otherwise decided at a shareholders meeting.*

(2) State of Implementation:

- A. Participants at this year's shareholders meeting resolved to pay a dividend of NT \$2, comprised of NT \$0.2 in cash and NT \$1.8 in stock (of the stock dividend, NT \$1.6 is a stock dividend on profits while the stock dividend on capital surplus is NT \$0.2). For every 1,000 shares held, the company will pay 180 bonus shares.*
- B. The allocation of the stock dividend will have the following impact on the company's operations and earnings per share :*

Hua Nan Financial Holdings Co. Ltd.

Analysis of Impact on Operations, EPS and Shareholder Investment Returns by This Year's Stock

Dividend

			2004 (Forecast)
Initial Paid-in Capital			47,285,036(NT\$1,000)
Dividend Payment in 2004	Dividends Per Share		0.2(NT\$1)
	Stock Dividend on Profits		0.16(Shares)
	Stock Dividend on Capital Surplus		0.02(Shares)
Impact on Operational Performance	Operating Income		10,229,297(NT\$1,000)
	Operating Income Compared with Previous Year		1.45%
	After-tax Profit		10,285,050(NT\$1,000)
	After-tax Profit Compared with Previous Year		1.82%
	Earnings Per Share		1.84(NT\$1)
	Earnings Per Share Compared with Previous Year		-14.02%
	Average Annual Return (Avg PER)		6.29%
Hypothetical EPS and PER	If all stock dividend on profits were converted to cash dividend	Hypothetical EPS	2.10(NT\$1)
		Hypothetical average annual investment return	7.18%
	If no stock dividend on capital surplus was made	Hypothetical EPS	1.88(NT\$1)
		Hypothetical average annual investment return	6.43%
	If no stock dividends at all were paid and only cash dividends distributed	Hypothetical EPS	2.14(NT\$1)
		Hypothetical average annual investment return	7.32%

Notes: 1. Data in this table are based on the audited 2003 financial report, audited financial projections for 2004 and the dividend distribution proposal made by the board of directors.

2. The table indicates the hypothetical EPS if all dividends were paid out in cash

(After-tax profit – interest expense on cash dividend x (1-tax rate)/(total number of issued shares at the end of the year – number of shares distributed in stock dividend on profits)

(1) Hypothetical cash dividend interest expense = stock dividend on profits x Hua Nan Bank's one-year lending rate of 3.00%

(2) Number of shares in stock dividend on profits: Number of shares added by the stock dividend on profits from the previous year

(3) Tax rate used on the hypothetical data: 25%

3. Average annual price to earnings ratio = average annual share price/earnings per share in annual financial statement

Average annual stock price: The average stock price in the first quarter of 2003 of NT \$29.25 is used as an estimate for the average stock price for 2004.

(3) Details of the top ten employees receiving dividends :

The company posted a net loss for 2002, meaning there were no profits to distribute. Employee bonuses for 2003 will be determined at the shareholders meeting. As a result, there is no information to be reported as of now.

(4) Top ten employees receiving stock options and their titles: HNFHC has yet to offer employee stock options.

3. Statement of Internal Control

Statement of Internal Control for Hua Nan Financial Holdings Co., Ltd.

We represent Hua Nan Financial Holdings Co., Ltd in declaring that HNFHC has established an internal controls system and implemented risk management according to the Rules Governing the Establishment of Internal Controls and Auditing Systems for Financial Holding Companies. An independent auditing agency audits the state of implementation and regularly reports to the board of directors and supervisors. After careful screening, it is determined that all units have effectively implemented internal controls and have abided by laws.

Ministry of Finance

President : Teh-Nan Hsu

Chief Auditor : Cheng-Fu Lee

Director of Internal Control : Mao-Hsien Liu

4. Legal infractions over the past two years or major problems and the state of improvement

(1) Prosecution of the heads of or employees of HNFHC or subsidiaries over the past two years:

A. HNFHC : None

B. Subsidiaries

(A) Hua Nan Commercial Bank :

Hua Nan Commercial Bank Hsinwei branch manager Lu Loo-loo, former employee Tsai Chih-chien (teller), and employee Huang Yung-chuen (teller) sought to profit from producing counterfeit documents and guarantees in extending credit to eight companies. The Taipei District Prosecutor brought charges against them on February 27, 2003

(B) Hua Nan Securities : None

(C) Hua Nan Bills Finance : None

(D) South China Insurance : None

(E) Hua Nan Investment Trust : None

(2) Managers of HNFHC or subsidiaries who have been disciplined by regulatory agencies over the past two years :

A. HNFHC : None

B. Subsidiaries

(A) Hua Nan Commercial Bank : None

(B) Hua Nan Securities :

Regulatory authority warned Hua Nan Securities on November 14, 2002 :

Hua Nan Securities' Panchiao branch broker Shih Hsin-ling and a customer were found to be go-betweens for financing loans. The customer sought to have access to accounts of other persons. Branch manager Lin Jen-chie was found to be holding securities and signature chops on behalf of customers. These were infractions of the Securities Exchange Law. After a special investigation by the Taiwan Stock Exchange, the Securities and Futures Commission issued a letter – numbered 0910005752 – to Hua Nan, warning the brokerage of its legal infractions.

(C) Hua Nan Bills Finance : None

(D) South China Insurance : None

(E) Hua Nan Investment Trust : None

5. Important Resolutions : None

6. Other Important Explanatory Items : None

7. Last Year Substantial Influences from Article 36, Clause 2, Sub-Clause 2 of Securities and Exchange Act on Shareholders' Equity or Stock Price : None

8. Other Disclosures

(1) State of Processing Resolutions at the 2003 Shareholders Meeting

<i>Resolution</i>	<i>State of Processing</i>
<i>(1)Amending HNFHC shareholder meeting regulations</i>	<i>In process of implementation</i>
<i>(2)Amending HNFHC's charter</i>	<i>In process of implementation</i>
<i>(3)Amending HNFHC's procedures governing loans and other operations</i>	<i>In process of implementation</i>
<i>(4)Drafting procedures governing the acquisition or disposal of assets</i>	<i>In process of implementation</i>
<i>(5)2002 profit/loss appropriation</i>	<i>In process of implementation</i>
<i>(6)Carrying out a 100% share swap with South China Insurance and having it become a subsidiary</i>	<i>Equity conversion was completed on August 15, 2003</i>
<i>(7)Carrying out a 100% share swap with Hua Nan Investment Trust and having it become a subsidiary</i>	<i>Equity conversion was completed on September 15, 2003</i>

VI. Financial Statements

Hua Nan Financial Holdings Co., Ltd.

**Financial Statements for the Years Ended
December 31, 2003 and 2002**

Together with Independent Auditors' Report

Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

Independent Auditors' Report

February 13, 2004

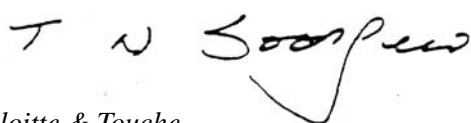
*The Board of Directors and the Stockholders
Hua Nan Financial Holdings Co., Ltd.*

We have audited the accompanying balance sheets of Hua Nan Financial Holdings Co., Ltd. as of December 31, 2003 and 2002 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants, Regulations for Audit of Financial Statements of Financial Institution by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hua Nan Financial Holdings Co., Ltd. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with the Criteria Governing the Preparation of Financial Reports by Financial Holding Companies and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of Hua Nan Financial Holdings Co., Ltd. as of and for the years ended December 31, 2003 and 2002, on which we have issued an unqualified opinion.



Deloitte & Touche

(T N Soong & Co and Deloitte & Touche (Taiwan)

Established Deloitte & Touche Effective June 1, 2003)

Taipei, Taiwan

Republic of China

Notice to Readers

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

February 14, 2003

HUA NAN FINANCIAL HOLDINGS CO., LTD.

BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

(IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT PAR VALUE)

(The Exchange Rates as of December 31, 2003 and 2002 were NT\$33.998 to US\$1 and NT\$33.78 to US\$1)

ASSETS	2003		2002	
	<u>Amount</u>	<u>%</u>	<u>(Restated—Note 2)</u> <u>Amount</u>	<u>%</u>
CURRENT ASSETS				
Cash (Notes 4 and 14)	\$4,285,249	5	\$5,514,221	8
Receivables	399,985	1	-	-
Receivables from related parties (Notes 2, 12 and 14)	241,599	-	1,332	-
Deferred income tax assets (Notes 2 and 12)	1,435	-	-	-
Prepayments and others	<u>17,775</u>	<u>-</u>	<u>2,413</u>	<u>-</u>
Total current assets	<u>4,946,043</u>	<u>6</u>	<u>5,517,966</u>	<u>8</u>
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 5)				
Equity method	72,506,497	94	61,230,455	92
Cost method	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total long-term equity investments	<u>72,566,497</u>	<u>94</u>	<u>61,230,455</u>	<u>92</u>
PROPERTIES—Net (Notes 2 and 6)	<u>14,379</u>	<u>-</u>	<u>6,957</u>	<u>-</u>
OTHER ASSETS (Note 2)	<u>44,018</u>	<u>-</u>	<u>23,983</u>	<u>-</u>
TOTAL ASSETS	<u>\$77,570,937</u>	<u>100</u>	<u>\$66,779,361</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2003		2002	
	<u>Amount</u>	<u>%</u>	<u>(Restated—Note 2)</u> <u>Amount</u>	<u>%</u>
CURRENT LIABILITIES				
Payables	\$ 48,049	-	\$ 39,106	-
Payables to related parties (Notes 2, 12 and 14)	<u>526,380</u>	<u>-</u>	<u>550</u>	<u>-</u>
Total current liabilities	<u>574,429</u>	<u>-</u>	<u>39,656</u>	<u>-</u>
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 7)	6,000,000	8	6,000,000	9
Other long-term liabilities	<u>8,327</u>	<u>-</u>	<u>9,529</u>	<u>-</u>
Total long-term liabilities	<u>6,008,327</u>	<u>8</u>	<u>6,009,529</u>	<u>9</u>
OTHER LIABILITIES (Notes 2 and 10)	<u>345</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>6,583,101</u>	<u>8</u>	<u>6,049,185</u>	<u>9</u>
STOCKHOLDERS' EQUITY				
Capital stock—\$10 par value, authorized 10,000,000,000 shares, issued 4,728,504,000 shares	47,285,036	61	47,285,036	71
Capital surplus				
Additional paid-in capital	13,299,280	17	39,991,232	60
Revaluation increments on properties	4,184	-	4,184	-
Donation	2,936	-	2,936	-
Treasury stock reissuance	51,025	-	33,862	-
Other	2,077	-	2,077	-
Retained earnings (accumulated losses)				
Legal reserve	60,022	-	54,989	-
Unappropriated earnings (loss)	10,292,792	14	(26,493,324)	(40)
Cumulative translation adjustments	(9,494)	-	19,423	-
Treasury stock (at cost)—1,000 shares and 12,479,000 shares as of December 31, 2003 and 2002	<u>(22)</u>	<u>-</u>	<u>(170,239)</u>	<u>-</u>
Total stockholders' equity	<u>70,987,836</u>	<u>92</u>	<u>60,730,176</u>	<u>91</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$77,570,937</u>	<u>100</u>	<u>\$66,779,361</u>	<u>100</u>

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

HUA NAN FINANCIAL HOLDINGS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(IN THOUSANDS OF NEW TAIWAN DOLLARS)

(The Exchange Rates as of December 31, 2003 and 2002 were NT\$33.998 to US\$1 and NT\$34.78 to US\$1)

	Capital Surplus (Notes 2 and 8)														
	Revaluation								Retained Earnings				Treasury Stock		
	Capital Stock (Note 8)		Additional	increments	Treasury			(Accumulated Losses) (Note 8)				(Notes 2, 3 and 9)		Total	
	Shares (thousands)	Amount	paid-in capital	on properties	Donation	stock reissuance	Other	Total	Legal reserve	Unappropriated earnings (loss)	Total	(Note 2)	Shares (thousand)	Amount	Stockholders' Equity
BALANCE, JANUARY 1, 2002 (BEFORE RESTATEMENT)	4,146,799	\$ 41,467,994	\$ 44,439,624	\$ -	\$ -	\$ -	\$ 2,077	\$ 44,441,701	\$ -	\$ 153,251	\$ 153,251	\$ 14,845	-	\$ -	\$ 86,077,791
Retroactive adjustments	<u>249,961</u>	<u>2,499,603</u>	<u>(187,148)</u>	<u>4,184</u>	<u>2,936</u>	<u>1,335</u>	<u>-</u>	<u>(178,693)</u>	<u>39,664</u>	<u>12,810</u>	<u>52,474</u>	<u>-</u>	<u>(2,526)</u>	<u>(37,971)</u>	<u>2,335,413</u>
BALANCE, JANUARY 1, 2002 (AFTER RESTATEMENT)	4,396,760	43,967,597	44,252,476	4,184	2,936	1,335	2,077	44,263,008	39,664	166,061	205,725	14,845	(2,526)	(37,971)	88,413,204
Appropriation of 2001 earnings															
Legal reserve	-	-	-	-	-	-	-	-	15,325	(15,325)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(136,436)	(136,436)	-	-	-	(136,436)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	(1,379)	(1,379)	-	-	-	(1,379)
Bonus to employees	-	-	-	-	-	-	-	-	-	(111)	(111)	-	-	-	(111)
Capital surplus appropriated as cash dividends and stock dividends	331,744	3,317,439	(4,010,363)	-	-	-	-	(4,010,363)	-	-	-	-	-	-	(692,924)
Remuneration to directors and supervisors and bonus to employees appropriated from the earnings for the period January 1, 2001 to December 18, 2001	-	-	(250,881)	-	-	-	-	(250,881)	-	-	-	-	-	-	(250,881)
Company stock held by subsidiary reclassified as treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(26,102)	(360,914)	(360,914)
Treasury stock transaction—subsidiary’s sale of Company’s stock	-	-	-	-	-	32,527	-	32,527	-	-	-	-	16,149	228,646	261,173
Net loss in 2002 (after restatement)	-	-	-	-	-	-	-	-	-	(26,506,134)	(26,506,134)	-	-	-	(26,506,134)
Translation adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,578</u>	<u>-</u>	<u>-</u>	<u>4,578</u>
BALANCE, DECEMBER 31, 2002 (AFTER RESTATEMENT)	<u>4,728,504</u>	<u>\$ 47,285,036</u>	<u>\$ 39,991,232</u>	<u>\$ 4,184</u>	<u>\$ 2,936</u>	<u>\$ 33,862</u>	<u>\$ 2,077</u>	<u>\$ 40,034,291</u>	<u>\$ 54,989</u>	<u>(\$ 26,493,324)</u>	<u>(\$ 26,438,335)</u>	<u>\$ 19,423</u>	<u>(12,479)</u>	<u>(\$ 170,239)</u>	<u>\$ 60,730,176</u>
BALANCE, JANUARY 1, 2003 (BEFORE RESTATEMENT)	4,478,543	\$ 44,785,433	\$ 40,178,380	\$ -	\$ -	\$ 32,527	\$ 2,077	\$ 40,212,984	\$ 15,325	(\$ 26,708,613)	(\$ 26,693,288)	\$ 19,423	(12,479)	(\$ 170,239)	\$ 58,154,313
Retroactive adjustments due to a share swap of two subsidiaries	<u>249,961</u>	<u>2,499,603</u>	<u>(185,812)</u>	<u>4,184</u>	<u>2,936</u>	<u>-</u>	<u>-</u>	<u>(178,692)</u>	<u>60,022</u>	<u>191,238</u>	<u>251,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,572,171</u>
BALANCE, JANUARY 1, 2003 (AFTER RESTATED)	4,728,504	47,285,036	39,992,568	4,184	2,936	32,527	2,077	40,034,292	75,347	(26,517,375)	(26,442,028)	19,423	(12,479)	(170,239)	60,726,484
Offset of deficit	-	-	(26,693,288)	-	-	-	-	(26,693,288)	(15,325)	26,708,613	26,693,288	-	-	-	-
Treasury stock transaction—subsidiary’s sale of Company’s stock	-	-	-	-	-	18,498	-	18,498	-	-	-	-	12,480	-	188,715
Net income in 2003	-	-	-	-	-	-	-	-	-	10,101,554	10,101,554	-	-	-	10,101,554
Translation adjustments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,917)</u>	<u>-</u>	<u>-</u>	<u>(28,917)</u>
BALANCE, DECEMBER 31, 2003	<u>4,728,504</u>	<u>\$ 47,285,036</u>	<u>\$ 13,299,280</u>	<u>\$ 4,184</u>	<u>\$ 2,936</u>	<u>\$ 51,025</u>	<u>\$ 2,077</u>	<u>\$ 13,359,502</u>	<u>\$ 60,022</u>	<u>\$ 10,292,792</u>	<u>\$ 10,352,814</u>	<u>(\$ 9,494)</u>	<u>1</u>	<u>(\$ 22)</u>	<u>\$ 70,987,836</u>

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

HUA NAN FINANCIAL HOLDINGS CO., LTD.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS (LOSS) PER SHARE)
(The Exchange Rates as of December 31, 2003 and 2002 were NT\$33.998 to US\$1 and NT\$34.78 to US\$1)

	<u>2003</u>		<u>2002</u> <i>(Restated—Note 2)</i>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
INCOME FROM LONG-TERM EQUITY INVESTMENTS— Net (Notes 2 and 5)	<u>\$10,233,771</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>
LOSS FROM LONG-TERM EQUITY INVESTMENTS— Net (Notes 2 and 5)	<u>-</u>	<u>-</u>	<u>26,370,373</u>	<u>-</u>
OPERATING EXPENSES				
General and administrative (Notes 2, 11 and 14)	<u>149,508</u>	<u>1</u>	<u>122,485</u>	<u>-</u>
Others	<u>1,236</u>	<u>-</u>	<u>1,504</u>	<u>-</u>
Total operating expenses	<u>150,744</u>	<u>1</u>	<u>123,989</u>	<u>-</u>
OPERATING INCOME (LOSS)	<u>10,083,027</u>	<u>99</u>	<u>(26,494,362)</u>	<u>-</u>
NONOPERATING INCOME (Note 14)				
Interest	<u>44,721</u>	<u>-</u>	<u>10,556</u>	<u>-</u>
Others	<u>751</u>	<u>-</u>	<u>1,073</u>	<u>-</u>
Total nonoperating income	<u>45,472</u>	<u>-</u>	<u>11,629</u>	<u>-</u>
NONOPERATING EXPENSES				
Interest	<u>179,936</u>	<u>2</u>	<u>23,301</u>	<u>-</u>
Others	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>
Total nonoperating expenses	<u>179,936</u>	<u>2</u>	<u>23,401</u>	<u>-</u>
INCOME (LOSS) BEFORE INCOME TAX	<u>9,948,563</u>	<u>97</u>	<u>(26,506,134)</u>	<u>-</u>
INCOME TAX (Notes 2 and 12)	<u>152,991</u>	<u>2</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS)	<u>\$10,101,554</u>	<u>99</u>	<u>(\$26,506,134)</u>	<u>-</u>
	<u>Pretax</u>	<u>After Tax</u>	<u>Pretax</u>	<u>After Tax</u>
EARNINGS (LOSS) PER SHARE (Note 13)				
Basic earnings (loss) per share	<u>\$ 2.11</u>	<u>\$ 2.14</u>	<u>(\$ 5.63)</u>	<u>(\$ 5.63)</u>

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

HUA NAN FINANCIAL HOLDINGS CO., LTD.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(IN THOUSANDS OF NEW TAIWAN DOLLARS)**

(The Exchange Rates as of December 31, 2003 and 2002 were NT\$33.998 to US\$1 and NT\$34.78 to US\$1)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$10,101,554	(\$26,506,134)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	5,353	29,834
Income (loss) from long-term equity investments under the equity method	(10,233,771)	26,370,373
Cash dividends and remuneration to directors and supervisors received from long-term equity investments under the equity method	613,834	2,767,839
Increase in long-term investment	(1,560,000)	(2,300,000)
Increase in receivables	(399,985)	-
Increase in receivables—related parties	(240,267)	(1,332)
Increase in prepayments and other current assets	(15,362)	(2,413)
Deferred tax	(27,855)	-
Increase in payables	8,943	9,922
Increase in payables—related parties	525,830	-
Increase in accrued pension cost	<u>2,184</u>	<u>49</u>
Net cash (used in) provided by operating activities	<u>(1,219,542)</u>	<u>368,138</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of properties	(9,775)	(8,064)
Increase in other assets	<u>-</u>	<u>(15,003)</u>
Net cash used in investing activities	<u>(9,775)</u>	<u>(23,067)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in other liabilities	345	-
Issuance of bonds payable	-	6,000,000
Cash dividends paid	-	(829,360)
Remuneration paid to directors and supervisors	-	(1,379)
Bonus paid to employees	<u>-</u>	<u>(111)</u>
Net cash provided by financing activities	<u>345</u>	<u>5,169,150</u>
NET INCREASE (DECREASE) IN CASH	<u>(1,228,972)</u>	<u>5,514,221</u>
CASH, BEGINNING OF PERIOD	<u>5,514,221</u>	<u>-</u>
CASH, END OF PERIOD	<u>\$4,285,249</u>	<u>\$5,514,221</u>
SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ 180,000</u>	<u>\$ -</u>
Income tax paid	<u>\$ 5,108</u>	<u>\$ 992</u>

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

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

(Expressed in Thousands of New Taiwan Dollars, Except Par Value of Capital Stock)

ASSETS	2003		2002 (Restated)	
	Amount	%	Amount	%
CASH	\$ 249,882,176	17	\$ 192,134,136	14
DUE FROM OTHER BANKS	94,762,959	7	73,221,153	6
DUE FROM CENTRAL BANK	55,406,380	4	58,906,796	4
SECURITIES PURCHASED—Net	106,594,306	7	122,732,565	9
RECEIVABLES—Net	31,114,165	2	26,903,218	2
CUSTOMER MARGIN DEPOSIT	2,013,790	-	1,207,419	-
PREPAYMENTS	2,566,131	-	2,434,693	-
LOANS, DISCOUNTS AND BILLS PURCHASED—Net	862,506,582	59	810,377,531	60
LONG-TERM INVESTMENTS				
Long-term stock investments				
Equity method	1,214,651	-	1,049,229	-
Cost method	<u>7,871,751</u>	<u>1</u>	<u>7,821,417</u>	<u>1</u>
	9,086,402	1	8,870,646	1
Long-term bond investments	410,556	-	4,814,837	-
Real-estate investments	98,878	-	186,202	-
Other long-term investments	<u>2,247,330</u>	<u>-</u>	<u>164,269</u>	<u>-</u>
Total long-term investments	<u>11,843,166</u>	<u>1</u>	<u>14,035,954</u>	<u>1</u>
PROPERTIES				
Cost				
Land (including revaluation increments)	13,506,147	1	13,660,213	1
Buildings (including revaluation increments)	11,380,596	1	11,143,026	1
Office equipment	3,946,459	-	4,121,296	1
Transportation equipment	964,699	-	903,682	-
Other equipment	2,754,911	-	2,481,054	-
Leasehold improvement	<u>458,231</u>	<u>-</u>	<u>357,347</u>	<u>-</u>
Cost and revaluation increments	33,011,043	2	32,666,618	3
Less: Accumulated depreciation	<u>8,675,601</u>	<u>-</u>	<u>8,064,429</u>	<u>1</u>
	24,335,442	2	24,602,189	2
Prepayments and construction in progress	<u>298,425</u>	<u>-</u>	<u>325,710</u>	<u>-</u>
Net properties	<u>24,633,867</u>	<u>2</u>	<u>24,927,899</u>	<u>2</u>
INTANGIBLE ASSETS	<u>247,100</u>	<u>-</u>	<u>322,428</u>	<u>-</u>
OTHER ASSETS				
Refundable deposits	3,042,007	-	2,775,596	-
Others	11,561,844	1	11,849,832	1
Deferred income tax assets—net	<u>9,311,131</u>	<u>-</u>	<u>11,779,612</u>	<u>1</u>
Total other assets	<u>23,914,982</u>	<u>1</u>	<u>26,405,040</u>	<u>2</u>
TOTAL ASSETS	<u>\$ 1,465,485,604</u>	<u>100</u>	<u>\$ 1,353,608,832</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2003		2002 (Restated)	
	Amount	%	Amount	%
LIABILITIES				
Due to Central Bank	\$ 190,752	-	\$ 211,977	-
Due to other banks	119,655,252	8	89,158,563	7
Short-term borrowings	7,934,564	1	7,977,981	1
Bonds sold under agreements to repurchase	22,525,501	1	32,543,941	2
Liabilities for stock warrants issued	195,693	-	25,749	-
Payables	38,423,161	3	40,802,727	3
Futures traders' equity	2,013,790	-	1,207,419	-
Advance collections	805,284	-	434,587	-
Deposits and remittances	1,128,033,998	77	1,069,679,754	79
Bank debenture payable	50,670,000	3	25,000,000	2
Funds borrowed from Central Bank and other banks	-	-	2,819,962	-
Bonds payable	6,000,000	-	6,000,000	-
Long-term liabilities	9,768,805	1	9,955,465	1
Other liabilities	8,274,072	1	7,053,311	1
Minority interest	5,342	-	5,277	-
Consolidating credit balance	1,554	-	1,943	-
Total liabilities	1,394,497,768	95	1,292,878,656	96
STOCKHOLDERS' EQUITY				
Capital stock—\$10 par value				
Authorized: 10,000,000,000 shares				
Issued: 4,728,503,594 shares	47,285,036	3	47,285,036	3
Capital surplus				
Additional paid-in capital	13,299,280	1	39,991,232	3
Revaluation increments on properties	4,184	-	4,184	-
Donation	2,936	-	2,936	-
Treasury stock reissuance	51,025	-	33,862	-
Other	2,077	-	2,077	-
Retained earnings (accumulated deficit)				
Legal reserve	60,022	-	54,989	-
Unappropriated earnings (losses)	10,292,792	1	(26,493,324)	(2)
Cumulative translation adjustments	(9,494)	-	19,423	-
Treasury stock (at cost)—1,000 shares and 12,479,000 shares in 2003 and 2002	(22)	-	(170,239)	-
Total stockholders' equity	70,987,836	5	60,730,176	4
COMMITMENTS AND CONTINGENT LIABILITIES				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,465,485,604	100	\$ 1,353,608,832	100

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Expressed in Thousands of New Taiwan Dollars)

	Capital Surplus								Retained Earnings			Cumulative Translation Adjustments	Treasury Stock		Total Stockholders' Equity
	Capital Stock		Additional paid-in capital	increments on properties	Treasury			(Accumulated Deficits)							
	Shares (thousands)	Amount			Legal reserve	reissuance	Other	Total	Unappropriated earnings (loss)	Total					
SUBSIDIARIES' BALANCE, JANUARY 1, 2002 (BEFORE RESTATEMENT)	4,146,799	\$ 41,467,994	\$ 44,439,624	\$ -	\$ -	\$ -	\$ 2,077	\$ 44,441,701	\$ -	\$ 153,251	\$ 153,251	\$14,845	-	\$ -	\$ 86,077,791
Retroactive adjustments for shares swap	<u>249,961</u>	<u>2,499,603</u>	(<u>187,148</u>)	<u>4,184</u>	<u>2,936</u>	<u>1,335</u>	<u>-</u>	(<u>178,693</u>)	<u>39,664</u>	<u>12,810</u>	<u>52,474</u>	<u>-</u>	(<u>2,526</u>)	(<u>37,971</u>)	<u>2,335,413</u>
SUBSIDIARIES' BALANCE, JANUARY 1, 2002 (AFTER RESTATEMENT)	4,396,760	43,967,597	44,252,476	4,184	2,936	1,335	2,077	44,263,008	39,664	166,061	205,725	14,845	(2,526)	(37,971)	88,413,204
Subsidiaries' appropriation of 2001 earnings															
Legal reserve	-	-	-	-	-	-	-	-	15,325	(15,325)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(136,436)	(136,436)	-	-	-	(136,436)
Remuneration to directors, supervisors—cash	-	-	-	-	-	-	-	-	-	(1,379)	(1,379)	-	-	-	(1,379)
Bonus to employees	-	-	-	-	-	-	-	-	-	(111)	(111)	-	-	-	(111)
Capital surplus appropriated as cash dividends and stock dividends	331,744	3,317,439	(4,010,363)	-	-	-	-	(4,010,363)	-	-	-	-	-	-	(692,924)
Remuneration to directors and supervisors and bonus to employees appropriated from the earning from the period January 1, 2001 to December 18, 2001	-	-	(250,881)	-	-	-	-	(250,881)	-	-	-	-	-	-	(250,881)
Subsidiary's treasury stock reclassification	-	-	-	-	-	-	-	-	-	-	-	-	(26,102)	(360,914)	(360,914)
Reissurance of treasury stock by subsidiary	-	-	-	-	-	32,527	-	32,527	-	-	-	-	16,149	228,646	261,173
Net loss in 2002	-	-	-	-	-	-	-	-	-	(26,506,134)	(26,506,134)	-	-	-	(26,506,134)
Translation adjustments arising from long-term stock investments under the equity method	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,578</u>	<u>-</u>	<u>-</u>	<u>4,578</u>
BALANCE, DECEMBER 31, 2002 (AFTER RESTATEMENT)	<u>4,728,504</u>	<u>\$ 47,285,036</u>	<u>\$ 39,991,232</u>	<u>\$ 4,184</u>	<u>\$ 2,936</u>	<u>\$ 33,862</u>	<u>\$ 2,077</u>	<u>\$ 40,034,291</u>	<u>\$ 54,989</u>	<u>(\$ 26,493,324)</u>	<u>(\$ 26,438,335)</u>	<u>\$ 19,423</u>	<u>(12,479)</u>	<u>(\$ 170,239)</u>	<u>\$ 60,730,176</u>
BALANCE, JANUARY 1, 2003 (BEFORE RESTATEMENT)	4,478,543	\$ 44,785,433	\$ 40,178,380	\$ -	\$ -	\$ 32,527	\$ 2,077	\$ 40,212,984	\$ 15,325	(\$ 26,708,613)	(\$ 26,693,288)	\$ 19,423	(12,479)	(\$ 170,239)	\$ 58,154,313
Retroactive adjustments for shares swap	<u>249,961</u>	<u>2,499,603</u>	(<u>185,812</u>)	<u>4,184</u>	<u>2,936</u>	<u>-</u>	<u>-</u>	(<u>178,692</u>)	<u>60,022</u>	<u>191,238</u>	<u>251,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,572,171</u>
BALANCE, JANUARY 1, 2003 (AFTER RESTATEMENT)	4,728,504	47,285,036	39,992,568	4,184	2,936	32,527	2,077	40,034,292	75,347	(26,517,375)	(26,442,028)	19,423	(12,479)	(170,239)	60,726,484
Offset deficit	-	-	(26,693,288)	-	-	-	-	(26,693,288)	(15,325)	26,708,613	26,693,288	-	-	-	-
Reissurance of treasury stock by subsidiary	-	-	-	-	-	18,498	-	18,498	-	-	-	-	12,480	170,217	188,715
Net income in 2003	-	-	-	-	-	-	-	-	-	10,101,554	10,101,554	-	-	-	10,101,554
Translation adjustments arising from long-term stock investments under the equity method	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,917)</u>	<u>-</u>	<u>-</u>	<u>(28,917)</u>
BALANCE, DECEMBER 31, 2003	<u>4,728,504</u>	<u>\$ 47,285,036</u>	<u>\$ 13,299,280</u>	<u>\$ 4,184</u>	<u>\$ 2,936</u>	<u>\$ 51,025</u>	<u>\$ 2,077</u>	<u>\$ 13,359,502</u>	<u>\$ 60,022</u>	<u>\$ 10,292,792</u>	<u>\$ 10,352,814</u>	<u>(\$ 9,494)</u>	<u>1</u>	<u>(\$ 22)</u>	<u>\$ 70,987,836</u>

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002 (Expressed in Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	<u>2003</u>		<u>2002 (Restated)</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
OPERATING REVENUES				
Interest	\$ 32,814,261	61	\$ 43,164,701	70
Gross written premium	4,540,038	8	4,176,682	7
Recovered reinsurance claims	1,407,170	3	1,369,556	2
Recovered unearned premium reserve	1,947,232	4	2,002,746	3
Recovered special reserve	131,963	-	101,136	-
Recovered claims reserve	21,576	-	21,180	-
Service fees	5,803,874	11	5,415,229	9
Income from securities—net	5,801,734	11	4,487,924	7
Income from long-term stock investments under equity method—net	150,900	-	102,671	-
Foreign exchange gain—net	687,049	1	725,193	1
Others	<u>661,086</u>	<u>1</u>	<u>609,461</u>	<u>1</u>
Total operating revenues	<u>53,966,883</u>	<u>100</u>	<u>62,176,479</u>	<u>100</u>
OPERATING COSTS AND EXPENSES				
Interest	15,038,872	28	22,953,103	37
Reinsurance premium expense	2,279,099	4	2,257,474	4
Insurance claims paid	2,509,525	5	2,470,419	4
Unearned premium reserve	2,027,380	4	1,931,116	3
Special reserve	220,557	-	264,698	-
Claims reserve	26,750	-	21,511	-
Service charges	1,315,478	2	913,510	1
Provision for reserves, bad debts and losses from decline in market value of securities purchased and investments	11,728,905	22	57,077,782	92
Operational, general and administrative expenses	15,017,666	28	15,342,329	25
Others	<u>305,364</u>	<u>-</u>	<u>232,095</u>	<u>-</u>
Total operating costs and expenses	<u>50,469,596</u>	<u>93</u>	<u>103,464,037</u>	<u>166</u>
OPERATING INCOME (LOSS)	3,497,287	7	(41,287,558)	(66)
NON-OPERATING REVENUES AND INCOMES	9,589,101	18	5,117,338	8
NON-OPERATING EXPENSES AND LOSSES	<u>319,042</u>	<u>1</u>	<u>2,251,569</u>	<u>4</u>
INCOME (LOSS) BEFORE INCOME TAX	12,767,346	24	(38,421,789)	(62)
INCOME TAX (BENEFIT)	2,665,727	5	(9,441,315)	(15)
MINORITY INTEREST INCOME (LOSS)	<u>65</u>	<u>-</u>	<u>(2,474,340)</u>	<u>(4)</u>
CONSOLIDATED INCOME (LOSS) FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002	<u>\$ 10,101,554</u>	<u>19</u>	<u>(\$ 26,506,134)</u>	<u>(43)</u>
	<u>2003</u>		<u>2002 (Restated)</u>	
	<u>Pre-tax</u>	<u>After-tax</u>	<u>Pre-tax</u>	<u>After-tax</u>
EARNINGS (LOSS) PER SHARE	<u>\$ 2.70</u>	<u>\$ 2.14</u>	<u>(\$ 7.63)</u>	<u>(\$ 5.63)</u>

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003 AND 2002
(Expressed in Thousands of New Taiwan Dollars)**

	<u>2003</u>	<u>2002 (Restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated income (loss) for the years ended December 31, 2003 and 2002	\$ 10,101,554	(\$ 26,506,134)
Adjustments to reconcile net income to net cash provided by operating activities		
Minority interest income (loss)	65	(2,474,340)
Depreciation and amortization	1,387,259	1,303,281
Amortization of premium on long-term bond investments	26,798	26,899
Amortization of deferred employee pension expense	-	1,778,879
Income from long-term stock investments under the equity method	(150,900)	(102,671)
Realized loss from sale of long-term investments—net	(81,993)	(12,316)
Loss on disposal of properties—net	1,432	6,142
Cash dividends and remuneration to directors and supervisors from long-term stock investments under the equity method	613,834	2,767,839
Provision for insurance reserves and credit loss of securities purchased	348,786	185,970
Provision for reserves, bad debts and losses from decline in market value of securities purchased and investments	11,728,905	57,077,782
Decrease in securities purchased for trading purposes	17,105,395	15,777,820
Decrease in accrued pension cost	(61,800)	(43,509)
Change in deferred income tax	2,468,481	(10,036,458)
Increase in receivables and prepayments	(5,107,795)	(2,873,970)
Increase in customer margin deposit	(806,371)	(427,901)
Increase in futures traders' equity	806,371	427,901
Decrease in payables and advance collections	(1,908,351)	(4,823,134)
Increase (decrease) in liabilities for stock warrants issued	169,944	(87,780)
Others	(145,635)	(20,559)
Net cash provided by operating activities	<u>36,495,979</u>	<u>31,943,741</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in due from other banks	(21,541,806)	29,530,708
Decrease (increase) in due from Central Bank	3,500,416	667,809
Increase in loans, discounts and bills purchased	(61,804,745)	(38,510,478)
Increase in long-term stock investments	(1,784,408)	(4,335,653)
Proceeds from sale of long-term stock investments	30,687	23,621
Acquisition of long-term bond investments	(946,265)	1,036,992
Proceeds from sale of long-term equity investments	1,537,280	(1,074,196)
Acquisition of properties and intangible assets	(1,132,209)	(1,397,293)
Decrease in restricted assets	467,636	249,343
Decrease (increase) in other assets	(307,758)	289,553
Proceeds from sale of properties and other assets	<u>11,115</u>	<u>15,739</u>
Net cash used in investing activities	(<u>81,970,057</u>)	(<u>13,503,855</u>)

(Continued)

	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term borrowings	(\$ 46,604)	\$ 2,480,221
Decrease in due to Central Bank	(21,225)	(100,806)
Increase in due to other banks	30,496,689	22,951,483
Decrease in bonds sold under agreements to repurchase	(10,018,440)	(3,181,369)
Increase in deposits and remittances	58,354,244	60,851,221
Increase in a subsidiary's cash capital by the ultimate parent company	1,500,000	-
Increase in bank debenture payable	25,670,000	11,499,300
Decrease in funds borrowed from Central Bank and other banks	(2,819,962)	(1,108,606)
Increase (decrease) in long-term liabilities	(117,319)	4,362,739
Increase in other liabilities	568,666	255,126
Proceeds from sale of treasury stock	188,739	234,020
Payment of cash dividends by subsidiaries to the ultimate parent company	(514,998)	(3,596,034)
Remuneration and bonuses to directors, supervisors and employees	(<u>17,672</u>)	(<u>264,521</u>)
Net cash provided by financing activities	<u>103,222,118</u>	<u>94,382,774</u>
INCREASE IN CASH FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002	57,748,040	112,822,660
CASH, JANUARY 1, 2003 AND 2002	<u>192,134,136</u>	<u>79,311,476</u>
CASH, DECEMBER 31, 2003 AND 2002	<u>\$ 249,882,176</u>	<u>\$ 192,134,136</u>
SUPPLEMENTAL CASH FLOWS INFORMATION		
Interest paid for the years ended December 31, 2003 and 2002	<u>\$ 16,032,398</u>	<u>\$ 26,353,069</u>
Income tax paid for the years ended December 31, 2003 and 2002	<u>\$ 909,079</u>	<u>\$ 908,132</u>

(Concluded)

HUA NAN FINANCIAL HOLDINGS CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. ORGANIZATION AND OPERATIONS

Hua Nan Financial Holdings Co., Ltd. (the "Company") was established by Hua Nan Commercial Bank Ltd. (HNCB) and EnTrust Securities Co., Ltd. ("EnTrust") through a share swap on December 19, 2001. HNCB and EnTrust exchanged stocks with the Company at ratios of 1:1 and 1.2821:1, respectively, with "1" representing the Company's share. Thus, HNCB and EnTrust became the Company's wholly owned subsidiaries. The shares of HNCB and EnTrust then ceased to be traded on the Taiwan Stock Exchange (TSE) and the over-the-counter exchange (OTC exchange), respectively, and the Company became listed on the TSE. EnTrust was renamed Hua Nan EnTrust Securities Co., Ltd. (HNSC) in June 2003.

On December 26, 2002, the Company acquired 57.49% equity in (230,000,000 shares) Central Bills Finance Corporation (CBF) for \$2,300,000, which was approved by the Ministry of Finance (MOF) and related authorities. Since HNCB, a wholly owned subsidiary of the Company, also holds 42.41% shares of CBF, the Company holds 99.90% of CBF's shares. CBF was renamed Hua Nan Bills Finance Corporation (HBNF) in July 2003.

Through a share swap at ratios of 1.794:1 and 0.37376:1 (with "1" representing the Company's share), South China Insurance Co., Ltd. (SCIC) and EnTrust Investment Trust Corporation (ETIT) become wholly owned subsidiaries of the Company. ETIT was renamed Hua Nan Investment Trust Corporation (HNIT) in July 2003.

The Company manages and invests in financial institutions.

As of December 31, 2003 and 2002, the Company had 34 and 30 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies, which conform to the Criteria Governing the Preparation of Financial Reports by Financial Holding Companies (the "Criteria") and accounting principles generally accepted in the Republic of China (ROC), are summarized below:

Current and Noncurrent Assets and Liabilities

Assets that are expected to be converted or consumed within one year are classified as current. Obligations that are expected to be liquidated or settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

Long-term Equity Investments

Under a directive issued by the Accounting Research and Development Foundation of the R.O.C., a financial holding company should treat the investees' net worth as paid-in capital if the holding company is incorporated through a share swap. The stock issued by the holding company is accounted for as capital stock, while issuance in the excess of par value is accounted for as additional paid-in capital.

The Company acquired SCIC and HNIT through a share swap on August 15, 2003. Under a directive issued by the Accounting Research and Development Foundation of the R.O.C., the Company must use the pooling of interest method and retroactively restate the financial statements as of December 31, 2002.

Investments accounted for by the equity method are stated at cost plus (or minus) a proportionate share in net earnings (losses) or changes in the investees' net worth. On the acquisition date, any difference between the acquisition cost and the equity in the investee is amortized using the straight-line method over five years. Shares in net earnings (net losses) are recognized as investment income (loss), and cash dividends received are accounted for as a reduction in the carrying value of the investments.

Investments accounted for by the cost method are carried at cost. Cash dividends received a year after investment acquisition are recognized as investment income. If market value of an investment in stock with no quoted market price falls below carrying value and this decline is deemed temporary, the carrying value of the investment is reduced to reflect this decline, with the related impairment loss charged to current income.

For both equity-method and cost-method investments, stock dividends received result only in an increase in the number of shares and are not recognized as investment income.

Properties

Properties are stated at cost less accumulated depreciation. Major renewals, additions and improvements are capitalized, while maintenance and repairs are charged to expenses as incurred.

Depreciation is computed using the straight-line method over service lives estimated as follows: office equipment, 3 years; transportation equipment, 8 years; other equipment, 5 years; and leasehold improvements, 5 years. For assets that have reached their residual value but remain in use, further depreciation is calculated over newly estimated service lives.

Organization Costs

To comply with the revision of the Republic of China's Statement of Financial Accounting Standards No. 19, "Development Stage Accounting" in the Republic of China, the Company charged the unamortized organization costs to current expenses. This accounting change had no significant effect on the Company's financial statements.

Bonds Payable

Bonds are issued at par value. The Company accrues related interest expenses monthly. The direct costs of bond issuance (included in other assets) are recognized as issuance expenses and amortized using the straight-line method over the maturity period.

Pension

Pension expense is determined on the basis of actuarial calculations.

Treasury Stock

Under a directive of the Securities and Futures Committee (SFC), treasury stock originally owned by a financial institution that later becomes a subsidiary of a financial holding company through a share swap should continue to be treated as treasury stock in the subsidiary's books after the swap. But, starting December 31, 2002, if that subsidiary owns shares of another subsidiary under the same financial holding company, and the shares are later exchanged for the parent company's shares, these shares should be treated as investments in the subsidiary's books, but as treasury stock in the parent's books.

Income Taxes

Inter-period income tax allocation is applied, in which tax effects of loss carryforward, deductible temporary differences and unused investment tax credits are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred income tax assets that are not certain to be realized.

Deferred income tax assets and liabilities are classified as current or noncurrent on the basis of the classification of the related assets or liabilities for financial reporting. A deferred income tax asset or liability that cannot be related to an asset or liability for financial reporting is classified according to the expected realization date of the temporary difference.

Tax credits for certain acquisitions of equipment or technology, research and development expenditures and personnel training expenditures are recognized as a reduction of current income tax.

The Company and two of its subsidiaries, HNCB and HNSC, chose to adopt the linked-tax system for filing tax returns. Under a directive issued by the Accounting Research and Development Foundation of R.O.C., the income tax should be allocated to these entities through a reasonable and systematic

method, and the relevant amount that must be transferred to the subsidiaries will be treated as receivable or payable when the income tax is accrued.

Income tax (10%) on unappropriated earnings is recorded as income tax in the year when the stockholders resolve the appropriation of the earnings.

Contingencies

A loss is recognized when it is probable that an asset has been impaired or a liability has been incurred, and the amount of loss can be reasonably estimated. If the amount of the loss cannot be reasonably estimated or if loss is possible, a footnote disclosure of the circumstances that might give rise to the contingency should be made.

3. CHANGE IN ACCOUNTING PRINCIPLE

HNSC owned 1,144,000 HNCB shares before December 19, 2001, which amounted to \$20,432. These shares, which were originally included in the securities dealing of EnTrust, were swapped for the Company's stock at a 1:1 ratio on December 19, 2001 (Note 1). Under Statement of Financial Accounting Standards No. 30, "Accounting for Treasury Stock," the Company reclassified these shares as the Company's treasury stock. This accounting change resulted in an increase of \$8,054 in the net loss in 2002. Those shares were sold off in 2002. This accounting change had no material effect on the Company's financial statements.

4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Time deposits—due between February and May in 2004 and 2003 interest rate of 0.60%-0.70% and from 1.55%-1.65%, respectively.	\$2,200,000	\$4,700,000
Demand deposits	1,369,505	508,301
Checking deposits	<u>715,744</u>	<u>305,920</u>
	<u>\$4,285,249</u>	<u>\$5,514,221</u>

5. LONG-TERM EQUITY INVESTMENTS

	<u>December 31</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Equity method				
Unlisted stocks				
Hua Nan Commercial Bank, Ltd.	\$58,678,818	100.00	\$49,695,363	100.00
Hua Nan Securities Co., Ltd.	8,855,256	100.00	6,659,229	100.00
Hua Nan Bills Finance Corporation	2,302,416	57.49	2,300,000	57.49
South China Insurance Co., Ltd.	2,222,602	100.00	2,134,662	100.00
Hua Nan Investment Trust Corporation	<u>447,405</u>	100.00	<u>441,201</u>	100.00
	<u>72,506,497</u>		<u>61,230,455</u>	
Cost method				
Debt Investments Depository and Clearing Co., Ltd. Taiwan	<u>60,000</u>	2.99	<u>-</u>	-
Total long-term equity investment	<u>\$72,566,497</u>		<u>\$61,230,455</u>	

Based on the above subsidiaries' audited financial statements, investment income in 2003 was \$10,233,771 and investment loss in 2002 was \$26,370,373.

The operating revenues or total assets of HNIT, HNCB Insurance Agency Co., Ltd., EnTrust Investment Management Co., Ltd. and EnTrust (BVI) Holdings Corp. were individually less than 10% and less than 30% of those of HNCB and EnTrust. Because the investees did not reach the Company's required percentages for consolidation, their accounts were not included in the consolidated financial statements.

6. PROPERTIES

	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
<i>Cost</i>		
Office equipment	\$2,955	\$2,491
Transportation equipment	9,131	-
Other equipment	1,256	1,256
Leasehold improvements	<u>4,497</u>	<u>4,317</u>
	<u>17,839</u>	<u>8,064</u>
<i>Accumulated depreciation</i>		
Office equipment	990	330
Transportation equipment	598	-
Other equipment	374	164
Leasehold improvements	<u>1,498</u>	<u>613</u>
	<u>3,460</u>	<u>1,107</u>
<i>Net</i>	<u>\$14,379</u>	<u>\$6,957</u>

7. BONDS PAYABLE

In November 2002, the Company issued its first corporate bonds with an aggregate face value of \$6,000,000. Interest was calculated in two ways: (1) 3% annually; and (b) 2.9778% compounded semiannually. For bonds with annual interest payments, the principal is due in November 2007.

8. STOCKHOLDERS' EQUITY

a. Capital stock

In their May 24, 2002 meeting, the stockholders resolved to appropriate \$3,317,439 of capital surplus as capital stock by distributing 331,743,948 shares of stock dividends. The capital increase was approved by the Securities and Futures Commission (SFC) and took effect on August 19, 2002. On August 15, 2003, the Company acquired SCIC and HNIT through a share swap and the Company's capital increased to \$47,285,036.

b. Capital surplus

Under the Company Law, capital surplus from issuance of shares in excess of par value may be transferred to common stock if the transfer is approved by the stockholders.

Capital surplus from long-term equity investments accounted for by the equity method cannot be distributed for any purpose.

Under the Financial Holding Company Law and related SFC directives, capital surplus that is obtained by a financial holding company through a share swap and comes from its subsidiaries' unappropriated retained earnings after legal and special reserves, may be appropriated as cash dividends and common stock. The appropriation ratio is not restricted by the Securities and Exchange Law.

The subsidiaries' unappropriated retained earnings before the share swap amounted to \$4,173,869, which the Company accounted for as capital surplus on the date of its establishment. In their May 24, 2002 meeting, the stockholders resolved to appropriate \$692,924 of this capital surplus as cash dividends. Another portion of capital surplus, amounting to \$250,881, was also used as remuneration to directors and supervisors and the bonus to employees. In 2003, this capital surplus was used to offset the 2002 accumulated deficit.

On August 15, 2003, SCIC and HNTC become the Company's wholly owned subsidiaries. For this swap, the Company used the pooling of interest method and retroactively restated the related capital surplus.

c. *Retained earnings and dividend policy*

The Company's Articles of Incorporation provide that from annual net income less any accumulated losses, a 10% legal reserve should be appropriated until the reserve equals the aggregate par value of the Company's paid-in capital. A special reserve may then be appropriated according to governing regulations as well as the Company's business needs. Any remainder should be appropriated as follows:

- 1) Up to 1% as remuneration to directors and supervisors.
- 2) 0.2% to 1.6% as bonus to employees. The board of directors is authorized to set the percentage for annual bonus appropriation. While the bonus is distributed in stock or cash, the board of directors is authorized to resolve and reports to the shareholders.
If the employee bonuses are in the form of stock, the beneficiaries may also include the employees' subsidiaries.
- 3) Dividends. Determination of the dividend amount should be based on the Company's business plan and capital requirements. In addition, cash dividends should be at least 10% of the dividends distributed. If the cash dividend per share is less than NT\$0.1, the earnings will be retained unless the stockholders' meeting resolve to distribute the earnings.

These appropriations as well as other distributions of earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

Under the Company Law, legal reserve should be appropriated until the reserve equals the Company's paid-in capital. This reserve is only used to offset a deficit. When the reserve reaches 50% of the Company's paid-in capital, up to 50% thereof may be transferred to capital.

Under an SFC directive, special reserve should be an amount equal to the debit balance of accounts in the stockholders' equity section (such as unrealized loss on long-term equity investments, unrealized revaluation loss on long-term equity investments and cumulative translation adjustments, but excluding treasury stock). The balance of the special reserve is adjusted to reflect any changes in the debit balance of the related accounts on the balance sheet dates.

The SFC has issued a directive to prevent a company from excessive earnings distribution, which will damage the Company's capital structure as well as stockholders' interest. Thus, if a parent company's shares held by subsidiaries decline in market value, the parent should appropriate a special reserve at an amount equal to the decline in market value multiplied by the percentage of equity in the investee. If the market value recovers, the reserve can be reversed to the extent provided.

On June 6, 2003, the stockholders' meeting resolved to offset of the Company's losses in 2002 as follows:

Deficit to be offset	(\$26,708,613)
Legal reserve for offset of deficit	15,325
Additional paid-in capital for offset of deficit	<u>26,693,288</u>
	<u>\$ -</u>

On May 24, 2002, the board of directors resolved the appropriation of the earnings of the period December 19, 2001 to December 31, 2001 as follows:

Legal reserve	\$15,325
Cash dividends	136,436
Remuneration to directors and supervisors	1,379
Bonus to employees—cash	<u>111</u>
	<u>\$153,251</u>

Had the remuneration to directors and supervisors and bonus to employees (included in the appropriation of 2001 earnings) been recognized as expenses, both the pretax and after-tax basic earnings per share for 2001 would have been NT\$0.04.

The appropriation of the 2003 earnings has not yet been resolved by the board of directors as of February 13, 2003, the date of the accompanying auditors' report. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

9. TREASURY STOCK

<i>Reasons</i>	<i>(Shares in Thousands)</i>			
	<i>Shares at Beginning of Year</i>	<i>Shares Increase during the Year</i>	<i>Shares Decrease during the Year</i>	<i>Shares at Year-End</i>
<u>2003</u>				
Reissuance to employees—HNSC	12,479	-	12,479	-
Shares held by subsidiary—HNS	-	1	-	1
<u>2002</u>				
Reissuance to employees—HNSC	-	24,958	12,479	12,479
Shares held by subsidiary—HNSC	-	1,144	1,144	-
Reissuance to employees—SCIC	-	2,526	2,526	-

Under the Securities and Exchange Law, the Company's should not acquire treasury stock in excess of 10% of its total shares issued nor incur a purchase cost exceeding the sum of retained earnings and capital surplus (paid-in capital in excess of par value, gains on disposal of properties and donated capital). In addition, the Company should not use treasury stocks to secure any of its obligations nor exercise the stockholders' rights on those stocks.

Before December 19, 2001, the Company's establishment date, HNSC and SCIC owned 31,999,000 and 2,979,000 treasury shares, respectively, which amounted to \$340,482 and \$37,972, respectively. Those treasury stocks had been converted to 24,958,000 shares and 2,526,000 shares of the Company's stock on the share swap date.

HNSC shares were distributed to its employees at NT\$15.17 per share in 2003 and NT\$15.65 per share in 2002, and this reissuance was approved by the SFC and became effective on August 28, 2003 and July 4, 2002, respectively.

SCIC shares were re-issued to the employees on December 19, 2002.

As of December 31, 2003, HNSC still held the 1,000 Company shares acquiring from ETF, which amounted to \$22. Under SFC directives, the Company reclassified the stock as the Company's treasury stocks.

10. PENSION

The Company has a pension plan for all regular employees. The Company contributes monthly amounts equal to 12% of salaries to a pension fund, which is administered by the employees' pension plan supervisory committee.

Following are summaries of certain pension information:

a. Changes in the retirement fund:

	<i>For the Years Ended December 31</i>	
	<u>2003</u>	<u>2002</u>
Balance, beginning of year	\$ 855	\$ -
Contributions	2,718	855
Interest earned	<u>28</u>	<u>-</u>
Balance, end of year	<u>\$ 3,601</u>	<u>\$ 855</u>

b. Components of net pension cost:

	<i>For the Years Ended December 31, 2003</i>
Service cost	\$ 3,934
Interest cost	479
Projected return on plan assets	(82)
Loss on plan assets	<u>569</u>
Net pension cost	<u>\$ 4,900</u>

c. Reconciliation of the fund status of the plan and accrued pension cost as of December 31, 2003 and 2002:

	<i>December 31</i>	
	<u>2003</u>	<u>2002</u>
Benefit obligation		
Vested benefit obligation	\$ 3,084	\$5,374
Non-vested benefit obligation	<u>8,844</u>	<u>5,010</u>
Accumulated benefit obligation	11,928	10,384
Additional benefits based on future salaries	<u>4,540</u>	<u>3,290</u>
Projected benefit obligation	16,468	13,674
Fair value of plan assets	<u>(3,601)</u>	<u>(855)</u>
Fund status	12,867	12,819
Unrecognized net transition obligation	(12,250)	(12,819)
Unrecognized pension loss	1,614	-
Additional pension liability	<u>6,096</u>	<u>9,529</u>
Accrued pension cost	<u>\$8,327</u>	<u>\$9,529</u>

d. Vested benefits—discounted \$3,262 \$6,183

e. Actuarial assumptions

1) Discount rate used in determining present values	3.00%	3.50%
2) Future salary increase rate	2.50%	2.75%
3) Expected rate of return on plan assets	3.00%	3.50%

11. OPERATING AND ADMINISTRATIVE EXPENSES

	<i>For the Years Ended December 31</i>	
	<u>2003</u>	<u>2002</u>
<i>Personnel expense</i>		
Salaries and wages	\$38,406	\$24,189
Labor insurance and national health insurance expense	1,950	633
Pension	4,900	904
Other	31,444	15,084
<i>Marketing expense</i>	16,375	16,414
<i>Depreciation</i>	2,352	1,108
<i>Amortization</i>	3,000	28,726
<i>Tax</i>	1,217	1,941
<i>Rental</i>	3,489	1,030
<i>Others</i>	<u>46,375</u>	<u>32,456</u>
	<u>\$149,508</u>	<u>\$122,485</u>

12. INCOME TAX

Under the directives of the Ministry of Finance, the Financial Holding Company Act and the Enterprise Mergers and Acquisitions Law, a financial holding company that holds 90% of the issued shares of domestic subsidiaries for 12 months within a taxation year, may choose to adopt the linked-tax system for tax filings by the financial holding company and eligible subsidiaries.

The purpose of the Company, EnTrust Securities and HNCB (collectively, the "Group") in using the linked-tax system is to reduce the income tax liabilities of the Group and maximize the synergy of the Group.

- a. Reconciliation of tax on pretax income (loss) at statutory rate and current income tax payable is as follows:

	<i>For the Years Ended December 31</i>	
	<u>2003</u>	<u>2002</u>
<i>Tax on pretax income at 25% statutory rate</i>	\$2,487,131	(\$6,626,534)
<i>Add (deduct) tax effects of:</i>		
Permanent difference	(2,486,241)	6,592,593
Time difference	<u>(890)</u>	<u>33,941</u>
<i>Current income tax payable</i>	<u>\$ -</u>	<u>\$ -</u>

- b. The components of income tax were as follows:

<i>Deferred income tax</i>	(\$ 27,855)	\$ -
<i>Tax on unappropriated earnings (10%)</i>	265,466	-
<i>Effect upon linked tax system</i>	<u>(390,602)</u>	<u>-</u>
<i>Tax income</i>	<u>(\$152,991)</u>	<u>\$ -</u>

c. Net deferred income tax assets consist of:

	December 31	
	2003	2002
Deferred income tax assets—current	\$ 1,435	\$33,941
Deferred income tax assets—noncurrent	26,420	-
Less: Allowance for deferred income tax assets	<u>-</u>	<u>(33,941)</u>
Net	<u>\$27,855</u>	<u>\$ -</u>

As of December 31, 2003, loss carryforwards were available for offsetting against taxable income until 2008.

d. The Group's income tax receivable on the adoption of linked-tax system was \$399,985 for the year ended 2002.

e. The receivables and payables on the adoption of the linked-tax system are summarized as follows:

Payables to subsidiaries	\$526,380
Receivables from subsidiaries	<u>(241,329)</u>
Net	<u>\$285,051</u>

The balances of the imputation credit account (ICA) as of December 31, 2003 and 2002 were \$375,039 and \$250,376, respectively. The estimated creditable tax ratio for the 2003 earnings was 3.71%. Because the Company had no retained earnings to appropriate as of December 31, 2002, no corresponding creditable tax ratio was estimated.

The tax credit allocated to stockholders are based on the ICA balance on the dividend distribution date. The projected creditable tax ratio for the 2003 earnings may differ from the actual ratio.

The Company's foreign stockholders are not entitled to the tax credit described in the preceding paragraph, except those related to 10% taxes on unappropriated earnings actually paid by the Company. Such taxes can be used to reduce the amount of the final withholding taxes on dividends paid to these foreign stockholders.

As of December 31, 2003, income tax return through 2001 has been examined by the authority.

13. EARNINGS (LOSS) PER SHARE

The numerators and denominators used in computing earnings (loss) per share are summarized as follows:

	Numerator (Amounts)		Denominator	Earnings (Loss)	
	Pretax	After tax	(Shares in Thousands)	Per Share (NT\$)	
For the year ended December 31, 2003					
Basic earnings per share (EPS)	<u>\$ 9,948,563</u>	<u>\$10,101,554</u>	<u>4,270,126</u>	<u>\$2.11</u>	<u>\$2.14</u>
For the year ended December 31, 2002					
Basic loss per share (EPS)	<u>(\$26,506,134)</u>	<u>(\$26,506,134)</u>	<u>4,708,750</u>	<u>\$5.63</u>	<u>\$5.63</u>

14. RELATED-PARTY TRANSACTIONS

Significant transactions between the Company and related parties, including its subsidiaries, are summarized as follows:

a. Related parties

<u>Name</u>	<u>Relationship with the</u>
Hua Nan Commercial Bank (HNCB)	Subsidiary
Hua Nan Securities Co., Ltd. ("HNSC")	Subsidiary
South China Insurance Co., Ltd. (SCIC)	Subsidiary
Other	Please see Table 4

b. Significant transactions between the Company and related parties

	<u>December 31</u>			
	<u>2003</u>		<u>2002</u>	
	% of		% of	
	<u>Account</u>		<u>Account</u>	
	<u>Amount</u>	<u>Balance</u>	<u>Amount</u>	<u>Balance</u>
1) Cash—deposits in bank				
HNCB	<u>\$4,285,249</u>	<u>100</u>	<u>\$5,514,221</u>	<u>100</u>
2) Accounts receivable				
HNSC	<u>\$ 227,892</u>	<u>96</u>	<u>\$ -</u>	<u>-</u>
HNCB	<u>\$ 13,707</u>	<u>4</u>	<u>\$ 1,332</u>	<u>100</u>
3) Accounts payable				
HNCB	<u>\$ 526,380</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>
HNSC	<u>\$ -</u>	<u>-</u>	<u>\$ 550</u>	<u>1</u>
	<u>For the Years Ended December 31</u>			
	<u>2003</u>		<u>2002</u>	
	% of		% of	
	<u>Total</u>		<u>Total</u>	
	<u>Amount</u>		<u>Amount</u>	
4) General and administrative expenses—agent fees for stock transactions				
HNSC	<u>\$66,000</u>	<u>4</u>	<u>\$ 2,750</u>	<u>2</u>
5) General and administrative expense—insurance				
SCIC	<u>\$ 214</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
6) Nonoperating income—interest revenue				
HNCB	<u>\$ 44,721</u>	<u>100</u>	<u>\$10,556</u>	<u>100</u>

7) *Lease*

The Company leases office space from HNCB under a three-year operating lease agreement expiring in September 2005, with rentals payable monthly. Rental for the year ended December 31, 2003 was \$2,888.

The terms of transactions with related parties were similar to those for third parties.

c. *Related-party transactions of subsidiaries at amounts over NT\$100 million*

HNCB

<i>Name</i>	<i>Relationship with HNCB</i>
<i>Hua Nan Financial Holdings Co., Ltd. (HNFH)</i>	<i>Parent company</i>
<i>Bank of Taiwan (BOT)</i>	<i>Major shareholder of HNFH</i>
<i>Hua Nan Bills Finance Corporation (formerly Central Bills Finance Corporation) (HNBFC)</i>	<i>Subsidiary of HNFH</i>
<i>HNCB Insurance Agency Co., Ltd. (HNCB Insurance Agency)</i>	<i>Subsidiary</i>
<i>Hua Nan Securities Corp. (HNSC)</i>	<i>Subsidiary of HNFH</i>
<i>Hua Nan Investment Trust Corporation (HTIT)</i>	<i>Subsidiary of HNFH</i>
<i>South China Insurance Co., Ltd. (SCIC)</i>	<i>Subsidiary of HNFH</i>
<i>Hua Nan Futures Co., Ltd (Hua Nan Futures)</i>	<i>Subsidiary of EnTrust</i>
<i>Hua Nan Holdings Corp. (formerly EnTrust (BVI) Holdings Corp.)</i>	<i>Subsidiary of EnTrust</i>
<i>Hua Nan International Limited (formerly EnTrust Securities International (Cayman) Limited)</i>	<i>Subsidiary of EnTrust</i>
<i>Hua Nan Asset Management Corp. (formerly EnTrust Global Management (Cayman) Limited)</i>	<i>Subsidiary of EnTrust</i>
<i>Hua Nan Securities (HK) Limited (formerly EnTrust Securities (HK) Limited) (Hua Nan Securities (HK))</i>	<i>Subsidiary of EnTrust</i>
<i>Hua Nan Investment Management Co., Ltd (Hua Nan Investment Management)</i>	<i>Subsidiary of EnTrust</i>
<i>Yung-Da Real Estate & Construction Co., Ltd. (Yung-Da Real Estate & Construction)</i>	<i>The Company's chairman is the wife of HNCB's chairman</i>
<i>Others</i>	<i>Directors, supervisors, managers, their relatives, companies under their controls, and other related parties in substance—please see Table 4</i>

1) *Due from other banks*

	<i>December 31</i>			
	<i>2003</i>		<i>2002</i>	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
<i>BOT</i>	<u><i>\$198,946</i></u>		<u><i>\$294,911</i></u>	

2) Call loans to other banks

<i>For the Year Ended December 31, 2003</i>				
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Income</u>	<u>Interest Rate (%)</u>
BOT	\$13,819,009	\$1,176,331	\$46,906	0-1.45
HNBF	3,150,000	<u>1,100,000</u>	<u>8,426</u>	0.7-1.58
		<u>\$2,276,331</u>	<u>\$55,332</u>	
<i>For the Year Ended December 31, 2002</i>				
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Income</u>	<u>Interest Rate (%)</u>
BOT	\$12,582,040	\$2,191,140	\$49,519	1.28125-2.19
HNBF	2,000,000	<u>300,000</u>	<u>4,989</u>	1.50-2.415
		<u>\$2,491,140</u>	<u>\$54,508</u>	

3) Call loans from other banks

<i>For the Year Ended December 31, 2003</i>				
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Expense</u>	<u>Interest Rate (%)</u>
BOT	\$14,495,342	\$4,453,738	\$36,865	0.045-2.8
HNBF	<u>100,000</u>	<u>-</u>	<u>3</u>	1.025
	<u>\$14,595,342</u>	<u>\$4,453,738</u>	<u>\$36,868</u>	
<i>For the Year Ended December 31, 2002</i>				
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Expense</u>	<u>Interest Rate (%)</u>
BOT	<u>\$13,755,940</u>	<u>\$2,086,800</u>	<u>\$38,064</u>	1.2-2.325

4) Loans and advances

<i>For the Year Ended December 31, 2003</i>				
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Income</u>	<u>Interest Rate (%)</u>
Others	<u>\$1,062,945</u>	<u>\$916,280</u>	<u>\$18,275</u>	1.550-7.835
<i>For the Year Ended December 31, 2002</i>				
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Income</u>	<u>Interest Rate (%)</u>
Others	<u>\$1,144,973</u>	<u>\$1,024,592</u>	<u>\$17,704</u>	2.3-8.785

Under the Banking Law, except for customer loans, credits extended by HNCB to any related party should be 100% secured, and the credit terms for related parties should be similar to those for third parties.

5) Deposits

	<u>December 31, 2003</u>		<u>December 31, 2002</u>	
	<u>Ending</u>	<u>Interest Rate</u>	<u>Ending</u>	<u>Interest Rate</u>
	<u>Balance</u>	<u>(%)</u>	<u>Balance</u>	<u>(%)</u>
HNFH	\$4,285,249	0-1.65	\$5,514,221	0-1.65
Hua Nan Futures	1,269,495	0-0.25	847,531	0-1.90
Hua Nan Securities (HK)	412,724	0.01-0.25	-	-
HNCB Insurance Agency	377,966	0-2.35	1,025,342	0-4.2
HNSC	269,088	0-1.45	51,020	0-1.25
SCIC	158,010	0.1-2.45	44,464	0.5-4.8
HNBF	38,817	0-0.25	38,585	0-1.5
Others	<u>11,584,099</u>	0-13	<u>15,178,492</u>	0-13
	<u>\$18,395,448</u>		<u>\$22,699,655</u>	

6) Securities (accumulation of face amounts)

		<u>For the Years Ended</u>	
		<u>December 31</u>	
	<u>Transaction</u>	<u>2003</u>	<u>2002</u>
HNBF	Outright purchase	\$19,981,500	\$1,371,120
	Outright sale	550,000	1,555,000
	Bills and bonds purchased under agreements to resell	13,429,000	13,791,900
HNSC	Outright sale	1,850,000	400,000
	Outright purchase	1,850,000	200,000

7) Lease

HNCB leases office space from Yung-Da Real Estate & Construction, with refundable deposits of \$158,400 in lieu of rentals. The operating lease contract will end in November 2006, and the rentals for the years ended December 31, 2003 and 2002 were \$2,218 and \$2,851, respectively.

8) Nonoperating income—consulting fee

	<u>For the Years Ended December 31</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
HNCB Insurance Agency	<u>\$139,296</u>	<u>1</u>	<u>\$132,883</u>	<u>3</u>

9) Derivative

	<i>For the Years Ended December 31</i>			
	<u>2003</u>		<u>2002</u>	
	<u>Nominal</u>	<u>Interest Revenue</u>	<u>Nominal</u>	<u>Interest Revenue</u>
<i>EnTrust</i>				
Interest swap contract	<u>\$ 222,000</u>	<u>\$ 2,157</u>	<u>\$ -</u>	<u>\$ -</u>

10) Receivable on the linked-tax system

	<i>December 31, 2003</i>	
	<u>Amount</u>	<u>%</u>
<i>HNFB</i>	<u>\$526,380</u>	<u>3</u>

11) Others

HNCB transferred its securities brokerage business to Entrust on July 19, 2002. The transfer prices of assets/liabilities pertaining to securities financing and fixed assets were \$429,284 and \$14,188, respectively, which were based on the carrying value of those assets/liabilities on July 19, 2002. The proceeds had been received before December 31, 2002, and HNCB did not recognize any income or loss from this transaction.

Terms of transactions with related parties were similar to those for third parties, except for the more favorable interest rate for employees' savings and loans that was within a certain limit.

HNBF

<u>Related Party</u>	<u>Relationship with HNBF</u>
<i>HNCB</i>	<i>Subsidiary of HNFH</i>
<i>HNSC</i>	<i>Subsidiary of HNFH</i>
<i>SCIC</i>	<i>Subsidiary of HNFH</i>
<i>HNIT</i>	<i>Subsidiary of HNFH</i>

1) Call loans from banks

	<i>For the Year Ended December 31, 2003</i>			
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Expense</u>	<u>Interest Rate (%)</u>
<i>HNCB</i>	<u>\$3,150,000</u>	<u>\$1,100,000</u>	<u>\$8,426</u>	0.70-1.43

	<i>For the Year Ended December 31, 2002</i>			
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Expense</u>	<u>Interest Rate (%)</u>
<i>HNCB</i>	<u>\$2,000,000</u>	<u>\$300,000</u>	<u>\$4,989</u>	1.500-2.415

2) Call loans to other banks

<i>For the Year Ended December 31, 2003</i>				
	<u><i>Highest Balance</i></u>	<u><i>Ending Balance</i></u>	<u><i>Interest Income</i></u>	<u><i>Interest Rate (%)</i></u>
HNCB	<u>\$81,339</u>	<u>\$38,817</u>	<u>\$259</u>	0-0.25

<i>For the Year Ended December 31, 2002</i>				
	<u><i>Highest Balance</i></u>	<u><i>Ending Balance</i></u>	<u><i>Interest Income</i></u>	<u><i>Interest Rate (%)</i></u>
HNCB	<u>\$4,011,183</u>	<u>\$38,595</u>	<u>\$365</u>	0-1.5

3) Securities (accumulation of face amounts)

<u><i>Transaction</i></u>	<u><i>For the Years Ended December 31</i></u>	
	<u><i>2003</i></u>	<u><i>2002</i></u>
Outright purchase	\$ 1,050,000	\$ 3,355,000
Outright sale	21,248,100	18,195,300
Bills and bonds sold under agreements to repurchase	17,815,900	13,791,900

Terms of transactions with related parties were similar to those for third parties.

HNSC

<u><i>Related Party</i></u>	<u><i>Relationship with EnTrust</i></u>
HNFH	Parent company
HNCB	Subsidiary of HNFH
HNCB Insurance Agency	Subsidiary of HNCB
Yuan Din Investment Corp. (YDIC)	Related party
Yuan Shan Investment Corp. (YSIC)	Related party
Hua Nan Investment Service Corp. (HNISC)	Subsidiary
Hua Nan Future Corp. (HNFC)	Subsidiary
HNBF	Subsidiary of HNFH
HNIT	Subsidiary of HNFH
SCIC	Subsidiary of HNFH
Hua Nan Holdings Corp. (HNHC)	Subsidiary
Hua Nan International Limited (HNIL)	Subsidiary of HNHC
Hua Nan Asset Management Corp. (HNAMC)	Subsidiary of HNHC
Hua Nan Securities (HK) Limited (HNSHK)	Subsidiary of HNHC
Ming Hun, WU, Sho Yu, DING	Department manager
Don Yi, CHOU	Director's relatives

- 1) As of December 31, 2003 and 2002, EnTrust had placed margins of \$416,545 and \$66,372, respectively, in HNFC for the trading of futures contracts. For the year ended December 31, 2003 and 2002, the service fees were \$11,466 and \$2,725, respectively, of which \$1,102 and \$249 were unpaid as of December 31, 2003 and 2002, respectively.

2) Bonds purchased under agreement to resell

<i>For the Year Ended December 31, 2003</i>				
	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Rate (%)</u>	<u>Interest Income</u>
YSIC	<u>\$245,000</u>	<u>\$ -</u>	-	<u>\$ 3,474</u>

3) Bonds sold under agreements to repurchase

<i>For the Year Ended December 31, 2003</i>					
<u>Counter-party</u>	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Rate (%)</u>	<u>Interest Expense</u>	<u>Interest Payable</u>
HNFC	\$40,900	\$13,077	0.725	\$102	\$-
SCIC	41,018	-	-	98	-
HNIT	236,874	160,579	0.70	1,967	6
HNISC	2,000	1,500	0.70	2	-
Fund Managed by ETIT	1,062,636	<u>1,062,636</u>	0.7-0.875	<u>11,337</u>	<u>46</u>
		<u>\$1,237,792</u>		<u>\$13,506</u>	<u>\$ 52</u>

<i>For the Year Ended December 31, 2002</i>					
<u>Counter-party</u>	<u>Highest Balance</u>	<u>Ending Balance</u>	<u>Interest Rate (%)</u>	<u>Interest Expense</u>	<u>Interest Payable</u>
HNFC	\$40,900	\$3,746	1.00	\$256	\$ -
Ming Hun, Wu	28,702	<u>-</u>	-	<u>63</u>	<u>-</u>
		<u>\$3,746</u>		<u>\$319</u>	<u>\$ -</u>

4) Brokerage fees

<i>For the Years Ended December 31</i>				
<u>Coounter-party</u>	<u>2003</u>		<u>2002</u>	
	<u>Trading Volume</u>	<u>Brokerage Fees</u>	<u>Trading Volume</u>	<u>Brokerage Fees</u>
HNCB	\$10,027,092	\$14,288	\$-	\$-
Funds Managed by ETIT	1,327,949	1,854	-	-
SCIC	250,011	356	-	-
Sho Yu, Ding	88,018	125	78,745	112
Others	<u>212,429</u>	<u>298</u>	<u>101,565</u>	<u>154</u>
	<u>\$11,905,499</u>	<u>\$16,921</u>	<u>\$180,310</u>	<u>\$266</u>

5) Deposits

<u>Bank</u>	<u>Account</u>	<u>For the Years Ended December 31</u>	
		<u>2003</u>	<u>2002</u>
HNCB	Demand deposits	\$ 632	\$ 2,942
	Checking deposits	2,040	2,290
	Foreign currencies	74	-
	Cash in bank—settlement	4,925	34,061
	Operating guarantee	225,000	-
	Restricted assets	20,000	-

6) Cash and cash equivalents—commercial paper

<u>Counter-party</u>	<u>Account</u>	<u>For the Years Ended December 31</u>	
		<u>2003</u>	<u>2002</u>
HNBFB	Cumulative volume transaction	<u>\$528,000</u>	<u>\$ -</u>

7) Interest rate swap contracts
December 31, 2003

<u>Counter-party</u>	<u>Terms</u>	<u>Nominal Amount</u>	<u>Fixed Rate</u>	<u>Clearing Date</u>	<u>Due Date</u>	<u>Objective</u>
HNCB	Paying fixed-rate and receiving fixed-rate	\$ 15,000	2.30%	Quarterly	2005.05.29	Trade
	“	148,000	2.10%	Quarterly	2005.07.17	Trade
	“	59,000	2.40%	Quarterly	2005.07.29	Trade

8) As of December 31, 2003, payable on the linked-tax system was \$227,892.

9) Others

On July 19, 2002, EnTrust took over HNCB's brokerage business. The transfer prices were \$429, 284 for assets (excluding fixed assets) and \$14,188 for fixed assets, which were based on the carrying values of those assets on July 19, 2002. The proceeds had been paid before December 31, 2002.

Terms of transactions with related parties were similar to those for third parties.

SCIC

<u>Related Party</u>	<u>Relationship with SCIC</u>
Howard Hotel corporation and nine other corporations	Note 1 below
BOT	Major stockholders of HNFH
Taiwan Fire & Marine Insurance Co., Ltd.	Director (Note 2)
Ying Hsiang, TAI	Vice director
M. W. Cheng, C. M. Lin, S. T. Chen	Senior Manager
HNCB	Subsidiary of HNFH
HNIT	Subsidiary of HNFH
HNSC	Subsidiary of HNFH

<i>HNBF</i>	<i>Subsidiary of HNFH</i>
<i>HNFC</i>	<i>Subsidiary of HNSC</i>
<i>HNISC</i>	<i>Subsidiary of HNSC</i>

Note 1: The 10 related parties include Howard Hotel Corporation, Fu Chia Industrial Corp., Fu Shon Corp., Fu Chi Industrial Corp., Tai Fu Entertainment Corp., Fu Yong Corp., Fu Li Construction Corp., Kon Din Shing Corp., Fu Yan Industrial Corp., and Chen Yi Investment Corp.

Note 2: Resigned on May 28, 2003.

1) SCIC purchased financial instruments from HNBF as follows:

<i>Financial Instrument</i>	<i>December 31, 2003</i>	<i>2003 Interest Income</i>
<i>Negotiable certificates of deposits</i>	<i>\$100,336</i>	<i>\$1,436</i>
<i>Commercial paper</i>	<i>328,461</i>	<i>1,452</i>
	<i>\$428,797</i>	<i>\$2,888</i>

<i>Financial Instrument</i>	<i>December 31, 2002</i>	<i>2002 Interest Income</i>
<i>Negotiable certificates of deposits</i>	<i>\$102,047</i>	<i>\$1,845</i>
<i>Commercial paper</i>	<i>149,386</i>	<i>666</i>
	<i>\$251,433</i>	<i>\$2,511</i>

2) Deposits

<i>Bank</i>	<i>Account</i>	<i>December 31</i>	
		<i>2003</i>	<i>2002</i>
<i>HNCB</i>	<i>Demand deposit</i>	<i>\$138,310</i>	<i>\$5,544</i>
	<i>Checking deposit</i>	<i>411</i>	<i>226</i>
	<i>Time deposit</i>	<i>19,800</i>	<i>40,800</i>

Terms of transaction with related parties were similar to those for third parties.

HNIT

<i>Related Party</i>	<i>Relationship with ETIT</i>
<i>EnTrust Vision Tech Fund</i>	<i>Managed by HNIT</i>
<i>EnTrust Phoenix Bond Fund</i>	<i>Managed by HNIT</i>
<i>EnTrust Kirin Bond Fund</i>	<i>Managed by HNIT</i>
<i>HNFH</i>	<i>Parent company</i>
<i>HNCB</i>	<i>HNFH's subsidiary</i>
<i>EnTrust</i>	<i>HNFH's subsidiary</i>
<i>SCIC</i>	<i>HNFH's subsidiary</i>
<i>HNBF</i>	<i>HNFH's subsidiary</i>
<i>HNCB Insurance Agency</i>	<i>HNCB's subsidiary</i>

HNFC
HNISC
Hua Nan Holdings Corp.
HNSHK
Hua Nan International Ltd.
Hua Nan Asset Management Corp.

HNSC's subsidiary
HNSC's subsidiary
HNSC's subsidiary
HNSC's subsidiary
HNSC's subsidiary
HNSC's subsidiary

<u>Transaction Item/ Counter-party</u>	<u>December 31</u>	
	<u>2003</u>	<u>2002</u>
Securities purchased under agreement to resell EnTrust	<u>\$160,579</u>	<u>\$ -</u>

Terms of transaction with related parties were similar to those for third parties.

HNCB Insurance Agency

<u>Related Party</u>	<u>Relationship with HNCB Insurance Agency</u>
HNCB	Parent company

1) Collections of insurance—cash in banks

	<u>December 31</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
HNCB	<u>\$227,256</u>	100	<u>\$941,490</u>	100

2) Cash and cash equivalents

	<u>December 31</u>			
	<u>2003</u>		<u>2002</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
HNCB	<u>\$150,710</u>	100	<u>\$85,090</u>	100

The terms of transactions with related parties are similar to those for third parties.

Hua Nan Futures

<u>Related Party</u>	<u>Relationship with EnTrust Futures</u>
HNCB	Related party in substance
HNSC	Related party in substance
HNIT	Related party in substance
HNISC	HNSC's subsidiary
Hu Yuan Tsen	Related party in substance

The significant transactions of EnTrust Futurees with its related party were as follows:

		December 31			
		2003		2002	
		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1) Guarantee deposits received on futures contracts					
HNCB		\$1,267,821	52	\$833,391	65
2) Customers' equity accounts—futures					
HNSC		\$416,545	17	\$66,372	5
HNIT		77,853	3	-	-
Others		103	-	-	-

Terms of transactions with related parties were similar to those for third parties.

15. CONTINGENCIES AND COMMITMENTS

- a. The Company leases office space from HNCB under a three-year operating lease contract expiring in September 2005. The future minimum rentals for the next three years are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$ 2,888
2005	2,166

- b. Major contingencies and commitments of subsidiaries

HNCB

- 1)
- | | |
|--|--------------|
| Bonds and short-term bills sold under agreements to repurchase before October 15, 2004 | \$21,286,016 |
| Bonds and short-term bills purchased under agreements to resell before August 20, 2004 | 1,318,817 |
| Spot forward contracts under agreements | 13,298,109 |
- 2) HNCB rents office space under operating lease agreements. As of December 31, 2003, total rental deposits were \$778,005, including \$679,337 in refundable deposits in lieu of rentals. Future minimum rentals for the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2004	\$466,561
2005	384,803
2006	251,191
2007	170,511
2008	76,751

Annual rentals from 2009 amount to approximately \$205,084, with a current value of about \$190,648 as discounted at 1.40%, HNCB's one-year time deposit interest rate as of January 1, 2004.

- 3) As of December 31, 2003, HNCB had major outstanding construction and procurement contracts amounting to \$149,780, of which \$26,765 had not been paid.
- 4) A depositor sued HNCB to recover a deposit of \$222,267, which was allegedly embezzled by HNCB's employee. HNCB believes the depositor's claim is without merit and, in August 1996, retained an attorney to handle the case. As of December 31, 2003, this case was pending with the Supreme Court, and the final outcome of this case is uncertain.
- 5) Balance sheet and trust property of trust accounts

**Balance Sheet of Trust Accounts
December 31, 2003**

Trust Assets

\$68,861,142

Trust Liabilities

\$68,861,142

**Trust Property of Trust Accounts
December 31, 2003**

<u>Investment Portfolio</u>	<u>Amount</u>
Demand deposits	\$ 90,959
Time deposits	386,283
Overseas mutual funds	28,675,824
Domestic mutual funds	31,340,564
Bond investments	5,142,957
Stock investments	2,506,152
Land	704,306
Buildings	2,305
Construction in progress	<u>11,792</u>
	<u>\$68,861,142</u>

HNBF

1) Commitments of HNBF are summarized as follows:	
Short-term bills and bonds sold under agreements to repurchase	\$16,889,669
Guarantees on commercial paper	8,534,500
Collateralization of guarantees	6,897,257
Notes payable for guarantees	6,600,000
Entrusted collections	413,297
Payable for notes and checks in clearing	380,000
Payable for bonds	1,076,740
Payable for bonds in clearing	1,025,640

- 2) *The Kaohsiung Branch of HNBF is renting office space under three-year operating lease contracts, with rentals payable monthly. Future minimum rentals for the next three years are as follows:*

<u>Year</u>	<u>Amount</u>
2004	\$ 702
2005	700
2006	117

- 3) *Under the Criteria Governing the Preparation of Financial Reports by Bills Financial Business, a bills financial company engaged in negotiated transactions on bonus and short-term bills should adopt the financing method (the old method was outright selling). As of December 31, 2003, HNBF had evaluated that its loss due to the decline in market value of bonds and short-term bills sold under agreements to repurchase was \$111,792. Because the contingent loss is probable and the amount of the contingent loss can be reasonably estimated, HNBF recognized the loss in December 31, 2003, using the lower of cost or market method. The market value of the bonds was based on period-end reference prices published by the OTC exchange, and the market value of short-term bills was discounted at the buying interest rate of HNBF.*

HNSC

- 1) *As of December 31, 2003, EnTrust Securities was under contracts to buy equipment and make office improvements for \$10,568.*
- 2) *EnTrust is renting under operating lease contracts. As of December 31, 2003, total rental deposits amounted to \$107,543. Future minimum rentals for the next five years are as follows:*

<u>Year</u>	<u>Amount</u>
2004	\$ 76,677
2005	52,460
2006	23,832
2007	4,258
2008	3,447
From 2009 (present value)	<u>2,801</u>
	<u>\$ 163,475</u>

- 3) *Fang-Wei Chou filed a lawsuit against an EnTrust employee, Chien-Jen Wang, who managed Mr. Chou's stock investments. Mr. Chou insisted Mr. Wang managed his stock investments without his authorization, for which he claimed damages of \$7,636. On July 17, 2001, the High Court dismissed this case. However, this sentence was overruled by the Supreme Court, and this case is under review by the High Court. In the opinion of EnTrust's counsel, EnTrust's winning this lawsuit is possible.*

SCIC

1) As of December 31, 2003, SCIC's commitments are summarized as follows:

Amount to be Repurchased

Bonds and short-term bills sold under agreements to repurchase
before February 12, 2004 \$1,096,005

2) Operating lease agreements for office space rental

As of December 31, 2003, total rental deposits amounted to \$1,843. Rentals for the next five years are as follow:

<u>Year</u>	<u>Amount</u>
2004	\$ 9,364
2005	5,874
2006	3,597
2007	229
2008	-

During 1995 to 1998, SCIC entered in reinsurance contracts with another insurance company. However, the Taipei tax authorities claimed SCIC violated the Value-Added Tax Law during those years. Thus, the authorities required SCIC to pay tax and penalty of \$27,052. SCIC has appealed the tax authorities' decision.

HNCB Insurance Agency

1) Insurance agent contracts signed by the HNCB Insurance Agency are summarized as follows:

<u>Counter-party</u>	<u>Contract Date</u>	<u>Commission</u>	<u>Contract Period</u>
Shin-Kong Life Insurance	2001.03.16	Based on contract	2001.01.01-2001.12.31 (the contract will be continued for the following year automatically, if both sides agree.)
Allianz President Life Insurance	2001.07.10	Based on contract	2001.07.10-2002.07.09 (the contract will be continued for the following year automatically, if both sides agree.)
Taiwan Life Insurance	2002.03.26	Based on contract	2002.03.26-2003.03.25 (the contract will be continued for the following year automatically, if both sides agree.)
Cathay Life Insurance	2002.04.12	Based on contract	2002.04.15-2003.04.14 (the contract will be continued for the following year automatically, if both sides agree.)
Prudential Life Insurance	2002.06.24	Based on contract	2002.06.24-2003.06.23 (the contract will be continued for the following year automatically, if both sides agree.)
Hontai Life Insurance	2002.10.24	Based on contract	2002.10.24-2003.10.23 (the contract will be continued for the following year automatically, if both sides agree.)
Sinon Life Insurance	2002.11.25	Based on contract	2002.11.25-2003.11.24 (the contract will be continued for the following year automatically, if both sides agree.)
Zurich Life Insurance	2003.01.15	Based on contract	2003.01.15-2004.01.14 (the contract will be continued for the following year automatically, if both sides agree.)

- 2) *HNCB Insurance Agency entered into contracts with HNCB and HNSC, summarized as follows:*

<u>Counter-party</u>	<u>Contract Date</u>	<u>Commission</u>	<u>Contract Period</u>
HNCB	2002.12.27	50% or 60% of HNCB Insurance Agencies commission revenue (net of business tax).	Effective on the signing date (the contract will be continued for the following year automatically, if both sides agree.)
HNSC	2002.12	60% of HNCB Insurance Agency's commission revenue (net of business tax).	Effective on the signing date (the contract will be continued for the following year automatically, if both sides agree.)

HNFC

- 1) *HNFC is renting office space under operating lease agreements. As of December 31, 2003, total rental expenses were \$1,564. Future minimum rentals for the next three years are as follows:*

<u>Year</u>	<u>Amount</u>
2004	\$ 607
2005	324
2006	<u>135</u>
	<u>\$ 1,066</u>

- 2) *As of December 31, 2003, service contracts entered into by HNFC were \$238 based on business need.*
- 3) *Su-Yu Tseng and Ming-Ying Yu sued EnTrust Futures and its employees, Chun-Sheng Chen and Yi-Jung Chen. The plaintiffs claimed damages of \$12,000 plus 5% interest. The Taipei District Court decided EnTrust Futures should compensate the plaintiffs \$2,000 with interest from June 9, 2000. But, in the opinion of EnTrust Futures' counsel, the infringement acts of employees should not be connected to EnTrust Futures, so the claim of plaintiffs is without merit.*

16. CAPITAL ADEQUACY RATIO

Under the Financial Holding Company Law and related regulations, a financial holding company should maintain a consolidated capital adequacy ratio (CAR) of at least 100%. Thus, if a company's CAR falls below 100%, the authorities may prohibit it from distributing cash dividends or other property. In certain conditions, the authorities may impose other penalties on the Company. As of December 31, 2003 and 2002, the Company's consolidated CARs were 113.74% and 101.79%, respectively.

The Banking Law and related regulations require a bank to maintain a CAR of at least 8%. If a bank's CAR falls below 8%, the authorities may impose certain restrictions on the cash dividends that the bank can distribute or, in certain conditions, prohibit it from distributing any cash dividend. As of December 31, 2003 and 2002, the CARs of HNCB were 11.22% and 9.07%, respectively, and the consolidated CARs were 11.56% and 9.57%, respectively.

The Rules Governing Securities Firms and related regulations require a securities company to maintain a CAR of at least 150%. If a securities company's CAR falls below 150%, the authorities may impose certain restrictions on the company's operation. As of December 31, 2003 and 2002, HNSC's CARs were 367.62% and 239.95%, respectively.

The Law Governing Bills Finance Business and the Regulations of Bills Finance Companies require a bills financial company to maintain a CAR of at least 8%. If a bills finance company's CAR falls below 8%, the authorities may impose certain restrictions on the cash dividends that the company can distribute or, in certain conditions, prohibit it from distributing any cash dividend. As of December 31, 2003 and 2002, HNBF's CARs were 26.80% and 23.21%, respectively.

17. FINANCIAL RATIOS OF FUTURES SUBSIDIARY

As of December 31, 2003 and 2002, the financial ratios of Hua Nan Futures, computed according to the provisions of the Rules Governing Futures Firms, were as follows:

December 31, 2003			
Calculation Formula	Computation	Financial Ratios	Benchmark
a. $\frac{\text{Equities}}{\text{Total liabilities minus futures client equity, reserve for trading loss and default accounts}}$	$\frac{589,387}{\$2,486,165 - \$2,430,335 - \$0 - \$5,949}$	11.82	≥ 1
b. $\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\$2,704,834}{\$2,462,165}$	1.10	≥ 1
c. $\frac{\text{Equities}}{\text{Capital stock}}$	$\frac{\$589,387}{\$430,000}$	137.07 %	$\geq 60\%$ $\geq 40\%$
d. $\frac{\text{Adjusted net capital}}{\text{Client and proprietary account}}$	$\frac{\$375,478}{\$748,634}$	50.19%	$\geq 20\%$ $\geq 15\%$
December 31, 2002			
Calculation Formula	Computation	Financial Ratios	Benchmark
a. $\frac{\text{Equities}}{\text{Total liabilities minus futures client equity, reserve for trading loss and default accounts}}$	$\frac{\$559,217}{\$1,309,580 - \$1,273,791 - \$0 - \$3,348}$	17.24	≥ 1
b. $\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{\$1,523,236}{\$1,291,339}$	1.18	≥ 1
c. $\frac{\text{Equities}}{\text{Capital stock}}$	$\frac{\$559,217}{\$430,000}$	130.05%	$\geq 60\%$ $\geq 40\%$
d. $\frac{\text{Adjusted net capital}}{\text{Client and proprietary account}}$	$\frac{\$367,848}{\$161,930}$	227.16%	$\geq 20\%$ $\geq 15\%$

18. PUBLIC ANNOUNCEMENTS PRESCRIBED IN FINANCIAL HOLDING COMPANY LAW, ARTICLE 46

Please see Table 5.

19. DISCLOSURE OF FINANCIAL INSTRUMENTS

Fair values of nonderivative financial instruments as of December 31, 2003 and 2002 were as follows:

	<i>December 31</i>			
	<i>2003</i>		<i>2002</i>	
	<i><u>Carrying Value</u></i>	<i><u>Fair Value</u></i>	<i><u>Carrying Value</u></i>	<i><u>Fair Value</u></i>
<i><u>Assets</u></i>				
<i>Financial assets—with fair values approximating carrying amounts</i>	\$4,928,308	\$4,928,308	\$5,516,977	\$5,516,977
<i>Long-term equity investments</i>	72,566,497	72,567,254	61,230,455	61,231,401
<i><u>Liabilities</u></i>				
<i>Financial liabilities—with values approximating carrying amounts</i>	6,574,774	6,574,774	6,039,656	6,039,656

Methods and assumptions applied in estimating the fair values of nonderivative financial instruments are as follows:

- a. The carrying amounts of cash, receivables, payables and other current financial assets approximate their fair values because of the short maturities of these instruments.*
- b. The fair values of long-term equity investments for unlisted stocks are estimated at the underlying net asset values.*
- c. The fair values of guarantee deposits are estimated at their carrying amounts since such deposits do not have specific due dates.*
- d. The fair values of bonds payable are interest-bearing financial liabilities. Thus, their carrying values approximate their fair values.*

The fair value of certain financial instruments and all nonfinancial instruments are exempted from disclosure requirement. Thus, the aggregate fair values presented above do not necessarily represent the total values of the Company.

20. CONDENSED BALANCE SHEETS AND STATEMENTS OF INCOME OF THE BANKS' AND SECURITIES FIRMS' SUBSIDIARIES

a. Condensed balance sheets

Hua Nan Commercial Bank, Ltd.

Balance Sheets December 31, 2003 and 2002 (In Thousands of New Taiwan Dollars)

<u>Assets</u>	<u>2003</u>	<u>2002</u>	<u>Liabilities</u>	<u>2003</u>	<u>2002</u>
Cash	\$ 240,962,885	\$ 188,418,975	Due to Central Bank and other banks	\$ 114,346,004	\$ 86,890,540
Due from other banks	95,742,959	73,521,153	Payables	35,751,468	37,931,341
Due from Central Bank	55,406,380	58,906,796	Deposits and remittances	1,132,561,859	1,075,342,184
Securities purchased—net	98,343,892	110,552,315	Bank debentures	50,670,000	25,000,000
Receivables—net	19,257,119	16,672,309	Other liabilities	<u>32,448,730</u>	<u>40,623,938</u>
Prepayments	2,532,245	2,422,684	Total liabilities	<u>1,365,778,061</u>	<u>1,265,788,003</u>
Loans, discounts and bills purchased—net	858,999,364	807,047,059			
Long-term equity investments	11,369,148	13,557,933	<u>Stockholders' equity</u>		
Properties—net	21,512,376	21,813,758	Capital stock	37,091,000	37,091,000
Other assets—net	<u>20,330,511</u>	<u>22,570,384</u>	Capital surplus	12,618,838	18,405,586
			Retained earnings (accumulated losses)	9,006,874	(5,786,748)
			Cumulative translation adjustments	(<u>37,894</u>)	(<u>14,475</u>)
			Total stockholders' equity	<u>58,678,818</u>	<u>49,695,363</u>
Total assets	<u>\$1,424,456,879</u>	<u>\$1,315,483,366</u>	Total liabilities and stockholders' equity	<u>\$1,424,456,879</u>	<u>\$1,315,483,366</u>

Hua Nan Bills Finance Corporation

Balance Sheets December 31, 2003 and 2002 (In Thousands of New Taiwan Dollars)

<u>Assets</u>	<u>2003</u>	<u>2002</u>	<u>Liabilities</u>	<u>2003</u>	<u>2002</u>
Cash	\$ 5,098,526	\$ 350,797	Due to banks	\$ 6,600,000	\$ 2,780,000
Due from other bonds	120,000	-	Payables	17,958	18,668
Bills purchased	1,416,811	2,225,378	Reserve for losses on guarantees	233,531	225,041
Receivables—net	-	340,645	Reserve for securities trading losses	-	73,518
Prepayments and other receivables	92,832	94,838	Reserve for decline in market value of bills and notes purchased	111,792	-
Bond investments	-	30,000	Other liabilities	<u>25,628</u>	<u>30,850</u>
Properties—net	297,706	297,553	Total liabilities	<u>6,988,909</u>	<u>3,128,077</u>
Overdue accounts—net	3,378,379	3,181,502			
Other assets—net	<u>591,173</u>	<u>610,010</u>	<u>Stockholders' equity</u>		
			Capital stock	4,001,000	4,001,000
			Retained earnings (accumulated losses)	<u>5,518</u>	<u>1,646</u>
			Total stockholders' equity	<u>4,006,518</u>	<u>4,002,646</u>
			Total liabilities and stockholders' equity	<u>\$10,995,427</u>	<u>\$ 7,130,723</u>
Total assets	<u>\$10,995,427</u>	<u>\$ 7,130,723</u>			

Hua Nan Securities Co., Ltd

Balance Sheets
December 31, 2003 and 2002
(In Thousands of New Taiwan Dollars)

<u>Assets</u>	<u>2003</u>	<u>2002</u>	<u>Liabilities</u>	<u>2003</u>	<u>2002</u>
Current assets	\$ 18,361,967	\$ 19,962,368	Current liabilities	\$ 13,977,831	\$ 17,639,971
Long-term investments	1,208,325	1,056,667	Long-term liabilities	24,555	72,389
Properties—net	1,876,161	1,973,976	Other liabilities	361,158	231,435
Other assets	1,652,504	1,661,632	Securities brokerage credit		
Securities brokerage credit			account—net	<u> -</u>	<u> 51,619</u>
account—net	<u> 119,866</u>	<u> -</u>	Total liabilities	<u> 14,363,544</u>	<u> 17,995,414</u>
			<u>Stockholders' equity</u>		
			Capital stock	7,111,743	5,611,743
			Capital surplus	466,438	447,938
			Retained earnings	1,248,698	735,889
			Cumulative translation	28,400	33,898
			adjustments		
			Treasury stock	<u> -</u>	<u>(170,239)</u>
			Total stockholders' equity	<u> 8,855,279</u>	<u> 6,659,229</u>
			Total liabilities and		
Total assets	<u>\$ 23,218,823</u>	<u>\$ 24,654,643</u>	stockholders' equity	<u>\$ 23,218,823</u>	<u>\$ 24,654,643</u>

Hua Nan Insurance Co., Ltd.

Balance Sheets
December 31, 2003 and 2002
(In Thousands of New Taiwan Dollars)

<u>Assets</u>	<u>2003</u>	<u>2002</u>	<u>Liabilities</u>	<u>2003</u>	<u>2002</u>
Current assets	\$ 4,898,941	\$ 4,310,847	Current liabilities	\$ 622,436	\$ 480,516
Loans	71,583	69,314	Long-term liabilities	62,673	57,539
Funds and other long-term			Operating and liabilities reserve	4,447,930	4,076,920
investments	1,016,133	1,176,046	Other liabilities	<u> 2,031</u>	<u> 27,265</u>
Properties—net	780,918	692,044	Total liabilities	<u> 5,135,070</u>	<u> 4,642,240</u>
Intangible assets	14,068	14,981			
Others assets	<u> 576,029</u>	<u> 513,670</u>	<u>Stockholders' equity</u>		
			Capital stock	2,001,386	2,001,386
			Capital surplus	19,524	19,524
			Retained earnings	<u> 201,692</u>	<u> 113,752</u>
			Total stockholders' equity	<u> 2,222,602</u>	<u> 2,134,662</u>
			Total liabilities and		
Total assets	<u>\$ 7,357,672</u>	<u>\$ 6,776,902</u>	stockholders' equity	<u>\$ 7,357,672</u>	<u>\$ 6,776,902</u>

b. Condensed statements of income

Hua Nan Commercial Bank, Ltd.

Statements of Income
For the Years Ended December 31, 2003 and 2002
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	<u>2003</u>	<u>2002</u>
Operating revenues	\$41,305,378	\$49,927,752
Operating costs	<u>26,753,675</u>	<u>77,241,457</u>
Gross profit (loss)	14,551,703	(27,313,705)
Operating expenses	<u>12,154,585</u>	<u>12,363,313</u>
Operating income (loss)	2,397,118	(39,677,018)
Nonoperating income	9,545,477	5,057,178
Nonoperating expenses	<u>315,868</u>	<u>2,195,355</u>
Income (loss) before income tax	<u>11,626,727</u>	<u>(36,815,195)</u>
Net income (loss)	<u>\$9,006,874</u>	<u>(\$27,187,822)</u>
Pretax earnings (loss) per share	<u>\$3.13</u>	<u>(\$9.93)</u>
After-tax earnings (loss) per share	<u>\$2.43</u>	<u>(\$7.33)</u>

Hua Nan Bills Finance Corporation

Statements of Income
For the Years Ended December 31, 2003 and 2002
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2003</u>	<u>2002</u>
Operating revenues	\$807,244	\$964,980
Operating expenses	<u>786,055</u>	<u>4,915,824</u>
Operating income (loss)	21,189	(3,950,844)
Nonoperating income	8,669	6,046
Nonoperating expenses	<u>710</u>	<u>706</u>
Income (loss) before income tax	<u>29,148</u>	<u>(3,945,504)</u>
Net income (loss)	<u>\$ 3,872</u>	<u>(\$3,954,088)</u>
Pretax earnings (loss) per share	<u>\$ 0.07</u>	<u>(\$ 8.36)</u>
After-tax earnings (loss) per share	<u>\$ 0.01</u>	<u>(\$ 8.38)</u>

Hua Nan Securities Co., Ltd

Statements of Income
For the Years Ended December 31, 2003 and 2002
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2003</u>	<u>2002</u>
Operating revenues	\$3,216,869	\$3,192,881
Operating expenses	<u>2,201,130</u>	<u>2,314,223</u>
Operating income	1,015,739	878,658
Nonoperating income	171,965	167,686
Nonoperating expenses	<u>114,071</u>	<u>272,335</u>
Income before income tax	<u>1,073,633</u>	<u>774,009</u>
Net income	<u>\$954,596</u>	<u>\$631,124</u>
Pretax earnings per share	<u>\$ 1.62</u>	<u>\$ 1.38</u>
After-tax earnings per share	<u>\$ 1.44</u>	<u>\$ 1.12</u>

Hua Nan Insurance Co., Ltd.

Statements of Income
For the Years Ended December 31, 2003 and 2002
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2003</u>	<u>2002</u>
Operating revenues	\$8,743,767	\$8,307,147
Operating costs	<u>7,685,667</u>	<u>7,453,410</u>
Gross profit	1,058,100	853,737
Operating expenses	<u>847,005</u>	<u>740,499</u>
Operating income	211,095	113,238
Nonoperating income	11,999	10,436
Nonoperating expenses	<u>203</u>	<u>408</u>
Income before income tax	<u>222,891</u>	<u>123,266</u>
Net income	<u>\$ 178,823</u>	<u>\$ 99,884</u>
Pretax earnings (loss) per share	<u>\$ 1.11</u>	<u>\$ 0.63</u>
After-tax earnings (loss) per share	<u>\$ 0.89</u>	<u>\$ 0.51</u>

21. JOINT MARKETING INFORMATION

In November 2002, HNCB signed on agreement with EnTrust to regulate the rules of their joint marketing activities and promotions as well as the allocation of expenses for the sharing of operating equipment and premises. Thus, for the years ended December 31, 2003 and 2002, HNCB paid EnTrust promotion expenses and rentals totaling \$35,578 and \$10,451, respectively, which were included in HNCB's operating expenses, and EnTrust paid HNCB \$9,461 and \$5, respectively, for promotion expenses and rentals.

In December 2002, HNCB Insurance Agency contracted out with HNCB the collection of insurance fees. For the years ended December 31, 2003 and 2002, HNCB Insurance Agency's commission payments to HNCB were \$139,296 and \$132,883, respectively.

In March 2003, South China Insurance Co. (SCIC) contracted out to HNCB the collection of insurance fees. For the year ended December 31, 2003, SCIC's commission payment to HNCB was \$4,694.

22. THE BANK SUBSIDIARIES' SIGNIFICANT FINANCIAL AND OPERATING PROFILE

a. Capital adequacy ratios

(In Thousands of New Taiwan Dollars, %)

Item	December 31, 2003	December 31, 2002
1) Tier I capital	\$58,678,818	\$46,926,120
2) Tier II capital	34,931,880	30,756,083
3) Tier III capital	3,544,850	-
4) Capital deduction	11,280,537	12,356,328
Net (1+2+3+4)	85,875,011	65,325,875
Total risk—based assets	765,666,655	720,113,499
Capital adequacy ratios (Note)	11.22	9.07
Ratios of debt to net worth	2,327.55	2,547.09

Note: Capital adequacy ratio = eligible capital/risk-based assets. Under the Banking Law and related regulations, the capital adequacy ratio should be computed at the end of June and December.

b. Asset quality

HNCB

(In Thousands of New Taiwan Dollars, %)

Item	December 31, 2003	December 31, 2002
Overdue loans (including nonperforming loans)	\$28,955,248	\$33,958,294
Nonperforming loans	30,873,706	37,608,119
Overdue loan ratio	3.33	4.16
Classified loans	4,839,845	8,282,700
Ratio of classified loans to total loans	0.56	1.01
Allowance for credit losses	10,315,407	9,196,404
Credits written off	9,358,957	52,574,856

HNBF

(In Thousands of New Taiwan Dollars, %)

Item	December 31, 2003	December 31, 2002
Overdue accounts (including nonperforming accounts)	\$5,394,752	\$5,835,426
Nonperforming accounts	5,394,752	5,470,631
Overdue accounts ratio	38.73	38.44
Allowance for credit losses	2,016,372	2,313,279

c. *Management information*

1) *Profile of concentration of credit risk*

HNCB

(In Thousands of New Taiwan Dollars, %)

	<i>December 31, 2003</i>		<i>December 31, 2002</i>	
<i>Loans to related parties in privity</i>	\$21,357,884		\$19,396,806	
<i>Ratio of loans to related parties in privity</i>	2.33		2.30	
<i>Ratio of pledged stock loans</i>	1.61		0.94	
<i>Profile of concentration of credit industry</i>	<i>Industry</i>	<i>Percentage</i>	<i>Industry</i>	<i>Percentage</i>
	<i>Agriculture and fishery</i>	0.36	<i>Agriculture and fishery</i>	0.10
	<i>Mining and quarrying</i>	0.03	<i>Mining and quarrying</i>	0.02
	<i>Manufacturing</i>	24.40	<i>Manufacturing</i>	25.83
	<i>Natural resources</i>	0.70	<i>Natural resources</i>	0.82
	<i>Construction</i>	1.74	<i>Construction</i>	1.71
	<i>Wholesaling and catering</i>	10.15	<i>Wholesaling and catering</i>	10.16
	<i>Logistics and communications</i>	2.76	<i>Logistics and communications</i>	2.64
	<i>Finance and insurance</i>	3.11	<i>Finance and insurance</i>	5.94
	<i>Service</i>	3.77	<i>Service</i>	1.50
	<i>Personal</i>	25.91	<i>Personal</i>	26.61
	<i>Other</i>	27.07	<i>Other</i>	24.67
	<i>Total</i>	100.00	<i>Total</i>	100.00

HNBF

(In Thousands of New Taiwan Dollars, %)

	<i>December 31, 2003</i>		<i>December 31, 2002</i>	
<i>Loans to related parties in privity</i>	\$ -		\$230,000	
<i>Ratio of loans to related parties in privity</i>	-		2.46	
<i>Ratio of pledged stock loans</i>	-		15.24	
<i>Profile of concentration of credit industry</i>	<i>Industry</i>	<i>Percentage</i>	<i>Industry</i>	<i>Percentage</i>
	<i>Agriculture and fishery</i>	-	<i>Agriculture and fishery</i>	-
	<i>Mining and quarrying</i>	-	<i>Mining and quarrying</i>	2
	<i>Manufacturing</i>	19	<i>Manufacturing</i>	21
	<i>Natural resources</i>	-	<i>Natural resources</i>	-
	<i>Construction</i>	4	<i>Construction</i>	5
	<i>Wholesaling and catering</i>	10	<i>Wholesaling and catering</i>	14
	<i>Logistics and communications</i>	4	<i>Logistics and communications</i>	5
	<i>Finance and insurance</i>	59	<i>Finance and insurance</i>	49
	<i>Service</i>	4	<i>Service</i>	4
	<i>Other</i>	-	<i>Other</i>	-
	<i>Total</i>	100	<i>Total</i>	100

2) *Information of investees*

HNCB

December 31, 2003
(In Thousands of New Taiwan Dollars, %)

<i>Names of Investees</i>	<i>Original Investment Amount</i>	<i>Percentage of Ownership*</i>
<i>Taiwan Asset Management Corporation</i>	<i>\$2,000,000</i>	<i>11.35</i>
<i>Central Bills Finance Corporation</i>	<i>1,696,544</i>	<i>42.41</i>
<i>Taiwan Business Bank</i>	<i>1,117,942</i>	<i>5.01</i>
<i>Tang Eng Iron Works Co., Ltd.</i>	<i>621,490</i>	<i>8.88</i>
<i>Taiwan Development & Trust Co.</i>	<i>171,090</i>	<i>5.70</i>
<i>Taiwan Television Enterprise</i>	<i>81,570</i>	<i>7.25</i>
<i>Chung-Hua Real Estate Management Co.</i>	<i>19,264</i>	<i>30.00</i>
<i>HNCB Insurance Agency Co., Ltd.</i>	<i>49,940</i>	<i>99.88</i>
<i>Capital Ventures Management Co.</i>	<i>30,000</i>	<i>5.00</i>
<i>Chiatung Venture Capital Corp.</i>	<i>15,000</i>	<i>5.00</i>
<i>Slien An Co., Ltd.</i>	<i>1,250</i>	<i>5.00</i>

*Note: Percentages included are 5% and above.

3) *Required allowances for credit and investment losses*

HNCB

a) Allowance for credit losses

Under the HNCB's Rules for Loan Assets Classification and related rules, allowance for credit losses is determined as follows:

<u>Credit Risk Rating</u>	<u>Category of Loans</u>	<u>Allowance for Credit Loss</u>
<i>First</i>	<i>Normal</i>	<i>Up to 0.04%</i>
<i>Second</i>	<i>Substandard</i>	<i>Up to 1%</i>
<i>Third</i>	<i>Doubtful</i>	<i>Up to 50%</i>
<i>Forth</i>	<i>Loss</i>	<i>Up to 100%</i>

b) Provision for loss from decline in market value of securities purchased

Securities purchased, which consist of government and corporate bonds, short-term negotiable instruments, foreign securities, listed stocks, over-the-counter stocks and mutual funds, are stated at the lower of cost or market on the balance sheet dates, with the consideration of country risk on foreign securities factored in. When a decline in market value is considered irreversible, an allowance is provided.

c) Provision for losses from decline in market values of long-term investments

On balance sheet dates, if the aggregate market value of listed stocks and over-the-counter stocks falls below cost, the unrealized decline in market value is debited to stockholders' equity. When a decline in the value of unlisted stocks is considered irreversible, the carrying value of this investment is adjusted, and the realized loss is charged to current income.

CBF

a) Allowance for bad debts and provision for losses on guarantees

Allowance for bad debts and provision for losses on guarantees are provided on the basis of a review of the estimated collectibility of accounts receivables, overdue accounts and guarantees on commercial paper.

b) Provision for trading losses

The CBF recognizes provision for trading losses, as required under existing regulations, at 10% of the net gain on sales of securities. The related reserve for trading losses can only be debited for actual losses incurred on securities dealings.

4) *Exceptional items*

HNCB

December 31, 2003

Exception	Penalty/Amounts
Director or employee are prosecuted by the court for violating operations-related laws and regulations in the latest year	On January 27, 2003, Manager Lu, Clark Tsai and Huang of Shin Wei Branch were prosecuted by the Taipei district court for fraud.
Fines due to violation of the Banking Law in the latest year	None
Serious violations corrected by the Ministry of Finance in the latest year	None
Events due to employee fraud, major accidents, violations of rules under the "Notice to financial institutions about safeguarding," which result in individual or aggregate losses of at least NT\$50 million dollars	None
Other	None

HNBF

December 31, 2003

Exception	Penalty/Amounts
Director or employee are prosecuted by the court due to violating laws and regulations concerned with operation in the latest year	In October 1996, two former employees were prosecuted by Taipei district court for violating credit policy.
Fines due to violation of the Banking Law in the latest year	None
Serious violations corrected by the Ministry of Finance in the latest year	None
Events due to employee fraud, major accidents, violations of rules under the "Notice to financial institutions about safeguarding," which result in individual or aggregate losses of at least NT\$50 million dollars	None
Other	None

5) Operations

HNCB

a) Ratio of demand deposits, time deposits and foreign-currency deposits to total deposits

(In Thousands of New Taiwan Dollars, %)

	December 31, 2003	December 31, 2002
Demand deposits	\$544,787,620	\$446,006,505
Demand deposit ratio	50.45%	43.96%
Time deposits	535,060,102	568,461,277
Time deposit ratio	49.55%	56.04%
Foreign deposit	117,987,181	113,212,840
Foreign deposit ratio	10.93%	11.16%

b) Ratio of small and medium enterprise loans and consumer loans to total loans

(In Thousands of New Taiwan Dollars, %)

	December 31, 2003	December 31, 2002
Small and medium enterprise loans	\$176,760,258	\$162,039,736
Small and medium enterprise loan ratio	20.33%	19.85%
Consumer loans	194,680,121	181,827,179
Consumer loan ratio	22.39%	22.28%

HNBF

(In Thousands of New Taiwan Dollars, %)

Item	December 31, 2003	December 31, 2002
Guarantees and endorsements	8,534,500	9,344,400
Guarantees and endorsements/prior year's net worth	2.13	2.33
Bills sold under agreements to repurchase	8,850,438	14,917,795
Bills sold under agreements to repurchase/prior year's net worth	2.21	3.77

d. Profitability

HNCB

Item	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002
Return on total assets (Note 1)	0.85%	(2.87%)
Return on net worth (Note 2)	21.46%	(56.92%)
Profit margin (Note 3)	28.15%	(74.01%)

HNBF

Item	For the Year Ended December 31, 2003	For the Year Ended December 31, 2002
<i>Return on total assets (Note 1)</i>	0.32%	(46.82%)
<i>Return on net worth (Note2)</i>	0.73%	(99.14%)
<i>Profit margin (Note 3)</i>	3.57%	(406.32%)

Note 1: Return on assets = Income (loss) before income tax/average total assts

Note 2: Return on net worth = Income (loss) before income tax/ average net worth

Note 3: Profit margin = Income (loss) before income tax/total operating revenues

e. *Liquidity***HNCB**

**Maturity Analysis of Assets and Liabilities
December 31, 2003**

(In Thousands of New Taiwan Dollars)

Item	Total	Amounts for the Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days to One Year	Over One Year
<i>Assets</i>	\$ 1,147,760,000	\$ 186,008,000	\$ 115,568,000	\$ 177,473,000	\$ 150,550,000	\$ 518,161,000
<i>Liabilities</i>	1,091,147,000	112,778,000	109,006,000	544,941,000	202,567,000	121,855,000
<i>Gap</i>	56,613,000	73,230,000	6,562,000	(367,468,000)	(52,017,000)	396,306,000
<i>Accumulated gap</i>	56,613,000	73,230,000	79,792,000	(287,676,000)	(339,693,000)	56,613,000

Note: The above amounts included only a portion of the Head Office's and its domestic branches' assets and liabilities denominated in New Taiwan dollars.

HNBF

**Maturity Analysis of Assets and Liabilities
December 31, 2003**

(In Thousands of New Taiwan Dollars)

Items		Amounts for the Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days to One Year	Over One Year
<i>Capital outflow</i>	<i>Bills</i>	1,652,000	5,912,000	1,362,000	-	-
	<i>Bonds</i>	453,000	-	1,266,000	551,000	7,434,000
	<i>Cash in banks</i>	468,000	700,000	2,190,000	1,610,000	250,000
	<i>Lending</i>	120,000	-	-	-	-
	<i>Bills and bonds purchased under agreements to resell</i>	-	-	-	-	-
	<i>total</i>	2,693,000	6,612,000	4,818,000	2,161,000	7,684,000
<i>Capital inflow</i>	<i>Borrowing</i>	6,600,000	-	-	-	-
	<i>Bills and bonds sold under agreements to repurchase</i>	16,289,000	470,000	131,000	-	-
	<i>Capital</i>	-	-	-	-	4,007,000
	<i>Total</i>	22,889,000	470,000	131,000	-	4,007,000
<i>Net capital flow</i>		(20,196,000)	6,142,000	4,687,000	2,161,000	3,677,000
<i>Accumulated capital flow</i>		(20,196,000)	(14,054,000)	(9,367,000)	(7,206,000)	(3,529,000)

f. Sensitivity to market risk

HNCB

<i>Item</i>	<i>December 31,2003</i>	<i>December 31,2002</i>
<i>Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities</i>	99.79%	98.29%
<i>Ratio of interest-rate-sensitive gap to net worth</i>	(3.53%)	(32.57%)

HNBF

<i>Item</i>	<i>December 31,2003</i>	<i>December 31,2002</i>
<i>Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities</i>	69.32%	72.99%
<i>Ratio of interest-rate-sensitive gap to net worth</i>	(179.84%)	(157.38%)

g. Average amount and average interest rate of interest-earning assets and interest-bearing liabilities

(In Thousands of New Taiwan Dollars, %)

	2003		2002	
<u><i>Interest-earning assets</i></u>				
<i>Cash—certificates of deposit purchased</i>	\$185,852,155	1.51	\$119,826,409	2.22
<i>Due from other banks</i>	120,041,138	1.23	135,478,909	1.78
<i>Due from Central Bank</i>	40,542,435	1.22	36,557,520	1.65
<i>Securities purchased</i>	86,374,473	6.23	83,514,399	4.51
<i>Loans, discounts and bill purchased</i>	765,173,380	3.53	754,444,487	4.96
<i>Long-term investment of bonds</i>	2,472,254	3.59	2,293,010	4.00
<i>Deposits in the Central Bank</i>	10,154,000	1.44	10,154,000	2.29
<u><i>Interest-bearing liabilities</i></u>				
<i>Due to other banks</i>	180,319,185	1.38	188,894,762	2.00
<i>Central Bank deposits</i>	300,734	0.01	279,967	-
<i>Demand deposits</i>	211,304,680	0.16	174,848,831	0.53
<i>Savings—demand deposits</i>	243,224,185	0.62	209,934,653	1.52
<i>Time deposits</i>	193,844,583	1.24	199,113,421	2.01
<i>Savings—time deposits</i>	357,705,492	1.96	356,221,086	2.86
<i>Negotiable certificates of deposit</i>	9,301,789	1.34	10,399,000	2.22
<i>Due to the Central Bank and other banks</i>	12,501,568	1.00	13,844,738	1.58
<i>Bank debenture payable</i>	32,168,066	3.30	22,048,581	3.66

h. *Net positions on major foreign currencies*

HNCB

	<i>December 31</i>			
	<i>2003</i>		<i>2002</i>	
	<i>Foreign-currency Amounts (in Thousand)</i>	<i>New Taiwan Dollar Amounts (in Thousand)</i>	<i>Foreign-currency Amounts (in Thousand)</i>	<i>New Taiwan Dollar Amounts (in Thousand)</i>
<i>Net positions on major foreign currencies with market risk</i>	<i>US\$30,515</i>	<i>\$1,037,456</i>	<i>US\$29,684</i>	<i>\$1,032,405</i>
	<i>EUR1,701</i>	<i>72,696</i>	<i>JPY231,001</i>	<i>67,799</i>
	<i>JPY153,607</i>	<i>48,816</i>	<i>HK\$10,121</i>	<i>45,132</i>
	<i>CAD258</i>	<i>6,776</i>	<i>GBP167</i>	<i>9,326</i>
	<i>AUD148</i>	<i>3,774</i>	<i>EUR254</i>	<i>9,260</i>

23. ADDITIONAL DISCLOSURES

a. *Following are the additional disclosures required by the SFC for the Company and affiliates:*

- 1) *Marketable securities held: According to relevant regulation, HNSC and SCIC are not required to disclosed the securities purchased, otherwise long-term investments of the Company and subsidiaries' information please see Table 1 (attached)*
- 2) *Marketable securities acquired and disposed of, at costs or prices of at least NT\$100 million or 20% of the issued capital: According to relevant regulations, HNSC and SCIC are not required to disclosed the securities purchased, otherwise long-term investments of the Corporation and subsidiaries' information please see Table 1 (attached)*
- 3) *Receivables from related parties amounting to NT\$100 million or 20% of the issued capital: Receivables from related parties amounting to NT\$100 million or 20% of the issued capital: Table 3*
- 4) *Names, locations, and other information of investees on which the Company exercises significant influences: Table 1 (attached)*
- 5) *Derivative transactions: The Company did not engage in any derivative transactions as of December 31, 2002. The derivative transactions of the HNCB and HNSC are summarized below:*

HNCB

HNCB entered into foreign exchange derivative transactions mainly to accommodate customers' needs and to manage its own exposure positions. The interest rate swap (IRS), currency swap (CS) and cross currency swap (CCS) contracts, which were used for nontrading purposes, were for hedging the effects of foreign exchange or interest rate fluctuations on foreign-currency assets or liabilities. HNCB's strategy is to hedge market risk by matching the exposure between floating-rate U.S. dollar borrowings and (a) fixed-rate U.S. dollar loans or (b) fixed-income securities denominated in foreign currencies. The IRS, CS and CCS agreements serve to hedge HNCB's interest rate and foreign-currency exposures to stabilize (or "lock in") the yields on the loans or investments.

As of December 31, 2003 and 2002, the contract (notional) amounts, credit risk and market values of outstanding contracts were as follows:

December 31, 2003			
Financial Instruments	Contract (Notional) Amount	Credit Risk	Fair Value
<i>To accommodate customers' needs and manage HNCB's exposures:</i>			
Forward contracts	\$18,080,160	\$98,607	\$4,629
Currency swap contracts	12,325,514	53,838	9,813
Cross-currency swap contracts For nontrading purposes	2,000,000	-	(68,065)
Interest rate swap contracts	44,369,832	537,141	(391,693)
Cross-currency swap contracts	146,191	-	(76,541)
December 31, 2003			
Financial Instruments	Contract (Notional) Amount	Credit Risk	Value of Options Purchased/ Written
<i>To accommodate customer's needs and manage HNCB's exposures:</i>			
Option —as buyer	\$6,883,184	\$58,913	\$332,000
—as seller	6,883,184	-	332,000
December 31, 2002			
Financial Instruments	Contract (Notional) Amount	Credit Risk	Fair Value
<i>To accommodate customers' needs and manage HNCB's exposures:</i>			
Forward contracts	\$14,778,463	\$94,683	(\$5,414)
Currency swap contracts	5,724,323	6,378	6,078
Cross-currency swap contracts For nontrading purposes	18,469,068	608,574	(178,748)
Interest rate swap contracts	689,115	4,140	(38,912)
December 31, 2002			
Financial Instruments	Contract (Notional) Amount	Credit Risk	Value of Options Purchased/ Written
<i>To accommodate customer's needs and manage HNCB's exposures:</i>			
Option —as buyer	\$2,712,437	\$69,550	\$115,873
—as seller	2,712,437	-	116,834

HNCB is exposed to credit risk from counter-parties' default on contracts. HNCB enters into forward contracts with customers that have passed its credit approval process and have provided the necessary collaterals. Guarantee deposits may be required depending on the customers' credit standing. All forward contracts HNCB entered into as of December 31, 2002 were with customers engaging in import and export activities. Transactions with other banks were made within the trading limit prescribed for each bank based on the bank's credit rating and its worldwide ranking. Thus, no significant losses resulting from counter-parties defaults are anticipated. The forward positions have been offset by the opposite spot or forward positions, so no significant gains or losses would result from fluctuations in interest rates and foreign exchange rates, and there will be no significant demand for cash.

All counter-parties to the IRS or CCS agreements are banks with long-term credit rating of at least "A" by an international credit rating organization. Therefore, the associated credit risk is deemed very limited. Because HNCB enters into IRS and CCS agreements for hedging purposes, no significant gains or losses would result from fluctuations in interest rates and foreign exchange rates, and there will be no significant demand for cash. These IRS and CCS are settled at differentials between specified financial indices, which usually result in net cash inflow after being offset against interest income on the items being hedged.

Fair value of each forward exchange contract is determined at the forward exchange rate for the remaining term quoted by the Reuters or Telerate Information System. HNCB's basis for estimating the fair value of individual IRS or CCS contract is the quotations from the Bloomberg Information System.

The gains or losses on derivative transactions for the years ended December 31, 2003 and 2002 were as follows:

	<u>2003</u>	<u>2002</u>
<i>To accommodate customers' needs and manage HNCB's</i>		
<i>exposures:</i>		
<i>Forward contracts and currency-swap contracts</i>		
<i>Foreign-exchange gain and interest revenue</i>	(\$1,027,659)	\$52,000
<i>Cross-currency-swap contracts</i>		
<i>Interest revenue</i>	12,985	49,682
<i>Option</i>	25,063	7,247
<i>For nontrading purposes:</i>		
<i>Interest rate swap contracts</i>		
<i>Interest revenue and gain on sale of securities</i>	34,806	43,675
<i>Cross-currency swap contracts</i>		
<i>Interest revenue and gain on sale of securities</i>	(<u>1,019</u>)	<u>4,787</u>
<i>Net</i>	(<u>\$955,824</u>)	<u>\$157,391</u>

EnTrust

a) Warrants issued

Information on stock warrants issued as of December 31, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002</u>
Liabilities for stock warrants issued	\$343,132	\$84,000
Gain (loss) on revaluation of liabilities for stock warrants issued	89,183	(56,000)
Deferred loss	(19,043)	-
Market value	<u>413,272</u>	<u>28,000</u>
Repurchased stock warrants	161,220	4,172
Gain (loss) on revaluation of repurchased stock warrants	<u>56,359</u>	<u>(1,921)</u>
Market value	<u>217,579</u>	<u>2,251</u>
Liabilities for stock warrants issued—net	<u>\$195,693</u>	<u>\$25,749</u>

The stock warrants issued were of the American style and the term was one year from the listed trading date. EnTrust can choose to exercise the stock warrants by cash or securities issuance.— The stock warrants issued and stock warrants repurchased as of December 31, 2003 and 2002 are summarized as follows:

2003

<u>Warrant Name</u>	<u>Underlying Security</u>	<u>Units Issued</u>	<u>Units Sold in Public</u>	<u>Issue Date</u>	<u>Issue Price (NT\$)</u>	<u>Exercise Price (NT\$)</u>	<u>Execution Ratio</u>	<u>Repurchased Unit (Note)</u>	<u>Market Value (NT\$)</u>	<u>Note</u>
EnTrust 03	UMC	20,000,000	20,000,000	2003.05.28	\$3.590	\$21.570	1.00:1.04	\$ 17,278,000	\$8.15	Outstanding
EnTrust 04	FFH	40,000,000	40,000,000	2003.09.04	2.739	22.770	1.00:1.00	24,811,000	3.05	Outstanding
EnTrust 05	ASUS	50,000,000	50,000,000	2003.10.07	1.270	94.600	1.00:0.10	1,816,000	0.60	Outstanding
EnTrust 06	CSC	30,000,000	26,276,000	2003.12.26	3.740	31.350	1.00:1.00	-	-	Issued, not listed

2002

<u>Warrant Name</u>	<u>Underlying Security</u>	<u>Units Issued</u>	<u>Units Sold in Public</u>	<u>Issue Date</u>	<u>Issue Price (NT\$)</u>	<u>Exercise Price (NT\$)</u>	<u>Execution Ratio</u>	<u>Repurchased Unit (Note)</u>	<u>Market Value (NT\$)</u>	<u>Note</u>
EnTrust 02	Mega	20,000,000	20,000,000	2002.07.26	\$4.20	\$26.25	1:1	\$1,608,000	\$1.40	Outstanding

Note: Excluding the units not publicly issued.

Credit risk

EnTrust has no credit risk since all of the proceeds of the issue of stock warrants have been received.

Market risk

After the stock warrant issuance, EnTrust needs to hold the positions opposite to those of the stock warrant holders. The market risk, which is the risk that stock warrant holders may exercise the warrant before maturity date because of the fluctuation stock prices, is hedged by the following methods:

i.Delta hedging

EnTrust buys the opposite Delta underlying securities to hedge the market risk at the moment EnTrust issues the stock warrants. It adjusts its securities positions as Delta changes. It also authorizes its dealers to buy or sell the underlying securities within certain limits.

ii.Vega hedging

Vega risk can be hedged by buying other stock warrants with the same underlying securities. Though the convertible bonds can be used to hedge Vega risk, the liquidities of the convertible bonds are low and EnTrust Securities needs to face the risks of early redemption by issuers and long conversion periods.

iii.Gamma hedging

Gamma is used to measure the stability of Delta. The higher the Gamma, the more frequent Delta hedging is, and vice versa. EnTrust need not adjust the hedging positions frequently when the maturity date is not near and Gamma is small. The closer the maturity date, the more frequently should EnTrust adjust its the hedging position. A slight change of stock price will cause a significant adjustment of the hedging position as well as increase the hedging difficulty and hedging cost. Thus, EnTrust Securities may repurchase the stock warrants to avoid market risk when the expiry of the stock warrants is near and the market price of the stock warrants is close to the exercise price.

Additional information

Gain or loss recognized for the year ended December 31, 2003

i. Valuation

	Valuation Gain (Loss)	Account
<i>Liabilities for stock warrants issued</i>	<i>(\$24,097)</i>	<i>Loss on change in value of stock warrants issued</i>
<i>Repurchased stock warrants</i>	<i>50,159</i>	<i>Gain on change in value of stock warrants repurchased</i>
<i>Securities for dealing-hedge</i>	<i>(11,185)</i>	<i>Unrealized loss on decline of market value of dealing securities related to issuance of warrants</i>
<i>Gain on non-exercise of stock warrants</i>	<i>397</i>	<i>Gain on outstanding stock warrants</i>

ii. Gain (loss) on sale

	Gain (Loss) on Sale	Account
Stock warrants repurchased	(\$ 1,810)	Loss on change in value of stock warrants issued
Securities for dealing—hedging	41,663	Gain on sale of securities for dealing—hedging

b) Asset swap transactions—convertible bonds

i. Outstanding convertible bond option transactions as of December 31, 2003 were as follows:

	Underlying Stock	Fixed Interest Rate	Option Cost	Theoretical Price of Option	Maturity Date
Long call	Cnet Technology Inc. 2	4.80%	\$ 1,894	\$ -	2005.02.06
Long call	Cnet Technology Inc. 1	2.70%	349	4,232	2005.02.06
Long call	Uneec 2	2.30%	101	855	2005.05.29
Long call	EPCO 1	2.10%	2,352	41,440	2005.07.17
Long call	Chia Jei 1	2.40%	426	15,930	2005.07.29
Long call	Tyntek 2	1.50%	110	3,750	2004.03.25
Long call	Tyntek 2	2.40%	794	12,500	2006.10.31
Long call	Tyntek 2	2.40%	462	8,125	2006.11.16
Short call	Cnet Technology Inc. 2	-	3,290	-	2005.02.01
Short call	Cnet Technology Inc. 1	-	2,010	3,227	2005.02.01
Short call	EPCO 1	-	3,029	42,328	2005.07.11
Short call	Chia Jei 1	-	722	12,713	2005.07.20
Short call	Tyntek 2	-	3,687	23,272	2006.11.13
Short call	Hkssteel 1	-	780	2,106	2000.12.03

ii. Outstanding convertible bond swap transactions as of December 31, 2003 were as follows:

Counter- party	Terms	Nominal Amount	Fixed Interest Rate	Settlement Date	Maturity Date	Purpose
A	Paying and receiving—fixed interest rate	\$ 63,000	4.80%	Quarterly	2005.02.06	Trading
B	Paying and receiving—fixed interest rate	7,000	4.80%	Quarterly	2005.02.06	Trading
C	Paying and receiving—fixed interest rate	42,900	2.70%	Quarterly	2005.02.06	Trading
D	Paying and receiving—fixed interest rate	5,000	2.70%	Quarterly	2005.02.06	Trading
E	Paying and receiving—fixed interest rate	5,000	2.70%	Quarterly	2005.02.06	Trading
F	Paying and receiving—fixed interest rate	15,000	2.30%	Quarterly	2005.05.29	Trading
G	Paying and receiving—fixed interest rate	148,000	2.10%	Quarterly	2005.07.17	Trading
H	Paying and receiving—fixed interest rate	59,000	2.40%	Quarterly	2005.07.29	Trading

I	Paying and receiving—fixed interest rate	100,000	2.40%	Quarterly	2006.11.20	Trading
J	Paying and receiving—fixed interest rate	10,000	2.40%	Quarterly	2006.11.20	Trading
K	Paying and receiving—fixed interest rate	5,000	2.40%	Quarterly	2006.11.20	Trading
L	Paying and receiving—fixed interest rate	50,000	2.40%	Quarterly	2006.11.20	Trading
M	Paying and receiving—fixed interest rate	30,000	1.50%	Quarterly	2004.03.25	Trading

iii. Credit risk

Credit risk is the risk that the counter-party will default on contracts. EnTrust exercises purchase rights and obligations through the over-the-counter securities exchange and settles transactions through Taiwan Securities Central Depository Co., Ltd. Therefore, credit risk is low.

iv. Market risk

EnTrust is a party to convertible bond asset swaps as well as 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.

v. Liquidity risk, cash flow risk and the uncertainty as to the amount and timing of future cash requirement

The underlying convertible bonds, acquired from dealing and underwriting transactions, were sold to counter-parties and EnTrust received related payments. In addition, EnTrust took the pre-agreed interest rate in exchange for the coupon rate of and the interest premium on convertible bonds from counter-parties. Further, EnTrust acquired the right to repurchase convertible bonds from counter-parties. Therefore, there is no significant liquidity risk and the cash demand is not significant.

vi. Disclosure in the financial statements

Premiums paid (received) for long (short) options are recognized as assets (liabilities). Amounts paid (received) for interest rate swap contract are recognized as IRS contract value.

vii. Gain (losses) from convertible bond swaps for the year ended December 31, 2003

i) Valuation gain (loss)

	Valuation Gain (Loss)	Accounts
Option contracts	\$30,153	Valuation gain—option contracts
Interest rate swap contracts	(1,426)	Valuation loss—interest rate swap contracts

ii) *Option exercise before maturity date*

	<u>Gain from Option Exercise</u>	<u>Accounts</u>
Option exercise before maturity date	\$11,256	Gain from option exercise

c) *Structured note contracts*

Two types of structured note transactions are authorized by the OTC exchange: Principal-guaranteed note transactions and equity-linked note transactions. EnTrust signs the contract with the counter-parties, receives all (principal-guaranteed note transactions) or part (equity-linked note transactions) of the contract price and settles the contract with cash at the expiration date according to the return on the underlying assets. In substance, the transactions include the purchase or sale of fixed-income instruments and rewards-linked options on the underlying assets.

i. *Outstanding structured note transactions were as follows:*

	<u>December 31, 2003</u>		
	<u>Nominal Amount</u>	<u>Premiums Paid (Received)</u>	<u>Fair Value</u>
i) <i>Principal-guaranteed note transactions</i>			
Fixed income instruments	\$ 223,100	\$ -	\$ 215,768
Short call options on underlying assets	-	(8,038)	(4,708)

The fair value is computed using the model approved by the OTC exchange. The parameters used in the model (including underlying asset market prices and interest rates, etc.) are based on public information available in the market; thus, risk arbitrage does not exist.

EnTrust has established strict criteria on the types of fixed-income assets being used to control the investment amounts. In addition, the premium from short option transactions have been collected in advance; thus, EnTrust expects no exposure to credit risks.

ii. *Market risk*

The market risk on structured note transactions is mainly from adverse fluctuations of the market prices of the underlying assets. Thus, options are used to hedge market risk.

iii. *Liquidity risk, cash flow risk and the uncertainty as to the amount and timing of future cash requirement*

The fixed-income instruments purchased by EnTrust with the contract price received from the structured note transactions are stored in a custodian bank. To enable investors to execute the contract in advance, EnTrust considers the liquidity risk of the fixed-income instruments in advance. Since market liquidity is high, cash flow risk and future cash demand are not significant.

iv.

Balance Sheet
December 31, 2003

	<u>Amount</u>		<u>Amount</u>
<i>Current assets</i>		<i>Current liabilities</i>	
Bank deposits	\$ 49,923	Principal-guaranteed note	
Securities	18,223	transaction liability—	
Accounts receivable	6,563	fixed income	\$ 215,768
Interest receivable	55	Principal-guaranteed note	
Restricted assets—current	<u>151,864</u>	transaction liability—	
		option	4,708
		Accounts payable	<u>1,168</u>
		Total liabilities	221,644
		<i>Equities</i>	
		Income	<u>4,984</u>
Total assets	<u>\$ 226,628</u>	Total liabilities and equities	<u>\$ 226,628</u>

Income Statement
For the Year Ended December 31, 2003

	<u>Amounts</u>
<i>Revenue</i>	
Gain on sale of securities	\$ 1,437
Valuation gain—principal-guaranteed note transactions	3,376
Valuation gain—equity-linked note transactions	459
Interest revenue	276
	<u>172</u>
Total revenue	<u>5,720</u>
<i>Expense</i>	
Loss on principal—guaranteed-note transactions	730
Other	<u>6</u>
Total expense	<u>736</u>
Net income	<u>\$ 4,984</u>

d) Specific risk from future dealing

The specific risks of the futures dealing business of EnTrust Securities are as follows:

As of December 31, 2003 and 2002, EnTrust Securities had 30,243 and 6,860 outstanding futures contracts, respectively, pertaining to the following indexes of the Taiwan Stock Exchange: Electronic Sector Index, Banking and Insurance Sector Index, and the Capitalization Weighted Stock. The contracts amounted to \$842,934 and \$282,252 respectively.

Credit risk

EnTrust entered into futures contracts with the Taiwan Futures Exchange Corporation (the "TAIFEX"). Margin deposits based on market prices were required by TAIFEX for futures contracts. Thus, no significant losses on counter-parties' defaults are anticipated.

Market price risk

Market risk pertains to the fluctuation of market prices of TAIEX futures and options. EnTrust has appropriate risk control management and a stop-loss point set up to monitor price fluctuations and holding positions. If the balance of the trading margin account of TAIFEX futures and options becomes lower than the maintenance margin, EnTrust will recognize the loss by either settling the deal or putting in deposits in addition to the initial margin.

Liquidity risk

EnTrust's working capital is enough to cover the related cash demand on the exercise of the contracts. The liquidity risk is not significant since the outstanding index futures and options would be settled at reasonable market prices.

Disclosure in financial statements

Margin deposits for future contracts are included in the futures guarantee receivables account. Gains or losses from the settlement of each contract are credited or charged to current income. The gains on futures contracts for the years ended December 31, 2003 and 2002 were \$187,026 (including unrealized gain of \$2,240) and \$68,029 (including unrealized gain of \$2,400), respectively, and the futures guarantee receivables amounted to \$416,545 and \$66,372 as of December 31, 2003 and 2002, respectively.

- c. Information related to investment in Mainland China: None.*

24. SEGMENT INFORMATION

The Company engages only in investing and managing the business related to financial institution activities allowed by the authorities. No single customer or overseas unit represents at least 10% of the Company's total operating revenue or total assets. Thus, no geographical and customer information is required to be disclosed.

TABLE 1

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND INVESTEEES

**MARKETABLE SECURITIES HELD
DECEMBER 31, 2003
(Amounts in Thousands of New Taiwan Dollars)**

<i>Held Company Name</i>	<i>Marketable Securities Type and Name</i>	<i>Relationship with the Company</i>	<i>Financial Statement Account</i>	<i>December 31, 2003</i>				<i>Note</i>
				<i>Shares/Units</i>	<i>Carrying Value</i>	<i>Percentage of Ownership</i>	<i>Market Value or Net Asset Value (Note 1)</i>	
<i>Hua Nan Financial Holdings Co., Ltd.</i>	<i>Common stock</i>							
	<i>Hua Nan Commercial Bank, Ltd.</i>	<i>Subsidiary</i>	<i>Long-term equity investments</i>	<i>3,709,100,000</i>	<i>\$58,678,818</i>	<i>100.00</i>	<i>\$58,678,818</i>	<i>Note 3</i>
	<i>EnTrust Securities Co., Ltd.</i>	<i>Subsidiary</i>	<i>Long-term equity investments</i>	<i>711,174,346</i>	<i>8,855,256</i>	<i>100.00</i>	<i>8,855,278</i>	<i>Note 3</i>
	<i>Hua Nan Bills Finance Corporation</i>	<i>Subsidiary</i>	<i>Long-term equity investments</i>	<i>230,000,000</i>	<i>2,302,416</i>	<i>57.49</i>	<i>2,303,172</i>	<i>Note 3</i>
	<i>South China Insurance Co., Ltd.</i>	<i>Subsidiary</i>	<i>Long-term equity investments</i>	<i>200,138,625</i>	<i>2,222,602</i>	<i>100.00</i>	<i>2,222,602</i>	<i>Note 3</i>
	<i>Hua Nan Investment Trust Corp.</i>	<i>Subsidiary</i>	<i>Long-term equity investments</i>	<i>30,000,000</i>	<i>447,405</i>	<i>100.00</i>	<i>447,405</i>	<i>Note 3</i>
	<i>Debt Instruments Depository and Clearing Co. Taiwan</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>6,000,000</i>	<i>60,000</i>	<i>2.99</i>	<i>58,984</i>	<i>Note 3</i>
<i>Hua Nan Commercial Bank, Ltd.</i>	<i>Common stock</i>							
	<i>Hua Nan Bills Finance Corporation</i>	<i>Equity-method investee</i>	<i>Long-term equity investments</i>	<i>169,684,282</i>	<i>1,698,386</i>	<i>42.41</i>	<i>1,699,164</i>	<i>Note 3</i>
	<i>Chung-Hua Real Estate Management Co.</i>	<i>Equity-method investee</i>	<i>Long-term equity investments</i>	<i>7,670,160</i>	<i>70,326</i>	<i>30.00</i>	<i>70,326</i>	<i>Note 3</i>
	<i>HNCB Insurance Agency Co., Ltd.</i>	<i>Subsidiary</i>	<i>Long-term equity investments</i>	<i>4,994,000</i>	<i>141,280</i>	<i>99.88</i>	<i>141,280</i>	<i>Note 3</i>
	<i>First Financial Holding Co., Ltd.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>164,827,624</i>	<i>1,216,750</i>	<i>2.97</i>	<i>3,792,684</i>	<i>Note 1</i>
	<i>Taiwan Business Bank</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>156,961,124</i>	<i>1,117,942</i>	<i>5.01</i>	<i>1,337,309</i>	<i>Note 1</i>
	<i>Taiwan Development & Trust Co.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>17,109,000</i>	<i>171,090</i>	<i>5.70</i>	<i>35,245</i>	<i>Note 1</i>
	<i>Chang Hwa Commercial Bank</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>18,882,934</i>	<i>143,395</i>	<i>0.38</i>	<i>298,539</i>	<i>Note 1</i>
	<i>Taiwan Navigation Co., Ltd.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>5,980,686</i>	<i>42,979</i>	<i>1.88</i>	<i>128,106</i>	<i>Note 1</i>
	<i>Bank of Overseas Chinese</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>3,133,888</i>	<i>28,369</i>	<i>0.28</i>	<i>15,513</i>	<i>Note 1</i>
	<i>Taiwan Asset Management Corporation</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>200,000,000</i>	<i>2,000,000</i>	<i>11.35</i>	<i>2,061,714</i>	<i>Note 2</i>
	<i>Taiwan Power Co., Ltd.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>148,281,465</i>	<i>1,184,504</i>	<i>0.45</i>	<i>2,347,839</i>	<i>Note 2</i>
	<i>Tang Eng Iron Works Co., Ltd.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>62,149,024</i>	<i>621,490</i>	<i>8.88</i>	<i>36,252</i>	<i>Note 2</i>
	<i>CDIB & Partners Investment Holding Co.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>54,000,000</i>	<i>500,000</i>	<i>4.95</i>	<i>577,634</i>	<i>Note 3</i>
	<i>Taiwan Television Enterprise</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>20,353,680</i>	<i>81,570</i>	<i>7.25</i>	<i>283,785</i>	<i>Note 2</i>
	<i>Taiwan Stock Exchange Co.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>14,379,000</i>	<i>72,000</i>	<i>3.00</i>	<i>695,587</i>	<i>Note 2</i>
	<i>Fuyu Venture Capital Investment Co.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>6,000,000</i>	<i>60,000</i>	<i>4.44</i>	<i>55,034</i>	<i>Note 2</i>
	<i>Taiwan Financial Asset Service Corporation</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>5,000,000</i>	<i>50,000</i>	<i>2.94</i>	<i>50,742</i>	<i>Note 2</i>
	<i>Financial Information Service Co., Ltd.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>4,550,000</i>	<i>45,500</i>	<i>1.14</i>	<i>67,081</i>	<i>Note 2</i>
	<i>Capital Ventures Management Co.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>3,000,000</i>	<i>30,000</i>	<i>5.00</i>	<i>21,216</i>	<i>Note 2</i>
	<i>Taiwan Sugar Corp.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>11,120,138</i>	<i>28,029</i>	<i>0.14</i>	<i>512,585</i>	<i>Note 2</i>
	<i>Taiwan Futures Exchange Co.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>2,000,000</i>	<i>20,000</i>	<i>1.00</i>	<i>30,579</i>	<i>Note 3</i>
	<i>Ulstek Corp.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>470,294</i>	<i>10,941</i>	<i>4.70</i>	<i>9,097</i>	<i>Note 3</i>
	<i>Chiatung Venture Capital Corp.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>1,500,000</i>	<i>15,000</i>	<i>5.00</i>	<i>11,752</i>	<i>Note 3</i>
	<i>China Chemical Synthesis Industrial Co.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>426,615</i>	<i>3,825</i>	<i>0.65</i>	<i>2,096</i>	<i>Note 2</i>
	<i>Taipei Forex Inc.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>700,000</i>	<i>7,000</i>	<i>3.53</i>	<i>10,724</i>	<i>Note 3</i>
	<i>Financial e-Solution Co., Ltd.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>764,505</i>	<i>7,000</i>	<i>2.55</i>	<i>9,481</i>	<i>Note 2</i>
	<i>Slien An Co., Ltd.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>125,000</i>	<i>1,250</i>	<i>5.00</i>	<i>1,481</i>	<i>Note 2</i>
	<i>Shin Sheng Press Enterprise Co.</i>	<i>-</i>	<i>Long-term equity investments</i>	<i>21,735</i>	<i>217</i>	<i>0.01</i>	<i>(226)</i>	<i>Note 2</i>

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2003				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
Hua Nan Bills Finance Corporation	Taiwan Motor Transport Co., Ltd.	-	Long-term equity investments	10,000	\$100	-	\$-	Note 2
	Taiwan Agricultural & Industrial Development Corp.	-	Long-term equity investments	23,230	40	0.01	62	Note 2
	Taiwan Machinery Manufacturing Co., Ltd.	-	Long-term equity investments	167	2	-	-	Note 2
	Kaohsiung Ammonium Sulfate Co., Ltd.	-	Long-term equity investments	44	-	-	-	Note 2
	<u>Share certificate</u> Taipei Gas Co.	-	Long-term equity investments	-	163	-	-	Note 4
	<u>Preferred stock</u> Taiwan High Speed Rail	-	Other long-term investments	200,000,000	2,000,000	-	2,000,000	Note 4
	<u>Bond</u> Government bond 91-5	-	Guarantee deposits	-	315,871	-	317,527	Note 1
	Government bond 89-12	-	Guarantee deposits	-	5,107	-	5,317	Note 1
	<u>Common stock</u> Feng Hua Development Corp.	Equity-method investee	Long-term equity investments	8,910,000	85,698	45.00	85,698	Note 2
	Everterminal Co., Ltd.	-	Long-term equity investments	1,030,336	10,000	0.84	12,082	Note 2
	Twinhead International Corp.	The president is the same as the Corporation	Short-term investments	2,434,885	41,755	-	15,364	Note 1
	Pan-International Industrial Corp.	-	Short-term investments	67,500	5,788	-	1,483	Note 1
	Fubon Financial Holding Co., Ltd.	-	Short-term investments	61,681	2,632	-	1,996	Note 1
	Yulon Motor Co., Ltd.	-	Short-term investments	47,130	1,917	-	1,987	Note 1
	Yuanta Core Pacific Securities Co., Ltd.	-	Short-term investments	41,048	1,713	-	824	Note 1
Chung-Hua Real Estate Management Co.	Cathay Financial Holdings Co., Ltd.	-	Short-term investments	25,879	1,490	-	1,341	Note 1
	Taiwan Rubber Co., Ltd.	-	Short-term investments	48,903	1,367	-	668	Note 1
	Chung Hsin Electric & Machinery Mfg. Corp. Ltd.	-	Short-term investments	55,649	1,306	-	724	Note 1
	BES Engineering Corp.	-	Short-term investments	34,773	551	-	177	Note 1
	China Development Financial Holding Corporation	-	Short-term investments	14,279	280	-	225	Note 1
	E.Sun Financial Holdings Co., Ltd.	-	Short-term investments	1,440	25	-	29	Note 1
	<u>Beneficiary certificates</u> China OTC Market 50	-	Short-term investments	528,701	7,000	-	2,591	Note 1
	<u>Bond</u> Government Bond—89-7	-	Guarantee deposits	-	7,500	-	10,414	Note 1
HNCB Insurance Agency Co., Ltd.								

Note 1: The market values of the listed and over-the-counter investees accounted for by the cost method were determined at average daily closing prices for the last month of the accounting period. The market values of the beneficiary certificates are determined were the net asset value as of December 31, 2002. The market value of bonds were based on the reference prices of the over-the-Counter securities exchange as of December 31, 2002.

Note 2: The net value was based on unaudited financial statement of December 31, 2003.

Note 3 The net value was based on audited financial statement of December 31, 2003.

Note 4: The net value is based on book value.

TABLE 2

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2003
(In Thousand New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Value	Gain (Loss) on Disposal	Shares	Amount
Hua Nan Financial Holdings Co., Ltd.	EnTrust Securities Co., Ltd.	Long-term equity investments	-	-	561,174,346	\$ 6,659,229	150,000,000	\$ 1,500,000	-	\$ -	\$ -	\$ -	711,174,360	\$ 8,855,256 (Note 1)
Hua Nan Commercial Bank., Ltd.	Government bond—89-14	Long-term bond investments	-	-	-	212,551		-	-	234,997	211,747	23,250	-	-
	Government bond—89-10	Long-term bond investments	-	-	-	109,986	-	-	-	120,569	109,298 (Note 2)	11,271	-	-
	Preferred stock Taiwan High Speed Rail	Other long-term investment	-	-	-	-	200,000,000	2,000,000	-	-	-	-	200,000,000	2,000,000

Note 1: The ending balance includes: Cash investment, investment income by equity method and adjustments due to cash dividend, remuneration to directors and supervisors and bonus to employees.

Note 2: The difference between acquisition amount and ending balance amount resulting from the amortization of premium on bond investments.

TABLE 3

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE ISSUED CAPITAL
DECEMBER 31, 2003
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Hua Nan Financial Holdings Co., Ltd. (HNFH)	EnTrust Securities Co., Ltd.	Subsidiary of HNHF	\$227,892 (Note 1)	-	\$-	-	\$-	\$-
Hua Nan Commercial Bank, Ltd.	HNHF	Parent company	526,380 (Note 2)	-	\$-	-	\$-	\$-

Note 1: This amount is payable on the adoption of the linked-tax system for the 2003 tax filing.

Note 2: The amount is the receivable on the adoption of the linked-tax system for the 2003 tax filing.

TABLE 4

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

FOR THE YEAR ENDED DECEMBER 31, 2003

(In Thousand New Taiwan Dollars, Unless Otherwise Specified)

<i>Investor Company</i>	<i>Investee Company</i>	<i>Location</i>	<i>Main Businesses and Products</i>	<i>Original Investment Amount</i>		<i>Balance as of December 31, 2003</i>			<i>Net Income (Loss) of the Investee</i>	<i>Investment Gain (Loss)</i>	<i>Note</i>
				<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>	<i>Shares</i>	<i>Percentage of Ownership</i>	<i>Carrying Value</i>			
<i>Hua Nan Financial Holdings Co., Ltd.</i>	<i>Hua Nan Commercial Bank., Ltd.</i>	<i>Taipei</i>	<i>Commercial banking</i>	<i>\$ 79,513,393</i>	<i>\$ 79,513,393</i>	<i>3,709,100,000</i>	<i>100.00</i>	<i>\$ 58,678,818</i>	<i>\$ 9,006,874</i>	<i>\$ 9,006,874</i>	<i>Note 1</i>
	<i>Hua Nan Securities Co., Ltd.</i>	<i>Taipei</i>	<i>Securities business</i>	<i>7,566,192</i>	<i>6,066,192</i>	<i>711,174,346</i>	<i>100.00</i>	<i>8,855,256</i>	<i>954,596</i>	<i>941,402</i>	<i>Note 1</i>
	<i>Hua Nan Bills Finance Corporation</i>	<i>Taipei</i>	<i>Bills and bonds business</i>	<i>2,300,000</i>	<i>2,300,000</i>	<i>230,000,000</i>	<i>57.49</i>	<i>2,302,416</i>	<i>3,872</i>	<i>2,415</i>	<i>Note 1</i>
	<i>South China Insurance Co., Ltd.</i>	<i>Taipei</i>	<i>Insurance business</i>	<i>2,217,643</i>	<i>-</i>	<i>200,138,625</i>	<i>100.00</i>	<i>2,222,602</i>	<i>178,823</i>	<i>178,823</i>	<i>Note 1</i>
	<i>Hua Nan Investment Trust Corp.</i>	<i>Taipei</i>	<i>Investment trust business</i>	<i>508,539</i>	<i>-</i>	<i>30,000,000</i>	<i>100.00</i>	<i>447,405</i>	<i>99,898</i>	<i>99,898</i>	<i>Note 1</i>
<i>Hua Nan Commercial Bank., Ltd.</i>	<i>Hua Nan Bills Finance Corporation</i>	<i>Taipei</i>	<i>Bills and bonds business</i>	<i>1,696,544</i>	<i>1,696,544</i>	<i>169,684,282</i>	<i>42.41</i>	<i>1,698,386</i>	<i>3,872</i>	<i>1,842</i>	<i>Note 1</i>
	<i>Chung-Hua Real Estate Management Co.</i>	<i>Taipei</i>	<i>Construction plan review and consulting, evaluating real estate, reviewing construction progress and managing construction</i>	<i>19,264</i>	<i>19,264</i>	<i>7,670,160</i>	<i>30.00</i>	<i>70,326</i>	<i>(11,284)</i>	<i>(3,829)</i>	<i>Note 1</i>
	<i>HNCB Insurance Agency Co., Ltd.</i>	<i>Taipei</i>	<i>Insurance agency</i>	<i>49,940</i>	<i>49,940</i>	<i>4,994,000</i>	<i>99.88</i>	<i>141,280</i>	<i>47,098</i>	<i>47,042</i>	<i>Note 1</i>
<i>Chung-Hua Real Estate Management Co.</i>	<i>Feng Hua Development Corp.</i>	<i>Taipei</i>	<i>Real estate construction and sell</i>	<i>93,735</i>	<i>93,735</i>	<i>8,910,000</i>	<i>45.00</i>	<i>85,698</i>	<i>(28,118)</i>	<i>(12,771)</i>	<i>Note 2</i>
<i>Hua Nan Securities Co., Ltd.</i>	<i>Hua Nan Investment Management Co., Ltd.</i>	<i>Taipei</i>	<i>Investment management</i>	<i>129,950</i>	<i>129,950</i>	<i>13,713,800</i>	<i>99.95</i>	<i>139,958</i>	<i>(2,416)</i>	<i>(2,415)</i>	<i>Note 1</i>
	<i>Hua Nan Futures Co., Ltd.</i>	<i>Taipei</i>	<i>Futures business</i>	<i>499,000</i>	<i>499,000</i>	<i>53,393,000</i>	<i>99.80</i>	<i>588,208</i>	<i>30,169</i>	<i>30,109</i>	<i>Note 1</i>
	<i>Hua Nan Holdings Corp.</i>	<i>British Virgin Islands</i>	<i>Holding company</i>	<i>352,123</i>	<i>246,841</i>	<i>11,150,000</i>	<i>100.00</i>	<i>415,682</i>	<i>(Note 4) 18,636</i>	<i>18,636</i>	<i>Note 1</i>
<i>Hua Nan (BVI) Holdings Corp.</i>	<i>Hua Nan Securities (HK) Limited</i>	<i>Hong Kong</i>	<i>Securities business</i>	<i>10,233</i>	<i>7,400</i>	<i>79,975,000</i>	<i>100.00</i>	<i>11,353</i>	<i>594</i>	<i>594</i>	<i>Note 1</i>
				<i>(Note 3)</i>	<i>(Note 3)</i>			<i>(Note 3)</i>	<i>(Note 3)</i>	<i>(Note 3)</i>	
	<i>Hua Nan Securities International (Cayman) Limited</i>	<i>Grand Cayman Islands</i>	<i>Consulting</i>	<i>500</i>	<i>500</i>	<i>500,000</i>	<i>100.00</i>	<i>528</i>	<i>(7)</i>	<i>(7)</i>	<i>Note 1</i>
				<i>(Note 3)</i>	<i>(Note 3)</i>			<i>(Note 3)</i>	<i>(Note 3)</i>	<i>(Note 3)</i>	
	<i>Hua Nan Asset Management Corp.</i>	<i>Grand Cayman Islands</i>	<i>Consulting</i>	<i>150</i>	<i>50</i>	<i>150,000</i>	<i>100.00</i>	<i>103</i>	<i>(45)</i>	<i>(45)</i>	<i>Note 1</i>
				<i>(Note 3)</i>	<i>(Note 3)</i>			<i>(Note 3)</i>	<i>(Note 3)</i>	<i>(Note 3)</i>	

Note 1: The Company's recognition of the investment income (loss) in 2003 was based on the investee's audited financial statements as of and for the year ended December 31, 2003.

Note 2: The Company's recognition of the investment income (loss) in 2003 was based on the investee's unaudited financial statements as of and for the year ended December 31, 2003.

Note 3: The amounts are expressed in thousands of U.S. dollars.

Note 4: Bonus to employees and remuneration to directors and supervisors, which amounted to \$651,000, were not included.

TABLE 5**HUA NAN FINANCIAL HOLDINGS CO., LTD.**

**PUBLIC ANNOUNCEMENTS PRESCRIBED UNDER ARTICLE 46 OF THE
FINANCIAL HOLDING COMPANY LAW
DECEMBER 31, 2003
(In Thousand of New Taiwan Dollars, %)**

The credit extensions, guarantees or other transactions made by the Company's subsidiaries to the same person, the same related person or the same affiliate as of December 31, 2003 are summarized as follows:

<i>Name</i>	<i>Aggregate Amount of Credit Extensions, Guarantees or Other Transactions</i>	<i>%of the Net Worth</i>
<i>The same person</i>		
<i>Ministry of Finance—Department of National Treasury</i>	\$69,500,000	119.51
<i>Bureau of National Health Insurance</i>	19,950,000	34.31
<i>Formosa Petrochemical Co., Ltd.</i>	15,185,000	26.11
<i>Formosa Plastics Co., Ltd.</i>	8,729,000	15.01
<i>China Airline Co., Ltd.</i>	7,096,000	12.02
<i>Taiwan High Speed Rail</i>	6,496,000	11.17
<i>Hsin Kong Financial Holdings Co., Ltd.</i>	5,442,000	9.36
<i>The Public Housing Department of Kaohsiung City Government</i>	5,238,000	9.01
<i>Construction and Planning Administration of Ministry of Interior</i>	5,000,000	8.60
<i>National Financial Stabilization Fund</i>	4,654	8.00
<i>Chialease Finance Co., Ltd.</i>	4,634,000	7.97
<i>Eva Air Co., Ltd.</i>	3,873,000	6.66
<i>Taipei County Government</i>	3,635,000	6.25
<i>Walsin Lihwa Corporation</i>	3,213,000	5.52
<i>Taoyuan County Government</i>	3,100,000	5.33
<i>MAI-LIAO POWER Co., Ltd.</i>	3,080,000	5.30
<i>Tainan City Government</i>	3,000,000	5.16
<i>Pacific Construction Co., Ltd.</i>	2,559,000	4.40
<i>The same related person</i>		
<i>Lin, Chen-Hung and its affiliates</i>	4,331,000	7.45
<i>Chen. Sheng-Tian and its affiliates</i>	3,386,000	5.82
<i>The same affiliate</i>		
<i>Formosa Petrochemical Co., Ltd. and its affiliates</i>	19,495,000	33.52
<i>Formosa Plastics Co., Ltd. and its affiliates</i>	12,276,000	21.11
<i>Eva Air Co., Ltd. and its affiliates</i>	11,690,000	20.10
<i>China Airlines Co., Ltd. and its affiliates</i>	7,146,000	12.29
<i>Chi Mei Co., Ltd. and its affiliates</i>	6,894,000	11.85
<i>Asia Cement Co., Ltd. and its affiliates</i>	6,617,000	11.38
<i>Tatung Company and its affiliates</i>	5,562,000	9.56

(Continued)

<i>Name</i>	<i>Aggregate Amount of Credit Extensions, Guarantees or Other Transactions</i>	<i>%of the Net Worth</i>
<i>Nan Ya Plastics Co., Ltd. and its affiliates</i>	<i>\$5,314,000</i>	<i>9.14</i>
<i>Chialease Finance Co., Ltd.</i>	<i>5,101,000</i>	<i>8.77</i>
<i>Walsin Lihwa Corp. and its affiliates</i>	<i>4,431,000</i>	<i>7.62</i>
<i>China Steel Corporation and its affiliates</i>	<i>4,397,000</i>	<i>7.56</i>
<i>Taiwan Cement Co., Ltd. and its affiliates</i>	<i>3,976,000</i>	<i>6.84</i>
<i>Chia Hsin Food and Synthetic Fiber Co., Ltd. and its affiliates</i>	<i>3,778,000</i>	<i>6.50</i>
<i>Unwill Computer Corporation and its affiliates</i>	<i>3,240,000</i>	<i>5.57</i>
<i>Chung Hsin Electric & Machinery Mfg. Corp. Ltd. and its affiliates</i>	<i>3,167,000</i>	<i>5.45</i>
<i>China Motor Corporation Ltd. and its affiliates</i>	<i>3,160,000</i>	<i>5.43</i>

The summary and calculation of the above public information announced by the Company were based on the information on relevant account or transaction balances as of December 31, 2002 provided by the Company and all subsidiaries concerned.

VIII. Appendix

Hua Nan Commercial Bank branches information

APPOINTED OFFICES AND OFFICERS HANDLING INTERNATIONAL BUSINESS
TELEX 11307, 23216, AND 26266 ARE VALIDATED ALL BRANCHES (EXCEPT *)
As December 31, 2002

TELEX ANSWER BACK: HUANANBK

INTERNATIONAL ADMINISTRATION DEPARTMENT
Senior Vice President & General Manager:
York, M. Y. Lai
Senior Vice President & Deputy General Manager: Kemp K. P. Chen
Vice President & Deputy General Manager:
Pau-chu Lo
Addr: 38, Chung-King S. Rd., Sec. 1, Taipei, Taiwan, ROC
P. O. Box 989 Taipei
Phone: (02) 23713111
Cable Address: “HUANANBANK” Taipei
SWIFT Address: HNBKTWTP
Telex: 11307, 23216, 26266 Fax: 886-2-23821060
886-2-23711972

INTERNATIONAL BANKING DEPARTMENT
Senior Vice President & General Manager:
Shou-nan Tasi
Senior Vice President & Deputy General Manager: George, F. K. Lu
Vice President & Deputy General Manager: Shin-Shung Chow
Addr: 38, Chung-king S. Rd., Sec. 1, Taipei, Taiwan, ROC
P. O. Box 989 Taipei
Phone: (02) 23713111
Cable Address: “HUANANBANK” Taipei
SWIFT Address: HNBKTWTP
Telex: 11307, 23216, 26266 Fax: 886-2-23315737
886-2-23881194
886-2-23881195

OFFSHORE BANKING BRANCH
Senior Vice President & General Manager:
Donald W. H. Hsu
Addr: 38, Chung-king S. Rd., Sec. 1, Taipei, Taiwan, ROC
P. O. Box 989 Taipei
Phone: (02) 23821056
Cable Address: “HUANANBANK” Taipei
SWIFT Address: HNBKTWTP 070
Telex: 20554, 20224 Fax: 886-2-23817491

CHIENCHEN BRANCH
Vice President & General Manager: Yih-liang Chiu
Addr: 228, Nanking West Road, Taipei, Taiwan, ROC
P. O. Box 87 Taipei
Phone: (02) 25563111
SWIFT Address: HNBKTWTP 105
Fax: 886-2-25584245

CHUNGSHAN BRANCH
Vice President & General Manager:
Maw-shyong Hwang
Addr: 18, Sec. 1, Chang An East Road, Taipei, Taiwan, ROC
P. O. Box 662 Taipei
Phone: (02) 25611121
SWIFT Address: HNBKTWTP 106
Fax: 886-2-25232072

YUANSHAN BRANCH

Senior Vice President & General Manager:
Wen-Har Yang
Addr: 112, Chungshan North Road, Sec. 2, Taipei, Taiwan,
ROC P. O. Box 1465 Taipei
Phone: (02) 25619588
SWIFT Address: HNBKTWTP 107
Fax: 886-2-25418154
CHENG TUNG BRANCH

Senior Vice President & General Manager: Show-hsiung Hsu
Addr: 146, Sung Chiang Road, Taipei, Taiwan, ROC
P. O. Box 1334 Taipei
Phone: (02) 25512111
SWIFT Address: HNBKTWTP 108
Fax: 886-2-25362764

NAN SUNG SHAN BRANCH

Vice President & General Manager:
Jung-chih Chien
Addr: 293, Sec. 5, Chung-hsiao East Road, Taipei, Taiwan,
ROC
Phone: (02) 27695957
SWIFT Address: HNBKTWTP 110
Fax: 886-2-27688428

JEN AI ROAD BRANCH

Senior Vice President & General Manager: Sheng-lung Chen
Addr: 25, Jen Ai Road, Sec. 4, Taipei, Taiwan, ROC
P. O. Box 26-370 Taipei
Phone: (02) 27722090
SWIFT Address: HNBKTWTP 111
Fax: 886-2-27110276

NANKING EAST ROAD BRANCH

Senior Vice President & General Manager: Yi-Hsiung Lu
Addr: 217, Nanking East Road, Sec. 3, Taipei, Taiwan, ROC
P. O. Box 46-291 Taipei
Phone: (02) 27155111
SWIFT Address: HNBKTWTP 112
Fax: 886-2-27129350

HSINSHENG BRANCH

Vice President & General Manager: Ching-nan Ku
Addr: 48, Hsinsheng South Road, Sec. 1, Taipei,
Taiwan,
ROC P. O. Box 1660 Taipei
Phone: (02) 23934211
SWIFT Address: HNBKTWTP 113
Fax: 886-2-23211338

TATUNG BRANCH

Vice President & General Manager: Jong-shiung
Yang
Addr: 276, Sec. 3, Chung-king N. Rd., Taipei, Taiwan,
ROC
Phone: (02) 25917767
SWIFT Address: HNBKTWTP 114
Fax: 886-2-25912924

SUNGSAN BRANCH

Vice President & General Manager:
Meng-Hsiung Chung
Addr: 654, Pateh Road., Sec. 4, Taipei, Taiwan, ROC
P. O. Box 18-20 Taipei
Phone: (02) 27652132
SWIFT Address: HNBKTWTP 115
Fax: 886-2-27614818.

CHUNG LUN BRANCH

Vice President & General Manager: Oliver C. H.
Hsu
Addr: 145, Pateh Road, Sec. 3, Taipei, Taiwan, ROC
P. O. Box 36-30 Taipei
Phone: (02) 25780377
SWIFT Address: HNBKTWTP 116
Fax: 886-2-25783902

CHUNGSHIAO EAST ROAD BRANCH

Senior Vice President & General Manager:
Fang-chu Chi
Addr: 212, Chung Hsiao East Road, Sec. 4, Taipei, Taiwan, ROC
Phone: (02) 27733577
SWIFT Address: HNBKTWTP 120
Fax: 886-2-27410336

HO PING BRANCH

Vice President & General Manager: Teh-chun Chiu
Addr: 93, Ho Ping-East Road, Sec. 2, Taipei, Taiwan, ROC
P. O. Box 7-766 Taipei
Phone: (02) 27002405
SWIFT Address: HNBKTWTP 121
Fax: 886-2-27099230

SHIHLIN BRANCH

Vice President & General Manager: Betty Y. F. Hsu
Addr: 246, Sec. 4, Chen Teh Road, Taipei, Taiwan, ROC
Phone: (02) 28819500
SWIFT Address: HNBKTWTP 123
Fax: 886-2-28827737

TUNG-TAIPEI BRANCH

Vice President & General Manager: Shue-mei Cheng
Addr: No. 50, Nanking East Road, Sec. 4, Taipei, Taiwan, ROC
Phone: (02) 25794141
SWIFT Address: HNBKTWTP 124
Fax: 886-2-25788352

DA AN BRANCH

Vice President & General Manager: Chen-wu Lin
Addr: 458, Kuang Fu S. Rd., Sec. 4, Taipei, Taiwan, ROC
P. O. Box 96-95 Taipei
Phone: (02) 27039851
SWIFT Address: HNBKTWTP 125
Fax: 886-2-27088441

MING SHEN BRANCH

Senior Vice President & General Manager:
James C. S. Huang
Addr: 54, Ming Shen East. Road., Sec. 4, Taipei, Taiwan, ROC
Phone: (02) 27155011
SWIFT Address: HNBKTWTP 126
Fax: 886-2-27121484

FUSHING BRANCH

Vice President & General Manager:
Nae-hwang Hwang
Addr: 337, Fushing North Road., Taipei, Taiwan, ROC
Phone: (02) 27171781
SWIFT Address: HNBKTWTP 127
Fax: 886-2-27184582

TUNHUA BRANCH

Vice President & General Manager:
Ming-hsiung Liu
Addr: 2, Sec. 2, Tunhua S.. Rd., Sec. 4, Taipei, Taiwan, ROC
Phone: (02) 27557467
SWIFT Address: HNBKTWTP 130
Fax: 886-2-27010403

PU CHIEN BRANCH

Vice President & General Manager: Wu-hsiung Huang
Addr: 37, Sec. 2, San Min Rd. Panchiao City, Taipei, Taiwan, ROC
Phone: (02) 29646911
SWIFT Address: HNBKTWTP 151
Fax: 886-2-29570930

NAN KANG BRANCH

Vice President & General Manager: I-lang Chen
Addr: 52, Sec. 3, Nankang Road, Taipei, Taiwan, ROC
Phone: (02) 27885966
SWIFT Address: HNBKTWTP 158
Fax: 886-2-27885725

PANCHIAO BRANCH

Vice President & General Manager: Jaing-tsuen Lin
Addr: 73, Chung Hsiao Road, Panchiao City, Taipei, Hsien, Taiwan, ROC
Phone: (02) 29511101
SWIFT Address: HNBKTWTP 160
Fax: 886-2-29615496

PEI SAN CHUNG BRANCH

Vice President & General Manager: Kou an Lee
Addr: 207, Cheng Yi N. Rd., San Chung City, Taipei, Hsien, Taiwan, ROC
Phone: (02) 29880011
SWIFT Address: HNBKTWTP 162
Fax: 886-2-29717564

HSIN CHUANG BRANCH

Vice President & General Manager: Hwa-dar Chu
Addr: 175-1, Chung Cheng Road, Hsin Chung City, Taipei Hsien, Taiwan, ROC
Phone: (02) 29944761
SWIFT Address: HNBKTWTP 163
Fax: 886-2-29975920

YUNG HO BRANCH

Vice President & General Manager:
Shy-yung Huang
Addr: 147, Sec. 2, Yung-ho Rd., Yung-ho City, Taipei Hsien, Taiwan, ROC
Phone: (02) 29214111
SWIFT Address: HNBKTWTP 164
Fax: 886-2-29275188

HSIN TIEN BRANCH

Vice President & General Manager: Shi-yang Chang
Addr: 108, Sec. 2, Pei Hsin Rd., Hsintien City, Taipei Hsien, Taiwan, ROC
Phone: (02) 29136661
SWIFT Address: HNBKTWTP 166
Fax: 886-2-29155547

ERH CHUNG BRANCH

Vice President & General Manager: Wei-shih Kuo
Addr: 86, 88, Sec. 1, Kuang-Fu Rd, Sanchung City, Taipei Hsien, Taiwan, ROC
Phone: (02) 29991166
SWIFT Address: HNBKTWTP 174
Fax: 886-2-29991678

WU KU BRANCH

Vice President & General Manager: Tien-ying Kou
Addr: 69, Sec. 1, Chung Shan Road, Hsin Chuang City, Taipei Hsien, Taiwan
Phone: (02) 85218788
SWIFT Address: HNBKTWTP 176
Fax: 886-2-85216649.

HSI HU BRANCH

Vice President & General Manager: Jin-cheng Wu
Addr: 392, Sec. 1, Nan-Hu Rd, Taipei, Taiwan, ROC
Phone: (02) 27977189
SWIFT Address: HNBKTWTP 179
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