

2006 ANNUAL REPORT



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Financial Highlights

unit: In million, except per share data

	2006 Consolidated		2005 Consolidated	
	NTD	USD ¹	NTD	USD ²
For the Year				
Income Before Tax	9,385	287	11,187	340
Net Income	7,952	244	9,528	290
At the Year End				
Total Assets	1,674,573	51,289	1,674,515	50,959
Stockholders' Equity	90,698	2,778	89,577	2,726
Per Share				
Earnings per share - after income tax	1.33	0.04	1.60	0.05
Shareholder's Equity per Share - common stock	15.19	0.47	15.00	0.46
Ratios				
Return on Equity - after tax	8.82%		11.20%	
Return on Assets - after tax	0.47%		0.58%	
Double Leverage Ratio	104.71%		99.35%	
Group Capital Adequacy Ratio	112.67%		109.38%	
Credit Ratings (long / short / outlook)				
Taiwan Ratings	twA+ / twA-1 / Stable (2007/6/7)			

Note:

1.U.S. Dollars amounts are converted at the prevailing exchange rate on Dec.31, 2006 of NT\$32.65=US\$1

2.U.S. Dollars amounts are converted at the prevailing exchange rate on Dec.31, 2005 of NT\$32.86=US\$1

Letter to Shareholders



TO OUR SHAREHOLDERS

Taiwan's banking environment is one characterized by over-banking, namely too many financial institutions and a large number of them focusing on the same types of business, and a lack of internationalization. In addition, mainland China has served as magnet for the industrial sector in recent years, dampening the demand for funds locally. Combined with the consumer credit crisis here, Taiwan's banks are facing unprecedented challenges. The government, in a bid to strengthen banking competitiveness and improve the operating environment for the industry, has continued to encourage banks to introduce differentiated services and has promoted mergers. In this highly competitive environment, Hua Nan Financial Holdings Co. Ltd. (hereafter the Company or HNFHC), not only seeks to work in conjunction with government policies, but also aims to use the Group's advantages in cross-selling to generate profits. HNFHC will continue to engage in product development and innovation, targeting different segments of the market and seeking to bolster its competitiveness and profitability.

HNFHC and its subsidiaries faced considerable challenges during the year amid this complex and uncertain operating environment. Thanks to the efforts and contributions of the board, supervisors and

shareholders, stable growth was maintained in all major areas of operations. In 2001, Hua Nan Commercial Bank and Hua Nan Securities (then known as EnTrust Securities) engaged in a stock swap, paving the way for the establishment of HNFHC. Since then, Hua Nan Bills Finance, South China Insurance and Hua Nan Investment Trust have been included under the FHC umbrella. Most recently, Hua Nan Venture Capital, Hua Nan Management & Consulting and Hua Nan Asset Management Company have been established under the FHC framework. HNFHC's eight subsidiaries enable the Company's operations to reach into a wide range of areas. With banking as its core, Hua Nan also has a presence in securities, insurance and asset management. The Company maintains a comprehensive product line, satisfying the one-stop shopping needs of its customers.

HNFHC posted net income in 2006 of NT\$36.05 billion. Under the consolidated basis, the provisioning and distressed asset write-offs amounted to NT\$8.69 billion. Operational expense stood at NT\$17.98 billion, while income from continuing operations was NT\$6.77 billion and cumulative effect of changes in accounting principles was NT\$1.28 billion. Net profit was NT\$7.95 billion, with Group net profit amounting to NT\$7.95 billion, equivalent to net earnings per share of NT\$1.33. Return on assets stood at 0.47% and return on equity was 8.82%.

On a company only basis, HNFHC in 2006 registered income of NT\$8.41 billion, expenses and losses of NT\$437 million, and pre-tax profit of NT\$7.97 billion. After the deduction of income tax of NT\$18 million, HNFHC's net profit was NT\$7.95 billion, translating to net earnings per share of NT\$1.33. The Company's return on assets was 8.23% and return on equity 8.82%. Meanwhile, profits for the year reached 91% of the Company's goal.



HNFHC's Primary Operations in 2006:

1. Strengthening Organizational Integration:

HNFHC and its subsidiaries have carried out a range of internal reforms in a bid to increase competitiveness and establish a reasonable remuneration system. In 2005, Hua Nan Commercial Bank hired Watson Wyatt to assist the Bank in implementing organizational reform. The new measures were implemented in June 2006, paving the way for even smoother operational management. HNFHC plans to carry out organizational reform in 2007 to boost its operational structure and managerial performance.

2. Development of Key Operations:

The Group presently has about 5.6 million customers. HNFHC has established a customer relationship management system in recent years to provide appropriate services to its existing customers and appeal to potential ones. In 2006, cross-selling contributed NT\$429 million to Group revenues, which was a rise of 31.6% from the last year's NT\$326 million. Meanwhile, HNFHC in early 2006 contracted an external risk consultant to assist the Group in honing its risk control mechanisms in preparation for the introduction of the Basel II framework.

3. Improving Asset Quality:

Hua Nan Commercial Bank has written off bad loan of NT\$52.6 billion in 2002. These efforts enable the Bank's NPL ratio fall to just 1.99% in 2006. Meanwhile, the NPL ratio

of Hua Nan Bills Finance fell to 6.44% in 2006 from 38.73% in 2003. Over the years, Fitch has gradually raised the credit rating of Hua Nan Bills Finance from BBB-2 to A, highlighting the efforts made by HNFHC to strengthen the operational structure and asset quality of its subsidiaries.

In the future, HNFHC will continue to strive to be Taiwan's leading financial group and work towards becoming a regional financial institution. Going forward, HNFHC's major initiatives will be as follows:

1. Instituting Group organizational reform and strengthening integration of the FHC's subsidiaries.
2. Forming a short-term investment platform and raising the Group's profits from investments.
3. Promoting customer relationship management and increasing overall operational performance.
4. Boosting ability to management risk and realizing a risk management system.
5. Strengthening the utilization of information and promoting efficient use of information.
6. Expanding market share and creating Group profitability.

I am obliged to HNFHC shareholders for their support and concern over the past year, helping the Company weather the harshly competitive banking environment with continuous development. In the future, HNFHC will continue to persist its operations on trust, honesty and innovation, offering a wide range of services to shareholders and the public at large. Management will continue to spare no effort in working for the best interest of shareholders, customers and employees.

Chairman


MING-CHENG LIN

President


JENG-YIH LEE

Company Profile

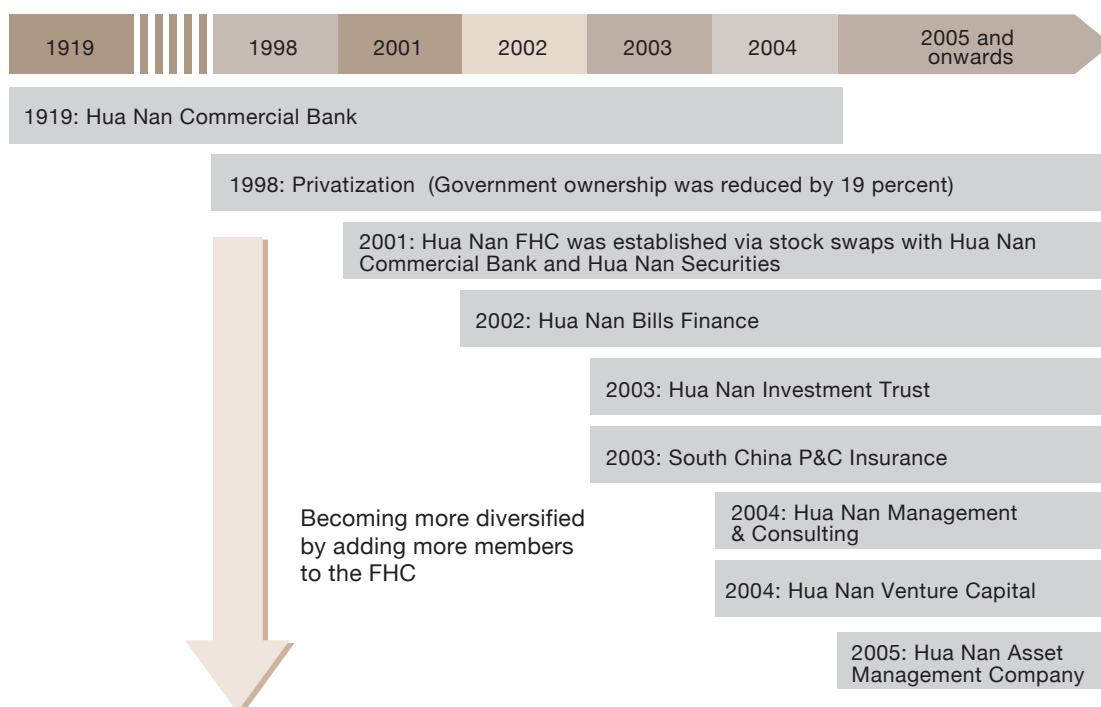
Company Profile

Hua Nan Financial Holdings Co. Ltd. was established on December 19, 2001, to provide integrated financial services to our customers. It is listed on Taiwan Stock Exchange under the stock code 2880. Although HNFHC was formed in 2001, our group history can be traced nearly a century ago back to 1919, the foundation of Hua Nan Commercial Bank, the flagship entity of HNFHC.

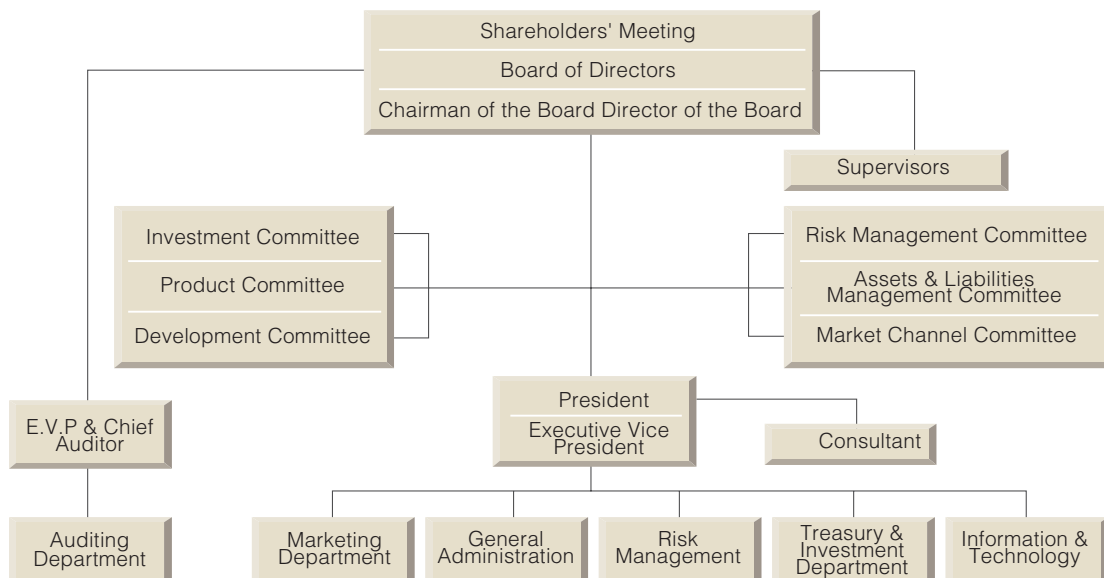
Hua Nan Commercial Bank(HNCB), was one of the three government affiliated banks and with its strength in corporate banking, forms a solid foundation of HNFHC. Over the years, HNCB has accumulated about 5.6 million clients and 182 domestic branches. HNCB wrote off bad loans to the tune of NT\$52.6 billion in 2002 to improve its asset quality and pave the way for long-term development that prompted other financial

institutions to follow our moves. In the following years, HNFHC has led its peers in ushering a new era of financial services by merging four sub-branches of the industry- commercial banking, investment banking, insurance and asset management.

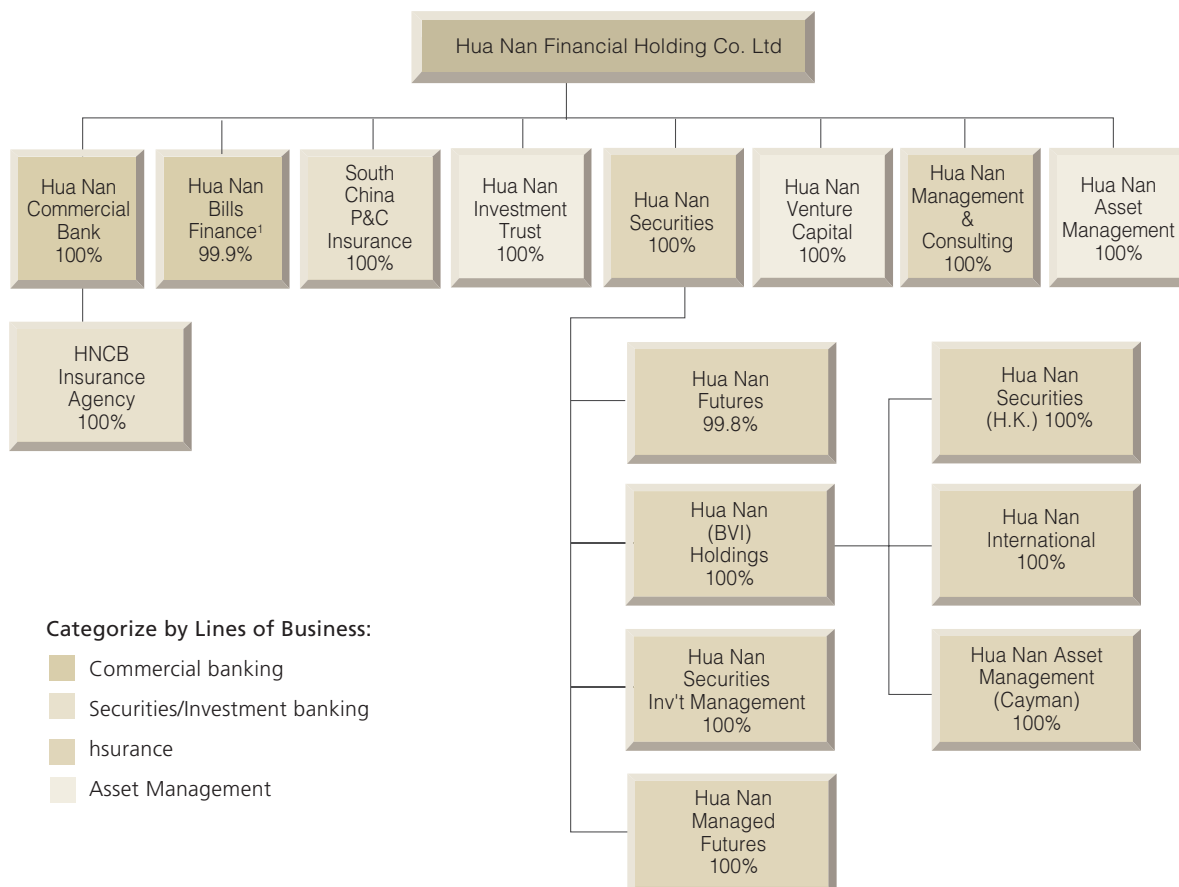
As of end of 2006, HNFHC has 8 subsidiaries, including HNCB, Hua Nan Securities, Hua Nan Bills Finance, South China Insurance, Hua Nan Investment Trust, Hua Nan Venture Capital, Hua Nan Management Consulting and Hua Nan Asset Management Company. The common goal of these companies is to provide comprehensive, superb services while maximizing shareholders value. As of the end of 2006, HNFHC boasts an asset of NT\$1,675 billion, an equity capital of NT\$59.7 billion, 9,618 employees, and 280 domestic and 9 global outlets and offices.



The Organization Chart



Group Organization



Note:

1.HNHC maintains a 57.49% stake in Hua Nan Bills Finance CO. while subsidiary HNCB holds a 42.41%.

Directors & Supervisors

BOARD OF DIRECTOR

Ming-Cheng Lin

Delegate of Memorial Scholarship Foundation
to Mr. Lin Hsiung-Chen
Chairman, Hua Nan Financial Holdings Co., Ltd.

Jeng-Yih Lee

Delegate of Ministry of Finance
Managing Director & President, Hua Nan
Financial Holdings Co., Ltd.

Rong-Chu Liu

Delegate of Ministry of Finance
Counselor, Ministry of Finance

Chan-Sheng Chen

Delegate of Ministry of Finance
President, Central Deposit Insurance Corp.

Fu-Chi Tsai

Delegate of Bank of Taiwan
S.V.P & General Manager, Business Dept.,
Bank of Taiwan

Chuan-Chuan Hsieh

Delegate of Bank of Taiwan
S.V.P & General Manager, Loan & Discounts
Dept., Bank of Taiwan

Fang-Mien Lee Hsieh

Delegate of Bank of Taiwan
Deputy Director, General Dept. of Accounting,
The Central Bank of China, Taiwan

Yun Lin

Delegate of Bank of Taiwan
Professor, Dept. of Finance, National Taiwan
University

Chih-Yang Lin

Delegate of Yung-Da Real Estate &
Construction Co., Ltd.
General Manager, Ta-Yung Hsing Yeh Co., Ltd.

Hsien-Hsien Hsu

Delegate of Shin Kong Life Foundation Assistant
to the Chairman of Shin-Kong Wu Ho-Su
Memorial Hospital

Hsu-Hsueh Chang

Delegate of Fu Chuan Enterprises Co., Ltd.
Supervisor, Fu Chuan Enterprises Co. Ltd.

Tsu-Yen Lin

Delegate of Evergreen Asset Management
Co., Ltd.
Special Assistant to the Chairman, Yong Da
Construction Co., Ltd.

An-Lan Chen Hsu

Delegate of Han Ting Enterprise Co., Ltd.
Director, Hua Nan Securities Co., Ltd.

Po-Wei Hsu

Delegate of Han Ting Enterprise Co., Ltd.
Chairman, Hua Nan Securities Co., Ltd.

SUPERVISORS

Sou-Shan Wu

Delegate of Bank of Taiwan
Dean & Professor, College of Management,
Chang Gung University

Wen-Yuh Tsai

Delegate of Ministry of Finance
Chairman of Sin-Jang CPAS office

Li-Yen Yang

Delegate of Bank of Taiwan
S.V.P & General Manager, International
Banking Dept., Bank of Taiwan

James Hui-Jan Yen

Delegate of Yong Ding Construction Co., Ltd.
Chairman, Asia Jewelry Co., Ltd.

Chia-Ying Shen

Delegate of China Man-made Fiber Corp.
Supervisor, Hua Nan Financial Holdings Co.,
Ltd.

Note: above information are effective at April 17, 2007.

MANAGEMENT TEAM

Jeng-Yih Lee

President

Significant Experience: E.V.P., Hua Nan Commercial Bank

Education: Economics Dept., National Taiwan University

Mao-Hsien Liu

Executive Vice President & G.M. of General Administration Department

Significant Experience: Senior V.P. and G.M., Banking Dept./Treasury Dept., Hua Nan Commercial Bank

Education: Economic Dept., Chinese Culture University

Jeffrey C. F. Lee

Chief Auditor

Significant Experience: G.M., New York Branch/Offshore Banking Branch/Treasury Dept., Hua Nan Commercial Bank

Education: Economics Dept., National Taiwan University

Chen-Fang Chang

G.M. of Marketing Department

Significant Experience: Senior V.P./Chief Secretary of Hua Nan Commercial Bank

Education: International Commerce Dept., Tamkang University

James H. J. Liu

Executive Vice President & G.M. of Risk Management Department

Significant Experience: V.P., Global Market Group, Union Bank of California

Education: Economics & Finance, UCLA

Ching-Yuh Wu

G.M. of Investment Department

Significant Experience: Senior V.P. & G.M., Accounting Dept., Hua Nan Commercial Bank

Education: Business Department, National Open University

Casey Lo

G.M. of Information Technology

Significant Experience: Senior V.P. & G.M of IT of Hua Nan Commercial Bank

Education: Computer Science Dept., national Chiao Tung University

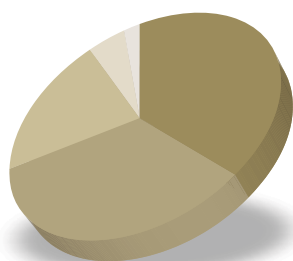
Share & Dividend

Share Capital

As of April 17, 2007, Hua Nan Financial Holdings' paid-in capital totaled NT\$59,702,086,360 with 5,970,208,636 shares outstanding issued at a par value of NT\$10.

Shareholder Structure

Date as of April 17, 2007



- Financial Institutions , 39.01%
- Individuals 34.89%
- Other Institutions , 19.40%
- Foreign Institutions and Foreigners 4.64%
- Government Agencies, 2.06%

As of April 17, 2007, shareholders having more than one percent of the share capital in Hua Nan Financial Holdings are list below.

Major Shareholder

Name of Major Shareholders	% of shares
Bank of Taiwan	29.36%
Shin Kong Life Insurance Co., Ltd	4.83%
Ta-Yung Hsing Yeh Co., Ltd	3.90%
First Bank	2.53%
Yuan Ding Investment Co., Ltd.	2.26%
Ministry of Finance	1.99%
Memorial Scholarship Foundation to Mr. Lin Hsiung Chen	1.69%
Chung Hwa Post Co. Ltd.	1.09%
Entrust Investment Corporation	1.02%
Worker Pension Fund	0.96%

Share Price Information

Market Price per Share	2006	2005
Highest	25.85	27.40
Lowest	20.40	19.85
Average	22.40	23.62

Dividend Payout

The dividend policy is carried out according to Article 35 of HNFHC's charter:

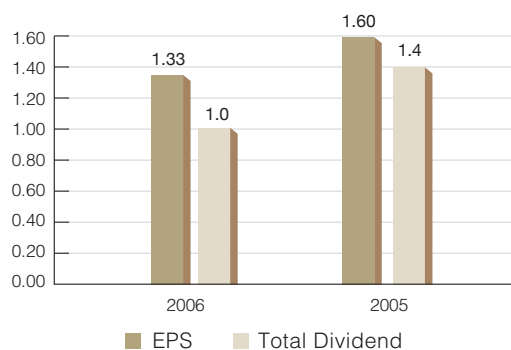
In order to continue to expand the scale of HNFHC and increase profitability, as well as to abide by related regulations, HNFHC has adopted a residual dividend policy.

If HNFHC has profit after year and closing, tax must be paid first and any losses from previous year covered. It then sets aside a regulated surplus reserve and when necessary a special surplus reserve for operations needs. The remainder is distributed based on resolution at the shareholders' meeting as follows:

1. No more than 1% can be used for remuneration of board members and supervisors.
2. The sum of employee bonuses can amount to between 0.02% and 0.16%, with the exact amount to be determined by shareholders, who decide whether to allocate all of the funds or just a portion, to be carried out through the issuance of new shares. Employee eligible for share bonuses must be employees affiliated with HNFHC. Any changes to regulation must be made by the board.
3. 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 HNFHC'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 decided otherwise at a shareholders' meeting.

Dividend Distribution Proposed for the 2006 Shareholders' Meeting:

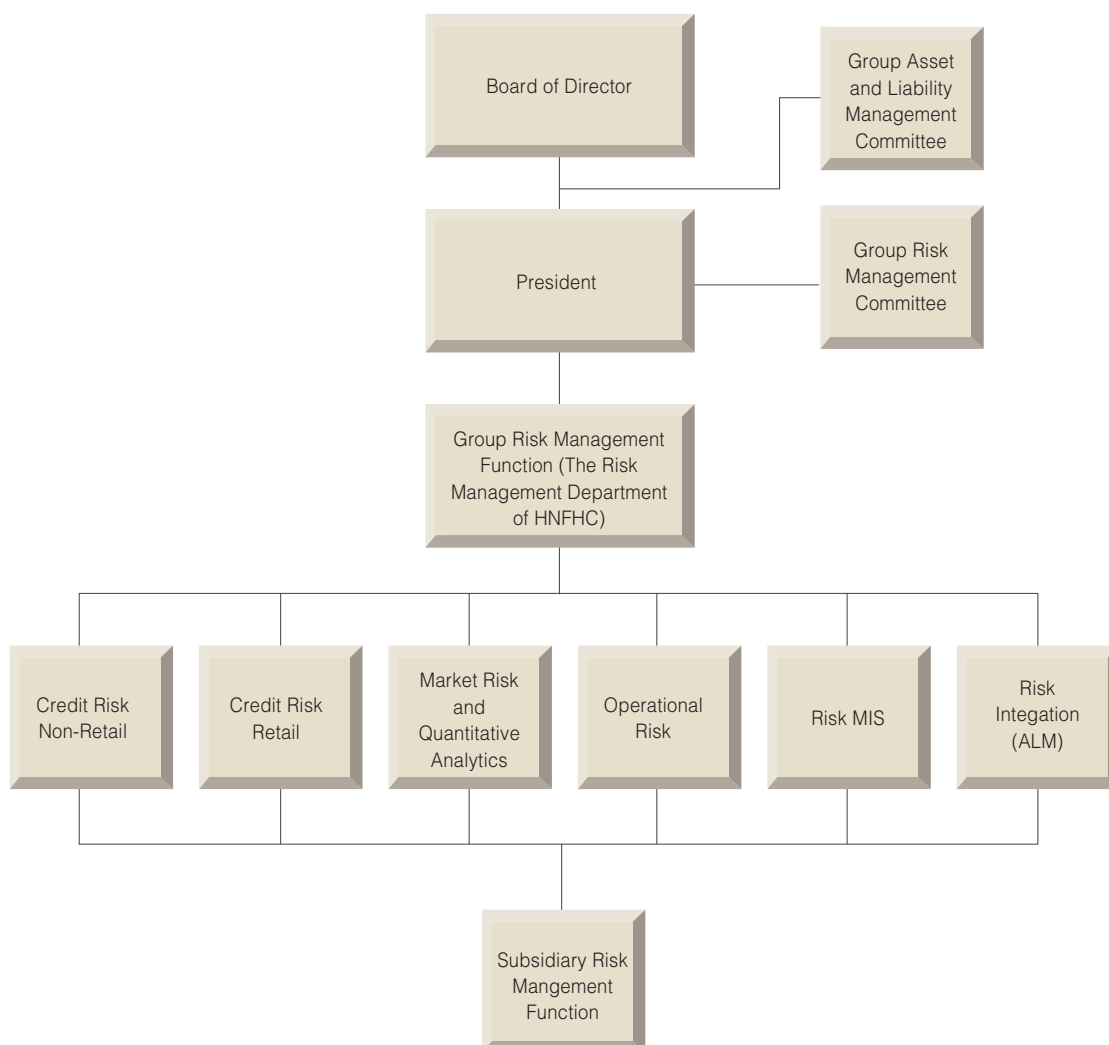
1. NT\$5,970,208,636 in cash dividend to shareholders, translating to NT\$1 per share.
2. NT\$11,449,550 in cash bonus to employees.
3. NT\$71,559,687 in compensation to directors and supervisors.



Market Price per Share	2006	2005
EPS	1.33	1.60
Cash Dividend	1.0	1.4
Stock Dividend	0	0
Total Dividend	1.0	1.4
Dividend Payout Ratio	75.18%	87.50%

Risk Management Summary

Hua Nan Financial Holdings Group Risk Management Framework



HNFHC's objective in risk management is to strike the balance between risk and reward. The Company also aims to assist all its business departments in maximizing shareholder value while maintaining the target credit rating set by the board of directors each year.

The main functions of the Group's risk management are as follows:

1. Integrating Group risk.
2. Developing, approving and implementing risk management-related policies for the Group.
3. Developing, approving and implementing
4. Coordinating and managing risk issues that involve a number of subsidiaries. risk limits for the Group.
5. Approving for new or changed product.

HNFFHC's risk management policies center on establishing a set of standards that are applicable to all members within HNFFHC in identifying, measuring, controlling, monitoring and managing risk. This ensures that all risks are maintained at an acceptable level, while reflecting the Group's business targets and corporate value. HNFFHC has contracted an external consultant to assist it in improving its risk management and enable it to conform to the spirit of the Basel II framework. This initiative will bolster the Group's internal risk management policies, platform, awareness and culture. The Company's methods in measuring and controlling all types of risk will be discussed in the following paragraphs.

1. Credit Risk Non-Retail

Risk management guidelines govern the operations of each subsidiary involved in corporate banking. All risk factors are considered in setting corporate credit risk limits and authority limits. In addition, loan portfolios are reviewed regularly. Risk indicators and warning mechanisms have been introduced, establishing a broad-based dynamic management mechanism. High-ranking managers are provided warnings when exposure to risk reaches designated levels, after which decisions are made to address the situation.

In order to appropriately manage Non-Retail credit risk, Hua Nan Commercial Bank and Hua Nan Bills Finance have

developed internal credit rating systems and loss databases. Future credit risk mechanisms will focus on three quantitative indicators, probability of default (PD), loss given default (LGD) and exposure at default (EAD).

These will be used in calculating capital charges, loan pricing and management of loan portfolios. Economic capital (EC) concepts will also be introduced and risk-adjusted return of capital (RAROC) will become an indicator to measure performance. This will set the foundation for adopting an internal rating based approach in the future.

2. Credit Risk Retail

The objective of retail credit risk management is to maintain adequate capital and ensure that credit risk is kept without a defined scope, enabling a reasonable balance between risk and reward.

Strategies and methods adopted by HNFFHC to achieve its objective with regards to personal credit risk include:

- (1) Establishing credit cycles as the future management mechanism for personal credit risk. Risk management is to be the central objective and management information systems and related statistical reports will be used to effectively monitor product plan, credit screening, account maintenance, collection and bad debt write-offs.
- (2) Delineating personal credit risk operational procedures and the responsibilities of each related unit. This will bolster the ability to manage risk and enable HNFFHC to conform to the requirements of the Basel II framework.
- (3) Introducing a product planning system that highlights the needs of customer segments and the various risks associated with the product. In addition

Risk Management Summary

to effectively controlling personal asset portfolio-related risk, this initiative will enable HNFHC to adhere to the Basel framework that calls for segmentation and management of customers based on different risk levels.

- (4) Developing standardized personal credit risk management reports. Comprehensive risk management data on different types of personal asset portfolios are provided to senior managers as reference in formulating business policies. In addition to assessing the quality and performance of personal asset portfolios, these risk reports also ensure that personal asset portfolios are based on the strategic objectives outlined in product prospectuses. In the process of pursuing profitability, Hua Nan keeps a close tab on associated risks.

The Company has established a loss database, which will help it to apply economic capital concepts in the future, develop a personal banking internal ratings model and internal capital adequacy assessment procedures. In addition, risk-adjusted return on capital will serve as a performance measurement indicator that will be used in tandem with personal banking risk portfolios and the banking environment to set capital objectives.

3. Market Risk

The Company's market risk management is aimed at ensuring that market risk exposure levels are within levels that can be shouldered by the Group and at effectively utilizing and managing Group capital. These measures enable members of the Group to achieve their profit targets while maintaining market risk at limited levels.

The main management mechanism includes application and approval for various limits within the Group, including risk capital limits, risk concentration limits,

stress limits, qualitative limits, and stop loss limits. HNFHC also has designed and implemented a market risk factor risk measurement method as well as a product prospectus screening system to strengthen risk controls in advance of the trading of new banking products. The Company utilizes historical simulation to estimate the Value at Risk of the financial products of each of its subsidiaries.

4. Operational Risk

A Group-wide operations risk management framework and mechanism has been established to manage operational risk, strengthening the risk management culture and awareness. The "Operational Risk Management Cycle" and other management tools assist managers at all levels in monitoring operational risk in the daily affairs of each subsidiary and in having access to the latest data on the level of risk exposure. These measures effectively rein in operations risk and increase shareholder value.

(1) Risk Self-Assessment

HNFHC assists each department in identifying risk, estimating and measuring risk, and examining and implementing appropriate methods to improve risk. Specialists have been trained within the Company to help carry out this initiative.

(2) Operational Risk Assessment Process

These procedures identify, evaluate and develop risk reduction tools to address operational (and legal risk) associated with new or changed proposals, and reputational risk. Related units participate in the assessment process and iron out a consensus on ways to limit risk. These measures are implemented after approval from relevant managers, achieving the goals of procedural transparency and lines of responsibility.

(3) Corporate Loss Database

This integrated database systematically assembles operations risk loss-related data within the Group and offers a wide variety of analysis for managers. This tool also provides a foundation for the future implementation of advanced methods in measuring and calculating economic capital.

(4) Key Operational Risk Control

This provides a comprehensive look at the operational risk and methods of management in key operational procedures within the Group. This tool also provides a minimum standard for internal controls and serves as reference for other operations risk management tools.

(5) Key Risk Indicator

These indicators detect any changes in potential operational risk for the Group and also provide a warning system. This tool offers time series trend analysis and when necessary triggers related mechanisms or measures to reduce operations risk.

5. Risk Integration

HNFHC is aggressively working to integrate the various types of risk encountered by each of its subsidiaries in their respective operations. The Company is planning to adopt economic capital methods to measure and categorize risk-based capital charges associated with credit risk, market risk, and operational risk. Coupled with the implementation of Hua Nan Commercial Bank's FTP system, this will accurately measure the risk-adjusted return on capital and economic profitability of each profit center. This will also lead to the most appropriate allocation and management of capital, enabling the Company to reach the target of creating the greatest shareholder value.

HNFHC and Hua Nan Commercial Bank have build up Transfer Pricing /

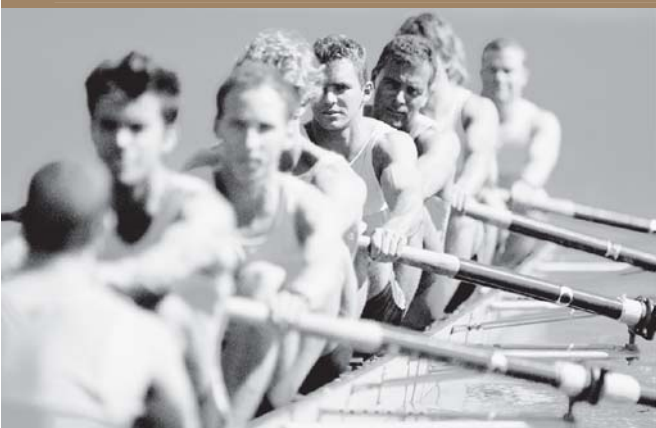
Performance Analyzer / Risk Manager system, which is being introduced with the implementation of the Bank's FTP system. The system will assist in calculating reasonable capital costs for each business units. In addition, an external consultant is providing assistance in introducing economic capital, risk-adjusted return on capital and economic profitability concepts and models. This will pave the way to begin tabulating market risk-related economic capital. More time will be needed to complete the collection of information for an internal rating system and loss database that will address credit risk and operations risk. It is anticipated that calculations for credit risk- and operational risk-related economic capital will begin in 3-5 years. At that time, HNFHC will be able to find the best balance between risk and reward, enabling it to implement a comprehensive risk management mechanism.

6. Asset and Liability Management

Asset and liability management serves as the starting point for business planning and enables the Company to draft and implement asset and liability allocation strategies based on defined exposure limits. Adjustments in the allocation of non-trading positions of assets and liabilities enable the Company to control on- and off-sheet non-trading position interest rate risk, liquidity risk and currency risk.

HNFHC has established policies and procedures, and is planning related risk measurement tools in its effort to establish a mechanism to manage assets and liabilities. Limits have been set out for all levels of managed units. In addition, management objectives, risk indicators, the setting of limits and control principles have been formulated. Meanwhile, HNFHC has established an assets and liabilities management committee to assist in related topics and to draft comprehensive strategies.

Hua Nan Commercial Bank (HNCB)



As of December 31, 2005 and 2006

Unit: in NT\$1,000

Income Statement (in NT \$thousands)	2006	2005
Net interest income	22,811,202	20,850,592
Net income excluding interest income	10,140,608	12,833,739
Gross income	32,951,810	33,684,331
Bad debt expenses (loan)	(8,670,214)	(7,828,764)
Operating expenses	(14,201,386)	(13,949,258)
Income before tax	10,080,210	11,906,309
Cumulative effect of change in accounting principles	1,173,089	-
Net income	8,973,966	9,402,733
Balance Sheet (in NT \$thousands)		
Total assets	1,589,724,805	1,587,911,395
Total liabilities	1,513,224,260	1,516,176,224
Total shareholders' equity	76,500,545	71,735,171
Ratio		
ROE	12.11%	13.75%
ROA	0.56%	0.61%
Tier I ratio		
Capital adequacy ratio	12.26%	12.13%
NPL ratio	1.99%	2.12%
Coverage ratio	50.13%	47.14%
Credit Ratings (long/short/outlook)		
Taiwan Ratings	twAA-/twA-1+/Stable (2007/6/7)	
Moody's Ratings	A3/P-1/Stable (2007/5/19)	
Fitch Ratings	BBB+/F2/Stable (2006/5/19)	

Brief History

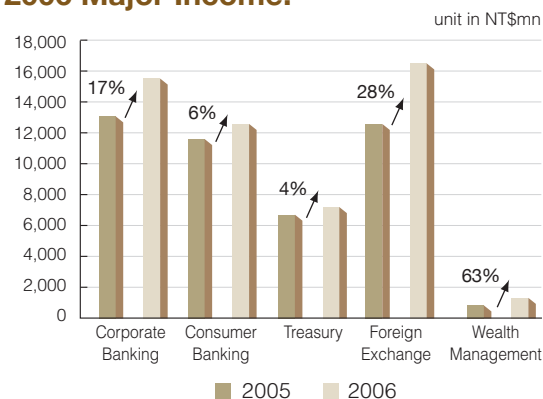
Hua Nan Commercial Bank (The Bank or HNCB), the largest subsidiary of Hua Nan Financial Holdings Company (HNFHC), was found in 1919. Since then, it has grown itself in tandem with the economic development of Taiwan. In 1998, a large number of government-owned shares were released (reduced from 58.76% to 31.35%, about 19% reduction from its original holdings), HNCB has therefore become a private sector. On December 19, 2001, it joined HNFHC through a share swap. Over the years, HNCB has accumulated nearly 5 million clients and 183 domestic outlets. As a household brand and with its strength in corporate banking, HNCB forms a solid foundation of HNFHC.

2006 Business Performance

Under the highly competitive environment, Hua Nan Commercial Bank still generate the well performance in following sectors:

1. Deposit: the average total deposit stood at NT\$1,246.93 billion, an increase of 6.2% from 2005.
2. Lending: the average outstanding loan stood at NT\$944.93 billion, a rise of 10% from last year.
3. balance of the personal financing stood at NT\$323.9 billion, a growth of 11.11% from 2005.
4. Foreign Exchange and International Banking: Foreign exchange business in 2005 amounted to US\$204.76 billion, a rise of US\$23.78 billion, or 13.14% rise from last year.
5. Electronic Banking: a total of 37.83 million of electronic banking transactions were handled, 18.8% increase from 2005. The value of the transactions (not including ATM cards) reached NT\$2.1 trillion, equivalent to a rise of 26.04% from last year. Fee income grew 79.7% in 2006 to NT\$130 million.
6. Financial Trading and Marketing:
 - (1) The net profit of Financial Trading Department generated NT\$2.82 billion in 2006, which was 23% above the Bank's target.
 - (2) Asset valuation income and cash dividends generated in 2006 from positions held of underwritten stocks amounted to NT\$208.6 million, an increase of NT\$194.8 million from 2005.
7. Wealth Management: wealth management generated NT\$1.154 billion of fee income, which was 25% higher than the Bank's goal for the year.

2006 Major Income:



unit in NT\$m

	2006		2005		change	
	Amount	%	Amount	%	Amount	%
Corporate Banking	15,487	27	13,246	25	2,241	17
Consumer Banking	12,435	21	11,753	22	682	6
Treasury	7,515	13	7,247	13	268	4
Foreign Exchange	16,561	29	12,915	24	3,646	28
Wealth Management	1,388	2	853	2	535	63

2007 Plan

1. HNCB employs CRM analysis and an sales force automation system to market financial products of the various subsidiaries of the financial holding company to different customer segments, creating joint marketing synergy.
2. The Bank is assessing the feasibility of introducing gold passbook operations and is looking for a financial industry counterpart with practical experience in these operations to engage in strategic cooperation.

Hua Nan Commercial Bank (HNCB)

- 3.HNCB is cooperating with HNFHC in introducing the "mobile personal finance" marketing plan in 2007, aiming to have various marketing activities boost the market share of the group's brokerage.
- 4.The Bank is planning to establish an online personal finance management center as part of its internet bank. This center will provide round-the-clock investment portfolio analysis and suggestions 365 days a year. The system will provide notification of stop-loss and profit-taking transactions. In addition to meeting the needs of customers, this service will boost our fee income.
5. HNCB will add a "spending deduction" function to its ATM card. Cardholders can use their cards not only to withdraw cash or transfer funds, but also have spending at various outlets deducted from their accounts using their ATM cards. This expands the applications available to the ATM cards and will satisfy the needs of the market for a wider range of payment tools. This will also increase the Bank's fee income.
- 6.HNCB intends to make wealth management operations a key pillar of business in 2007. The Bank will take advantage of its strong brand name, employees, products, marketing and systems to bolster its wealth management platform. It will also promote wealth management operations at its Hong Kong branch, offering services to customers throughout Greater China area.
- 7.The Bank will promote foreign exchange operations (including internet banking) in the Greater China area, expanding the volume of triangular trade.
- 8.HNCB will continue to hold activities to increase the number of foreign currency internet banking accounts. It will provide bonuses to business units and have related departments jointly promote introductory seminars in order to spark growth in the number of customers utilizing this service.
- 9.The Bank will continue to promote its internet bank foreign exchange operations, encourage customers to utilize the bulk outward remittance function, the salary transfer function and the import letter of credit/ repayment function. This will reduce manpower costs of the Bank.
- 10.As domestic ATM cards have now been imbedded with IC chips, the public can transfer funds or make payments online using their cards. HNCB is designing a comprehensive internet cash flow mechanism to allow the receipt and payment of funds via its internet ATM. This will raise the Bank's competitive edge in internet billing and provide a needed service to companies that seek a means to receive payments online.
- 11.HNCB will continue to promote its treasury marketing operations. It will strengthen the services provided to existing customers and develop new clients. The Bank will seek to cultivate corporate customers that need to carry out hedging or investment-related transactions. HNCB hopes to increase treasury and financial product transactions with its customers.
- 12.The Bank will aggressively develop and introduce new financial products, providing customers with a comprehensive range of products to meet their investment needs. Presently, it is focusing on interest rate-linked foreign currency structured products, NT dollar-denominated equity swaps and equity options, stock index-linked NT dollar structured products and the underwriting of capital market internationalized bonds.

Hua Nan Securities Co., Ltd.(HNS)



As of December 31, 2005 and 2006

Unit: in NT\$1,000

Income Statement (in NT \$thousands)	2006	2005
Revenue	3,370,950	2,758,458
Expense	(2,137,289)	(2,084,142)
Income before tax	1,233,661	674,316
Cumulative effect of change in accounting principles	10,936	-
Net income	1,001,115	426,686
Balance Sheet (in NT \$thousand)		
Total assets	22,114,724	21,454,490
Total liabilities	11,239,167	11,555,373
Total shareholders' equity	10,875,557	9,899,117
Ratio		
ROE	9.53%	4.26%
ROA	4.55%	1.93%
Capital adequacy ratio	370.25%	355.58%
Credit Ratings (long/short/outlook)		
Taiwan Ratings	twA/twA-1/Stable (2007/6/7)	

Hua Nan Securities Co., Ltd. (HNS)

Brief History

Entrust Securities (before joined into HNFHC) was established in August 1988 with NT\$200 million capital and focused solely on brokerage operations. Due to changes in the environment and the long-term development needs, Entrust had raised capitalization to \$1 billion and became an integrated securities company in 1990.

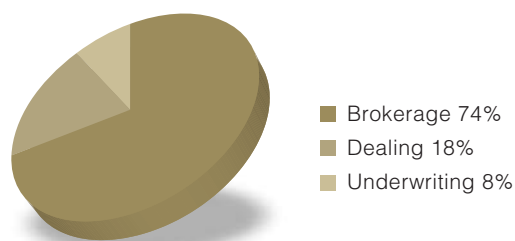
In order to strengthen competitiveness, Entrust's shareholders on November 14, 1991 approved a proposal to stage a share conversion with Hua Nan Commercial Bank in preparation to establish HNFHC. The conversion date was December 19, 1991 and 1.2821 Entrust shares were converted into 1 HNFHC share. Also, it renamed into Hua Nan Securities (HNS).

2006 Business Performance

The major business performance of HNS in 2006 was shown below:

1. Brokerage: 2006 average market share of HNS was 2.652%. Brokerage fee income stood at NT\$2,382 million, a 31.40% rise.
2. Dealing: profit of contributed by dealing operation (including financial products and futures dealing) in 2006 was NT\$321 million, 25.39% up from 2005.
3. Underwriting: HNS worked with 29 lead or co-lead underwriting contracts, 35 underwriting projects and be the custodian for 92 companies in 2006. Underwriting income for the year stood at NT\$249 million, a increase of 59.04% from last year.

2006 Major Income



2007 Plan

The relaxation of various securities and banking regulations in 2006 paved the way for the continued gradual liberalization of new types of banking products. Taiwan's major brokerages are embracing the competitive environment and are aggressively carrying out R&D and staff training. In 2007, HNS will carry out evaluation and planning of the following new products and services, in line with regulatory liberalization:

1. The government has encouraged brokerages to transform into investment banking operation, develop corporate restructuring, M&D and other financial advisory services, as well as engage in a wide range of broking and underwriting operations.
2. The government has liberalized regulations to allow brokerages to engage in wealth management business to broaden the range of investment tools domestically. HNS has filed an application to commence such business and has established a department that is responsible for promoting these operations.
3. HNS already offers sub-brokerage services for overseas mutual funds. This year, it is applying to begin operations as a sub-broker for Hong Kong stocks in order to provide better service to the investing public.
4. HNS is developing underwriting operations in the areas of subordinated debentures and asset-backed products.
5. HNS is designing and introducing warrants, asset swaps, structured products and other financial derivative products.
6. HNS is a market maker for futures, exchange traded funds and Taiwan stock index and individual stock options. HNS's Financial Products Department and Futures Dealing Division will continue to engage in market making activities to bolster trading of futures-related products.

7.To integrate the expertise of our Overseas Products Department, International Operations Department, Financial Products Department and Futures Dealing Division in carrying out arbitrage research and trading. The Information Department is developing program trading software for arbitrage and hedging. In conjunction with technical analysis tools, traders will be able to spot appropriate buy and sell points, enabling HNS to generate greater profits.

8.The Products Design Department is playing an important role in a special division in integrating all the securities, futures, domestic and foreign mutual fund and Hong Kong stocks sub-broking products on a single Internet platform. Products are divided into different categories based on risk and other factors. This platform provides information and facilitates trading by investors of the latest products. Sales staff can use this integrated platform to find appropriate products for specific customer groups, helping to boost sales.

9.In preparation for the future liberalization of cash management accounts, HNS is developing and establishing a securities customer account management system. This will enable sales staff to find potential customers, both on a corporate and retail basis, according to the preferences of specific products by various customer segments. The system will also provide a means to determine the profit of the customers' portfolio and their contribution to the Company.

10.HNS is drafting a proposal to combine the research units of the bank, securities and investment trust subsidiaries of HNFHC into a centralized research center under the investment consulting subsidiary. This new unit would provide both fundamental and technical analysis on global finance, the macroeconomic situation on Taiwan and overseas, industry analysis and research on individual companies.

Analysts will inform customers of the latest investment trends and specific sectors to avoid risk. In addition to providing investment publications and holding investment seminars on a regular basis, the unit will also provide investment advisory services and lending recommendations for Group units.

Hua Nan Bills Finance Corp. (HNBF)



As of December 31, 2005 and 2006

Unit: in NT\$1,000

Income Statement (in NT \$thousands)	2006	2005
Net interest income	405,847	374,915
Net Income excluding interest income	(170,535)	264,624
Gross income	235,312	639,539
Provisions	(93,869)	(1,270,239)
Operating expenses	(138,343)	(154,106)
Income before tax	3,100	(784,806)
Cumulative effect of change in accounting principles	78,910	-
Net income	5,042	4,459
Balance Sheet (in NT \$thousand)		
Total assets	53,223,165	56,653,963
Total liabilities	49,181,048	52,636,791
Total shareholders' equity	4,042,117	4,017,172
Ratio		
ROE	0.13%	0.11%
ROA	0.01¢H	0.01¢H
Capital adequacy ratio	11.08%	10.97%
Credit Ratings (long/short/outlook)		
Fitch Ratings	A/F1/Stable (2006/12/22)	

Brief History

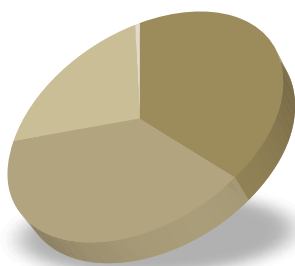
Central Bills Finance Corp. (before joined into HNFHC) was established in September 1996 with registered capital of NT\$2.528 billion. The major business lines are short-term bills and bond trading. On December 26, 2002, HNFHC invested in Central Bills Finance Corp. for NT\$2.3 billion to maintain a share holding of 57.49% while its subsidiary HNCB holding a 42.41% of shares. Central Bills Finance Corp became a subsidiary of HNFHC and changed the company name into Hua Nan Bills Finance Corp.

2006 Business Performance

The major business performance of Hua Nan Bills Finance was:

1. Guarantee : The issuance of guarantee amount of commercial paper in 2006 was NT\$115.52 billion, an increase of 14.48% from 2005's.
2. Bond Trading in the Secondary market : bond trading in 2006 amounted to NT\$5.49 trillion, a decline of 12.59% from 2005's.

2006 Major Income

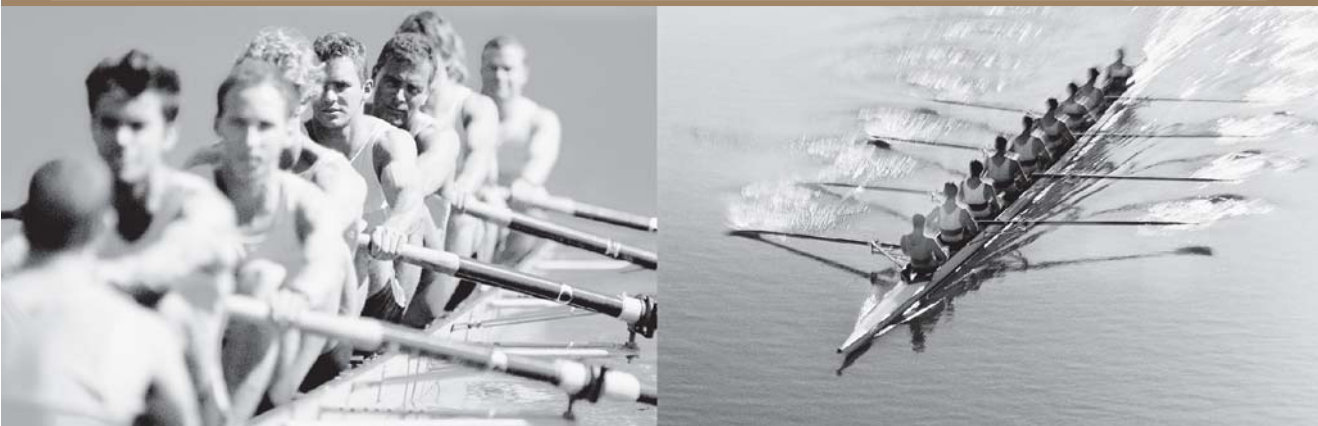


- Bills 39.23%
- Bonds 39.03%
- Others 21.12%
- Equity Investment 0.62%

2007 Plan

1. Strengthening contact with each broker, being aware of the latest market news and anticipating the direction of bonds.
2. Examining the state of bond positions and capital costs on a real-time basis, helping to boost operational performance.
3. Participating in convertible bond bookbuilding in the primary market and expanding asset swap operations.
4. Building an appropriate portfolio of stock and bond products to diversify investment risk.
5. Promoting cross-selling among HNFHC subsidiaries and providing comprehensive banking services.
6. Developing new financial products, diversifying development of operations and generating opportunities to register profits.
7. To strengthen guaranteed issuances of CP for outstanding companies, providing corporate with short-term working capital. In addition, to work with only the best firms order to bolster HNBF's credit quality and will also seek to maximize profits while shouldering the lowest amount of risk possible.
8. In addition to raising short-term capital via CP issuance, HNBF will also provide suggestions to companies for their medium- and long-term funding needs. It will also work together with HNCB to find appropriate opportunities in the syndicated loan market.
9. To provide education and training for employees to enhance long-term development of HNBF and to raise service quality.
10. To strengthen internal auditing and internal controls, rationalize operational procedures and enhance information systems in order to raise operational performance.

South China Insurance Co., Ltd.(SCI)



As of December 31, 2005 and 2006

Unit: in NT\$1,000

Income Statement (in NT \$thousands)	2006	2005
Operating income	9,862,871	9,749,880
Operating cost	(8,567,984)	(8,651,877)
Gross income from operations	1,294,887	1,098,003
Operating expense	(918,736)	(841,676)
Net operating income	376,151	256,327
Non-operating revenue	7,906	8,329
Non-operating expense	(1,139)	(1,416)
Income before tax	382,918	263,240
Cumulative effect of change in accounting principles	1,906	-
tax	(72,438)	(45,912)
Net income	312,386	217,328
Balance Sheet (in NT \$thousand)		
Total assets	8,233,672	8,080,731
Total liabilities	5,780,217	5,767,341
Total shareholders' equity	2,453,455	2,313,390
Ratio		
ROE	13.11%	9.40%
ROA	3.83%	2.77%
Capital adequacy ratio	789.16%	812.97%
Credit Ratings		
Taiwan Ratings	TWAA- (2006/11/14)	
A.M. Best Ratings	A- (2007/1)	

Brief History

South China Insurance Co. Ltd. (SCI) was established on May 1, 1963 with initial capital of NT\$30 million. Nowadays, South China Insurance cover the business scope in fire & allied named perils insurance, residential earthquake insurance, marine cargo insurance, marine hull insurance, fishing vessel insurance, fishing vessel third party liability insurance, inland transportation insurance, aviation insurance, motor physical damage insurance, motor third party liability insurance, motor theft insurance, compulsory motor insurance, compulsory motorcycle insurance, construction/erection all risk insurance, credit/guarantee insurance, liability insurance, Other property insurance, personal accident insurance, and Reinsurance. Furthermore, 7 branches and 28 representative offices are spread over Taiwan.

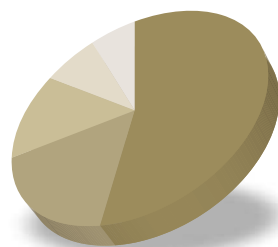
In face of the current financial industry trend, South China Insurance Co., Ltd. joined HNFHC as its affiliate in accordance with stock transformation on August 15, 2003.

2006 Business Performance

The major business performance of South China Insurance performs in 2006 were:

1. Total written premium income in 2006 were NT\$5.06 billion, a drop of 1.71% from last year. This breaks down as follows:
 - (1) Fire insurance premium were NT\$ 1,065 million, down by 0.29%.
 - (2) Marine insurance premiums were NT\$374 million, grow by 11.17%.
 - (3) Motor insurance premiums were NT\$2,949 million, up by 4.79%.
 - (4) Casualty insurance premiums were NT\$675 million, decline by 27.59%.
2. Reinsurance income in 2006 stood at NT\$307 million, increase of 2.34% from 2005.

2006 Major Income



- Motor 54%
- Fire 20%
- Casualty 13%
- Marine 7%
- Reinsurance income 6%

2007 Plan

1. To establish a customer relationship management mechanism and to improve the customer service system, raising customer loyalty and increasing customer added value.
2. To establish a dedicated broker system and to provide education and training for the staff, increasing the professional expertise of employees. SCI will also implement a broker productivity rating system.
3. SCI is strengthening the "product/network development team" mechanism. In addition to developing new products in conjunction with other HNFHC subsidiaries, SCI will develop new products to meet the needs of specific customers. This range of products will increase added value to the Company's product line.
4. To enter into strategic alliances with companies in other industries, helping to expand marketing avenues, increasing sources of new customers, raising the sales of cross selling and boosting revenue.
5. To continue to work with subsidiaries of HNFHC in cross selling, helping to boost Group-wide operational performance, utilize capital effectively and increase revenues.
6. To establish the overseas offices.

Hua Nan Investment Trust Corp. (HNITC)



As of December 31, 2005 and 2006

Unit: in NT\$1,000

Income Statement (in NT \$thousands)	2006	2005
Operating income	130,976	250,474
Operating expense	(131,772)	(145,916)
Net operating income	(796)	104,558
Non-operating revenue	55,399	8,883
Non-operating expense	(1,479,186)	(95,801)
Income before tax	(1,424,583)	17,640
Cumulative effect of change in accounting principles	9,652	-
Net income	(1,420,756)	(20,767)
Balance Sheet (in NT \$thousand)		
Total assets	539,407	3,611,507
Total liabilities	26,403	3,227,746
Total shareholders' equity	513,004	383,761
Ratio		
ROE	(316.86%)	(4.63%)
ROA	(67.13%)	(0.83%)

Brief History

Entrust Investment Trust Corp. was established in 1992. As Taiwan's financial holding companies enter a new age, the keys to success will be understanding the latest developments in financial markets and strengthening competitiveness, therefore, Entrust Investment Trust Corp. joined to be a subsidiary of HNFHC at August 15, 2003 and re-named 華南投資信託股份有限公司 (HNITC)

2006 Business Performance

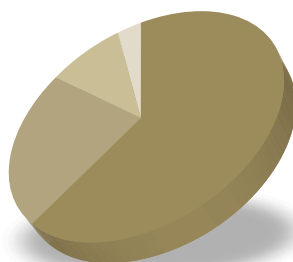
The business performance of HNITC in 2006 was shown in following:

1. Equity Fund : The size of equity funds at the end of 2006 was NT\$ 6,956 million, a increase of 252.2% from 2005.
2. Fixed Income Funds : the size of fixed income funds at the end of 2006 was NT\$29,273 million, a rise of 3.32% from last year.
3. Discretionary Trading: Funds entrusted for discretionary trading at the end of 2006 stood at NT\$1,537 million, a up of 21.79% from 2005.

2007 Plan

Hua Nan Investment Trust Corp. (HNITC) continuously develops and serves as an agent for new financial products that meet the needs of customers and market trends. HNITC's broad product line is aimed at satisfying the different personal finance requirements of different customer segments. In 2007, HNITC created a slate of overseas mutual fund products and delved into new areas of business, seeking to further round out its product line and to differentiate itself from industry counterparts. HNITC also focuses on boosting its performance in asset management, with the objective of having the performance of each of its funds rank in the top one-third of funds of the same nature. HNITC aims to have its funds win awards for their outstanding returns and seeks to become a Greater China asset management company, hoping that it will be the brand name of choice for customers.

2006 AUM Distribution



- Fixed Income 64%
- Equity 24%
- Discretionary Trading 9%
- Fee Income 3%

Hua Nan Venture Capital Co., Ltd. (HNVC)

Hua Nan Management & Consulting Co., Ltd. (HNMC)



HNVC

As of December 31, 2005 and 2006

Unit: in NT\$1,000

Income Statement (in NT \$thousands)	2006	2005
Operating Income	7,547	5,907
Operating expenses	(20,700)	(20,605)
Net operating loss	(13,153)	(14,698)
Non-operating revenue	11,562	6,427
Non-operating expense	(15,858)	-
Loss before tax	(17,449)	(8,271)
Net loss	(17,449)	(4,810)
Balance Sheet (in NT \$thousand)		
Total assets	974,337	984,203
Total liabilities	107	90
Total shareholders' equity	974,230	984,113
Ratio		
ROE	(1.78¢H)	(0.49¢H)
ROA	(1.78¢H)	(0.49¢H)

HNMC

As of December 31, 2005 and 2006

Unit: in NT\$1,000

Income Statement (in NT \$thousands)	2006	2005
Operating Income	19,292	19,263
Operating expenses	(16,093)	(15,150)
Net operating income	3,199	4,113
Income before tax	3,199	4,113
Net income	2,262	3,109
Balance Sheet (in NT \$thousand)		
Total assets	16,865	17,084
Total liabilities	3,900	3,584
Total shareholders' equity	12,965	13,500
Ratio		
ROE	17.10¢H	22.68¢H
ROA	13.33¢H	18.22¢H

Brief History

Hua Nan Venture Capital (HNVC) was established on January 28, 2004. The company was established as a way to diversify Hua Nan Financial Holdings services and resources. HNVC primarily invests in early stage high tech and biotech companies in the Asia Pacific region, primarily in Taiwan, and in the United States.

Hua Nan Management & Consulting (HNMC) was established on February 5, 2004 in partnership with ChengXin Venture Capital Group. The company manages its venture capital fund which focuses on investments into early stage high tech and biotech companies in the Asia Pacific region, primarily in Taiwan, and in the United States. HNMC also advises its investment portfolio companies on business model analysis, financial management, and strategic planning.

2006 Business Performance

For the year 2006, HNVC invested 10 projects and totaling NT\$275 million. HNMC had provided assessment on 152 potential investment projects, forwarding 13 to the board of director of HNVC for consideration. 10 of those were approved, with an investment amount totaling NT\$312 million.

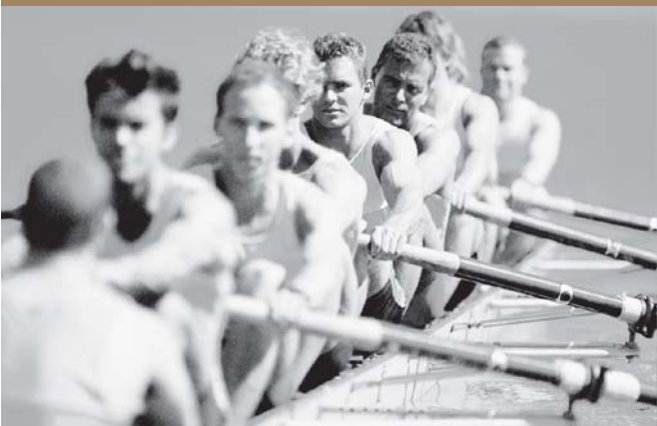
2007 Plan

In 2007, Hua Nan Venture Capital is expected to invest NT\$200 million, with NT\$150 million to be funneled into about six new investment projects. The remaining NT\$50 million will be used to increase investment in existing projects. By the end of the year, total investment is expected to stand at about NT\$700 million. The first three years of operation for the Company were tabbed as a period in which to establish an investment portfolio. As the nature of investment by venture capital funds is high risk high reward, it is not uncommon for projects to yield returns at a slower pace than other

investments. Hua Nan's investment portfolio is mainly comprised of firms that are in the expansion phase. Most will have to wait until 2008 before they reach the scale qualifying them to list on the market. However, several may successfully list on the over-the-counter market in 2007, which will offer an opportunity to realize profits. In 2007, Hua Nan Venture Capital anticipates investment income of about NT\$24 million. After factoring in interest income and expenses, profits for 2007 are expected to be about NT\$8 million.

Hua Nan Management & Consulting's primary business is venture capital fund management. Income is mainly derived from management income and profit sharing. The scale of the fund under management has yet to grow as the investment portfolio of Hua Nan Venture Capital is still in the phase of being established and returns have yet to be realized. For the time being, the Company does not expect income from profit sharing. Therefore, Hua Nan Management & Consulting's main income in 2007, at about NT\$19.05 million, will come from fund management. Operating expense, amounting to about NT\$18.68 million, is mainly comprised of personnel expense and other operational expenditures. The Company expects net profit for 2007 of around NT\$254,000.

Hua Nan Asset Management Company (HNAMC)



As of December 31, 2005 and 2006

Unit: in NT\$1,000

Income Statement (in NT \$thousands)	2006	2005
Revenue	76,701	-
Expense	(62,174)	(11,578)
Income	14,527	(11,578)
Non-operating revenue	1,129	6,944
Non-operating expense	(8,432)	(190)
Income before tax	7,224	(4,824)
Net income	6,232	(4,908)
Balance Sheet (in NT \$thousand)		
Total assets	2,082,135	996,743
Total liabilities	1,080,810	1,651
Total shareholders' equity	1,001,325	995,092
Ratio		
ROE	0.62%	(0.49%)
ROA	0.80%	(0.48%)

Brief History

HNAMC, one of HNFHC's subsidiaries, was established on May 10, 2005. The registered capital is NT\$ 4 billion, and the volume of the paid-in capital is NTD\$1 billion at present. The establishment of the assets management company is to maximize the return of Non-Performing Loan and to resolve the insufficient fluidity of financial system. HNAMC gradually fulfills HNFHC's financial enterprise domain. Not only help improve the quality of financial groups' asset efficiently, we also manage both non-performing loan and REO in domestic market and overseas with great enthusiasm and aggressiveness. With financial advisory professionals and the sound knowledge in assets management field, HNAMC is able to serve clients' need and even to exceed their expectation. We believe it is the necessary footstone to broaden the group's global business in assets management field by great connection to international investment banks. HNAMC's ultimate goal is to be one of the leading investment banks in the global financial market.

2006 Business Performance

1. NPL Acquisition (Acquisition of Financial Institution Distressed Assets): The portfolio HNAMC purchased has reached NT\$10.5 billion. The net collection at the same year was approximately NT\$ 50 millions.
2. Handling Distressed Loans or Assets on Behalf of Financial Institutions or Other Asset Management Companies: HNAMC has been entrusted with the total amount of NT\$16 billion distressed loans and assets by other multi-national financial institutions. The accumulated income on management and accomplishment fee was around NT\$26.72 million.
3. Real Estate Direct Investment by Auction Bid: In the year 2006, HNAMC bid three commercial real estate properties in auction market. This kind of direct

investment could not only create a constant monthly income from rents received, but also expected growing spreads in the near future.

2007 Plan

The 2007 business plan would be:

1. To continue to take part in auctions of distressed assets held by both HNFHC Group firms and outside companies, and to provide follow-up asset management.
2. To expand its sources and methods of acquiring distressed assets.
3. To continue to map out and introduce new types of operations, such as property management and the planning and preparation of asset-backed securities.

Financial Statements

2006 ANNUAL REPORT



INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

Hua Nan Financial Holdings Co., Ltd.

We have audited the accompanying consolidated balance sheets of Hua Nan Financial Holdings Co., Ltd. and subsidiaries (collectively, the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Hua Nan Financial Holdings Co., Ltd. and subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Financial Holding Companies, Governing the Preparation of Financial Reports by Securities Issuers, Guidelines Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Publicly Held Bills Finance Companies, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial and Operational Reports by Enterprises Engaging in Non-life Insurance, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China (ROC).

As described in Note 3, the financial instruments of Hua Nan Financial Holdings Co., Ltd. are measured in compliance to the Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments" and No. 36, "Presentation and Disclosure for Financial Instruments" and related revisions of previously released SFASs.

January 30, 2007

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

Financial Statements

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

ASSETS	2006	2005	Percentage of Variation
	Amount	Amount	%
Cash and cash equivalents	\$ 40,385,806	\$ 44,545,442	(9)
Due from the Central Bank and other banks	147,516,871	145,254,012	2
Financial assets at fair value through profit or loss, netBonds and bills purchased under resale agreements	59,781,895	84,332,602	(29)
	4,783,854	3,803,997	26
Receivables, net	42,475,143	42,195,254	1
Discounts and loans, net	1,020,285,842	941,918,773	8
Available-for-sale financial assets, net	130,931,832	109,392,647	20
Held-to-maturity financial assets, net	165,990,992	238,708,973	(30)
Investments accounted for using equity method	92,615	80,806	15
Other financial assets, net	12,316,790	14,005,854	(12)
Investments in real estate ,net	123,728	124,560	(1)
Property and equipment, net	25,612,822	24,980,712	3
Intangible assets	573,218	461,201	24
Other assets, net	23,701,854	24,710,115	(4)
TOTAL	\$ 1,674,573,262	\$ 1,674,514,948	-

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

(With Deloitte & Touche audit report dated January 30, 2007)

LIABILITIES AND STOCKHOLDER'S EQUITY	2006	2005	Percentage of Variation
	Amount	Amount	%
Due to the Central Bank and other banks	\$ 95,002,930	\$ 132,274,360	(28)
Commercial paper Issued, net	3,968,170	1,289,661	208
Financial liabilities at fair value through profit or loss	35,133,129	35,148,955	-
Bonds and bills sold under repurchase agreements	59,404,975	61,895,686	(4)
Payables	51,575,518	59,409,341	(13)
Deposits and remittances	1,274,405,863	1,241,438,886	3
Bank debentures payable	45,650,000	34,000,000	34
Other borrowing	3,639,057	4,735,000	(23)
Accrued pension liability	803,449	524,039	53
Other financial liabilities	822,743	506,953	62
Reserve for operations	5,905,540	5,915,136	-
Other liabilities	7,563,506	7,799,698	(3)
Total Liabilities	1,583,874,880	1,584,937,715	-
STOCKHOLDERS' EQUITY			
Capital stock	59,702,086	59,702,086	-
Capital surplus	12,408,866	12,408,866	-
Legal reserve	3,100,052	2,147,366	44
Special reserve	111,017	111,017	-
Unappropriated earnings	10,358,277	11,861,021	(13)
Reserve for asset revaluation increment	3,403,045	3,403,045	-
Cumulative translation adjustments	(62,903)	(67,023)	(6)
Unrealized gains or losses on valuation of financial assets	1,667,226	-	-
Total parent stockholders' equity	90,687,666	89,566,378	1
MINORITY INTEREST	10,716	10,855	(1)
Total stockholders' equity	90,698,382	89,577,233	1
TOTAL	\$ 1,674,573,262	\$ 1,674,514,948	-

Financial Statements

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006	2005	Percentage of Variation
	Amount	Amount	%
INTEREST INCOME	\$ 48,435,475	\$ 41,711,279	16
INTEREST EXPENSE	(24,613,240)	(19,996,032)	23
INTEREST INCOME, NET	23,822,235	21,715,247	10
NET INCOME (LOSS) EXCLUDING INTEREST INCOME			
Service fee and commissions income, net	5,837,484	5,389,949	8
Income from insurance premiums, net	1,156,004	1,556,563	(26)
Gains on financial assets and liabilities at fair value through profit or loss	1,733,481	2,280,474	(24)
Realized gains of available-for-sale financial assets	223,026	131,014	70
Income from investments accounted for using equity method	11,810	762	1,450
Income from investments in real estate	5,039	7,120	(29)
Foreign exchange gains, net	1,023,989	903,909	13
Other non-interest income	2,234,272	4,960,153	(55)
GROSS INCOME	36,047,340	36,945,191	(2)
BAD-DEBT EXPENSES FROM LOANS	(8,670,235)	(7,829,238)	11
PROVISIONS FOR THE INSURANCE RESERVE	(15,628)	(332,171)	(95)
OPERATING EXPENSES			
Personnel	(10,837,645)	(10,487,666)	3
Depreciation and amortization	(1,187,525)	(1,159,232)	2
Other general and administrative expenses	(5,951,069)	(5,949,822)	-
CONSOLIDATED INCOME BEFORE INCOME TAX FROM CONTINUING OPERATIONS	9,385,238	11,187,062	(16)
INCOME TAX EXPENSE	(2,715,327)	(1,658,962)	64
CONSOLIDATED INCOME AFTER INCOME TAX FROM CONTINUING OPERATIONS	6,669,911	9,528,100	(30)
CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES	1,282,155	-	-
CONSOLIDATED NET INCOME	\$ 7,952,066	\$ 9,528,100	(17)

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

		2006	2005	Percentage of Variation
		Amount	Amount	%
ATTRIBUTABLE TO				
Parent company		\$ 7,951,076	\$ 9,526,859	(17)
Minority interest		990	1,241	(20)
		<u>\$ 7,952,066</u>	<u>\$ 9,528,100</u>	(17)

		2006		2005	
		Pretax	After-tax	Pretax	After-tax
BASIC EARNINGS PER SHARE					
Net income before cumulative effects of changes in accounting principles		\$ 1.57	\$1.12	\$ 1.87	\$ 1.60
Cumulative effects of changes in accounting principles		0.22	0.21	-	-
Net income		<u>\$ 1.79</u>	<u>\$ 1.33</u>	<u>\$ 1.87</u>	<u>\$ 1.60</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 30, 2007)

Financial Statements

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	Common Stock	Capital Surplus			
		Additional Paid-in Capital	Treasury Stock	Donated Assets Received	Other Reserve
BALANCE, JANUARY 1, 2005	\$ 55,796,342	\$ 12,352,244	\$ 52,361	\$ 2,936	\$ 2,076
Appropriation of 2004 earnings					
Legal reserve	-	-	-	-	-
Special reserve	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-
Employees bonus	-	-	-	-	-
Cash dividends	-	-	-	-	-
Stock dividends	3,905,744	-	-	-	-
Translation adjustments on investments accounted for using equity method	-	-	-	-	(751)
Net income in 2005	-	-	-	-	-
BALANCE, DECEMBER 31, 2005	59,702,086	12,352,244	52,361	2,936	1,325
Appropriation of 2005 earnings					
Legal reserve	-	-	-	-	-
Special reserve	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-
Employees bonus	-	-	-	-	-
Cash dividends	-	-	-	-	-
Translation adjustments on investments accounted for using equity method	-	-	-	-	-
Net income in 2006	-	-	-	-	-
BALANCE, DECEMBER 31, 2006	<u>\$ 59,702,086</u>	<u>\$ 12,352,244</u>	<u>\$ 52,361</u>	<u>\$ 2,936</u>	<u>\$ 1,325</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 30, 2007)

H E A R T

HONESTY / EFFICIENCY / ACTIVENESS / RESPONSIBILITY / TEAMWORK

	Retained Earnings			Equity Adjustments			Minority Interest	Total
	Legal Reserve	Special Reserve	Unappropriated Earnings	Revaluation Increments on Assets	Cumulative Translation Adjustments	Unrealized Gains (Loss) on Financial Instruments		
	\$ 1,070,177	\$ 9,494	\$ 11,435,643	\$ 4,184	\$(111,016)	\$ -	\$ 11,024	\$ 80,625,465
	1,077,189	-	(1,077,189)	-	-	-	-	-
	-	101,523	(101,523)	-	-	-	-	-
	-	-	(95,932)	-	-	-	(45)	(95,977)
	-	-	(15,349)	-	-	-	(280)	(15,629)
	-	-	(3,905,744)	-	-	-	(1,085)	(3,906,829)
	-	-	(3,905,744)	-	-	-	-	-
	-	-	-	3,398,861	43,993	-	-	3,442,103
	-	-	9,526,859	-	-	-	1,241	9,528,100
	2,147,366	111,017	11,861,021	3,403,045	(67,023)	-	10,855	89,577,233
	952,686	-	(952,686)	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	(85,742)	-	-	-	(34)	(85,776)
	-	-	(13,719)	-	-	-	(224)	(13,943)
	-	-	(8,358,292)	-	-	-	(871)	(8,359,163)
	-	-	(43,381)	-	4,120	1,667,226	-	1,627,965
	-	-	7,951,076	-	-	-	990	7,952,066
	<u>\$ 3,100,052</u>	<u>\$ 111,017</u>	<u>\$ 10,358,277</u>	<u>\$ 3,403,045</u>	<u>\$(62,903)</u>	<u>\$ 1,667,226</u>	<u>\$ 10,716</u>	<u>\$ 90,698,382</u>

Financial Statements

HUA NAN FINANCIAL HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 7,952,066	\$ 9,528,100
Cumulative effects of changes in accounting principles	(1,282,155)	-
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	1,187,525	1,159,232
Income from investments accounted for using equity method	(11,810)	-
Bad-debt expenses for loan	8,670,235	7,829,238
Provisions for insurance reserves	42,663	434,861
Gain on disposal of assets	(109,691)	(176,950)
Net changes in operating assets and liabilities		
Other assets	(286,760)	361,339
Accrued pension liability	286,460	118,766
Deferred tax asset decrease	1,814,772	1,016,158
Receivables	(297,292)	(5,161,040)
Financial assets at fair value through profit or loss	25,928,005	6,061,853
Payables	(7,830,549)	11,376,399
Financial liabilities at fair value through profit or loss	(17,919)	2,082,348
Other liabilities	(61,350)	25,446
Other financial liabilities	315,790	(284,537)
Others	623,138	745,194
Net cash provided by operating activities	<u>36,923,128</u>	<u>35,116,407</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in bonds and bills purchased under resale agreements	(979,857)	(639,665)
Increase in due from the Central Bank and other institutions	(2,262,859)	(17,889,648)
Increase in discounts and loans	(87,037,325)	(63,950,633)
Decrease in other financial assets	592,583	2,258,381
Increase in available-for-sale financial assets	(20,127,139)	(23,975,426)
Proceeds from held-to-maturity financial assets	72,717,981	24,852,190
Proceeds from sale of properties	249,368	535,005
Acquisition of properties	(998,991)	(985,604)
Increase in other assets	(517,037)	(1,134,759)
Net cash used in investing activities	<u>(38,363,276)</u>	<u>(80,930,159)</u>

(Continued)

	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in other loans	(1,095,943)	315,125
(Decrease) increase in due from the Central Bank and other institutions	(37,271,430)	34,137,012
Increase in deposits and remittances	32,966,977	30,775,344
Increase in bond and bank debenture payable	11,650,000	-
Increase (decrease) in commercial paper payable	2,678,509	(1,199,479)
(Decrease) increase in bonds and bills sold under repurchase agreement	(2,490,711)	562,890
Bonuses paid to directors and employees	(635,997)	(690,966)
Cash dividends paid	(8,359,115)	(3,907,440)
Decrease in other liabilities	(161,778)	(1,296,902)
Net cash (used in) provided by financing activities	(2,719,488)	58,695,584
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$(4,159,636)	\$ 12,881,832
EFFECT OF INITIAL CONSOLIDATION OF SUBSIDIARIES	-	1,426,894
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	44,545,442	30,236,716
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 40,385,806</u>	<u>\$ 44,545,442</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 24,086,489</u>	<u>\$ 19,562,493</u>
Income tax paid	<u>\$ 1,717,636</u>	<u>\$ 1,234,044</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 30, 2007)

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