

ANNUAL REPORT

2004



中華開發金融控股公司

CHINA DEVELOPMENT FINANCIAL HOLDING CORPORATION

## Financial highlights

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China Development Financial Holding Corporation. (CDFH) was incorporated in Dec. 2001 through a share swap with China Development Industrial Bank Inc. (CDIB). Major subsidiaries under CDFH include CDIB and Grand Cathay Securities (GCS). CDIB's main areas of business are as follows: wholesale banking, direct investments, proprietary securities trading, trust, project finance and asset management. GCS is a fully integrated securities firm providing institutional clients and retail customers with financial services focused on securities brokerage, proprietary trading, underwriting, registrar and transfer services and derivatives

<http://www.cdibh.com/>

Unit: NT\$Million, except NT\$ for per share information

	2004	2003
Total Shareholder Return <sup>(1)</sup>	( 7.83%)	32.19%
Share Price (Year End Closing)	15.30	16.60
Total Revenue	15,008	14,433
Net Income	( 4,764)	( 13,041)
Earnings per Share <sup>(3)</sup>	( 0.54)	( 1.40)
Total Assets <sup>(2)</sup>	260,377	265,026
Shareholders' Equity <sup>(2)</sup>	118,406	114,971
Other information		
Overdue Loan Ratio	1.55%	1.22%
Capital Adequacy Ratio	223.60%	150.12%
Long-term Credit Ratings		
Taiwan Ratings	twA+	twAA-
Standard & Poor's	BBB	BBB
Short-term Credit Ratings		
Taiwan Ratings	twA-2	twA-1
Standard & Poor's	A-3	A-3

(1) Total Shareholder Return = (Year-end Share Price - Beginning Share Price + Cash Dividends) / Beginning Share Prices; all Share Prices are fully adjusted for stock dividends issued; cash dividends are not re-invested in shares.

(2) Referred to as year end information.

(3) As there was a change in accounting methods in 2004 the earnings per share for 2003 was also adjusted to incorporate this change.

# 凝聚 Synergy

With the integration of our two main subsidiaries - China Development Industrial Bank (CDIB) and Grand Cathay Securities Corporation (GCSC), we aim to maximize CDFH's group synergy through greater collaboration





*Envision - one out of every forty pedestrians you bypass on the street may be a shareholder of China Development Financial Holding Corporation (hereinafter "the Company" or "CDFH"). The generous support of our 600,000 shareholders is such a precious asset that it impels us to improve our competitiveness and to deliver good returns. With a new management team brought in April 2004, the Company has focused its efforts on transforming, as well as integrating our two subsidiaries - China Development Industrial Bank (hereinafter the Bank or CDIB) and Grand Cathay Securities Corporation (hereinafter "the Securities" or "GCSC"); aiming to develop CDFH into one of Greater China Region's leading investment banks.*



Mu-Tsai Chen, Chairman (right), Angelo J.Y. Koo, President & CEO (Left)

### New Management

While 2004 proved to be a challenging year for CDFH, it also created plenty of opportunities for turnaround and transformation. With the election of a new Board of Directors in April 2004, we secured shareholder stability and have since experienced a steady infusion of professional talent to manage and direct CDFH's growth. Under the new management, we have launched a series of restructuring programs to improve the Company's competitiveness. We have also formulated a long-term development strategy that builds on the Company's core competence in institutional finance, as well as having developed a business model that aims to make CDFH one of Asia's better-known and better-managed investment banks.

### New Organization

To procure synergies, CDFH has, upon the joining of the new management, stepped up the pace of corporate restructuring and integration of internal operations. Functional reporting was introduced to boost collaboration among subsidiaries, and cross-referrals and joint-customer calls are encouraged to offer our clients more comprehensive and diversified services. Furthermore, the concept of economic profit has been reinforced with each business unit responsible for its own capital costs and meeting earnings expectations.

### New Beginning

To fully reflect its asset quality, enhance overall transparency within the financial group and improve bank management and corporate governance, CDIB conducted a thorough evaluation of its existing direct investment portfolio in the first half of 2004. While this resulted in the Bank's booking of an investment loss provision of NT\$10.87 billion and CDFH's subsequently posting a full-year net loss of NT\$4.764 billion (or net loss of NT\$0.54 per share), yielding negative ROA and ROE of 3.34% and 4.08% respectively, the provisioning has helped to improve the company's financial transparency and asset quality and hence, long-term profitability. At the same time, we have adjusted our investment focus to by adding investments in steadily growing companies in both high-tech and non-tech sectors to reduce portfolio risks and volatility.

Standard & Poor's, as a result, granted CDFH the long-term credit rating of BBB/Stable and the short-term credit rating of A-3.

### New Corporate Culture

We believe that "change" is the only way for company procession and that "people" are preeminent to bringing about positive change. In 2004, CDFH conducted a thorough review of our compensation scheme and overhauled the system to reward personnel based on their position, responsibilities and accountability. This was done in order to enhance the Company's competitiveness in enlisting and maintaining talents. A 360-degree appraisal system that allows employees to rate their colleague's work and

an employee training center designed to host on-the-job training sessions and seminars have been established to help employees evaluate their performance as well as improve and enhance their professional skills. In addition, we have always striven to maintain an open channel to encourage communication and interaction between management and employees.

### New Strategies

In the wake of reforms initiated in 2004, CDFH has grown into a fundamentally healthier, more financially sound entity. We are committed to continuing these reforms and have adopted a set of strategies to secure mid-to-long term business growth.

### Pursuit of a More Balanced Revenue Mix -

An intensifying market environment has resulted in a decrease in direct investment deal flows as well as debilitating investment returns. The management has thus been looking to shift the currently venture capital-focused business model to one that relies less on capital gain and provides a more diversified earnings stream. Such revamping of the revenue mix will hopefully help reduce earnings volatility by adding new sources of dividend and fee income and expanding investment banking operations.

### Expansion of Corporate Banking / Securities Business -

In trying to change the balance of revenue mix, CDIB and GCSC, the two subsidiaries of CDFH, have actively expanded the corporate banking and the securities business, respectively. CDIB attractively incremented its securitization business and considerably raised its exposure to novel financial products. GCSC has followed suit and has vigorously upturned activities in the newly established Private Wealth Management business. Aside from such, GCSC is also looking for potential M&A opportunities to increase not only its market share, but also its market competitiveness.

### Optimization of Capital Efficiency -

Further to changing the revenue mix, CDFH will continue to optimize the allocation of both assets and liabilities, as well as to leverage outside capital to ameliorate capital adequacy and efficiency. Other issues important to the management include risk management, financial control and management, all of which are to enhance the transparency of operations and to implement high standards of corporate governance.

### A Promising Future

The year 2004 was a pivotal period for the Company, marked by crucial transformation and turnaround. We take pride in the strong reputation and international prestige that CDFH has enjoyed for decades and will continue to seek out new business models and strategies to thrive in this ever-changing environment. We believe that with the support of our staff and shareholders, we will be able to pursue our strategy of creating maximum value for shareholders and aspire to become one of Asia's most professional and best-managed investment banks in the upcoming future.

Best regards,

Chairman

Mu-Tsai Chen

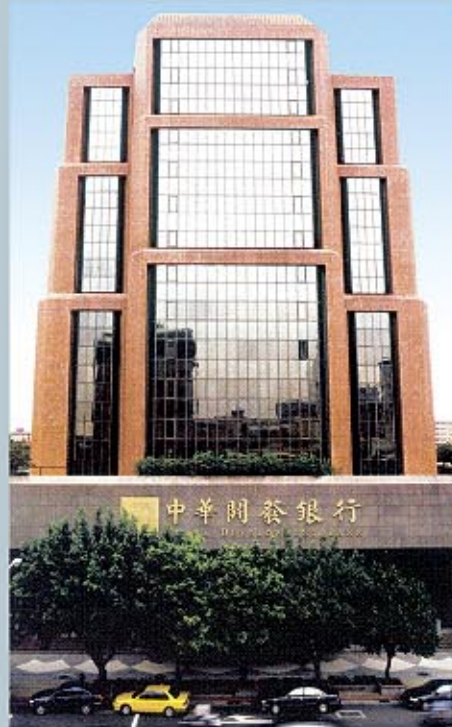
President and CEO

Angelo J. Y. Koo

June 15 2005



## List of directors and supervisors



### CHAIRMAN

Mu-Tsai Chen  
The International Commercial Bank of China

### MANAGING DIRECTORS

Angelo J.Y. Koo  
Chien Ta Investment Co., Ltd.

Dr. C. Daniel Wu  
Grand Pacific Petrochemical Corp.

Alan Wang  
Chi Chie Investment Co., Ltd.

Dr. C.Y. Cyrus Chu

Kou-I Yeh  
Fulltime Investment Corp.

Sing-Ju Chang  
Yuen Foong Yu Paper MFG. Co., Ltd.

### DIRECTORS

Min-Hsun Chen  
LiLontex Corporation

Fu-Lin Chen  
Minlead Ltd.

Fung-Shyun Shiau  
Ye Chen Investment Co., Ltd.

Han-Ton Lim  
Peck's Holding Ltd.

Chin Lin  
Yao-Hwa Glass Co., Ltd. Management Commission

Carolyn Yeh Shih  
Acer Investment Inc.

Sam S. Chen  
Bank of Taiwan

Ching-Jen Chen  
Yao-Hwa Glass Co., Ltd. Management Commission

Yeou Tsair Tsai  
The International Commercial Bank of China

Shing-Shiang Ou  
Bank of Taiwan

Lawrence S. Liu  
Kai Tung Investment Co., Ltd.

Gilbert Bao

Sherie Chiu  
KGI Securities Co., Ltd.

Chao Chin Tung  
GPPC Chemical Co., Ltd.

### RESIDENT SUPERVISOR

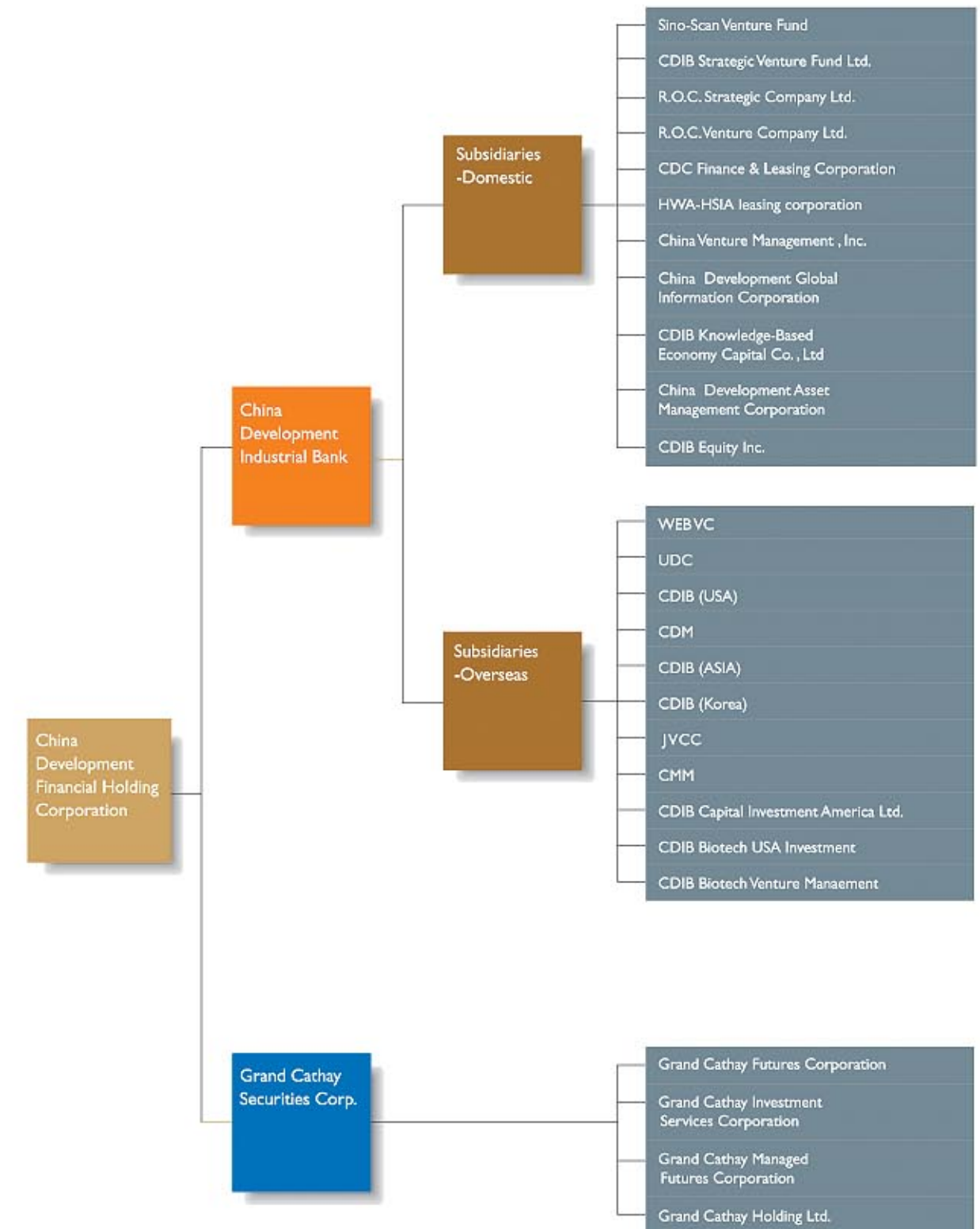
Tain-Jy Chen

### SUPERVISORS

Yi-Yi Tai  
Chunghwa Post Co., Ltd.

Yu Ling Kuo  
China Life Insurance Co., Ltd.

## Organization Tree



# 定位 Navigation

With the goal to becoming one of Asia's better-known and better-managed investment banks, we look to develop a business model that will bring full-line services to our clients and attain substantial value for our shareholders







## China Development Industrial Bank (CDIB)

### Core Businesses

#### Domestic Direct Investment



As a financial institution devoted to providing equity financing, CDIB's total direct investments (domestic and overseas combined) stood at NT\$106.3 billion as of December 31st, 2004. With 325 invested companies in the domestic account, the Bank's not only a market leader with over 30% market share locally, but also boasts a portfolio with the largest scale and investment returns in Taiwan. Going forward, it will not only continue to look for investment targets with good potentials but will also increase involvements in non-tech industries that are characterized by steadier income stream.

With over 40 years of investment experience and a team of over 60 professionals, CDIB has unrivalled competitiveness in Taiwan with an extensive network and solid industry knowledge accumulated over the years. CDIB is regarded as a market pioneer for its unrivalled sourcing and identification of investment opportunities as well as its ability to seek out industries with future growth potential. As market competition grows increasingly sharp, CDIB uses its industry knowledge and client base accumulated over the years to its best advantage, engaging a holistic and integrative strategy for investment, and working with industry upstream and downstream as well as companies across all industries.



Jeffery Suen, President of CDIB

Our portfolio primarily includes investment in electronics and components, PC & telecommunications and semiconductors. In addition, CDIB has recently added investment in new growth areas such as wireless communication, displays, energy, consumer electronics and medical devices, as well as auto parts & components. To name a few successes that were added to the portfolio this year:

- King Slide Works, Co., Ltd., a top slide producer in Taiwan which has received orders from the world's top four server companies in recent years, ushering in rapid growth in profits.
- K Laser Technology, Inc., the top laser holographic products supplier in the world. With an integration of upstream and downstream production process, it now has largely enhanced its cost competitiveness, and CDIB accordingly has taken part in rights issuance since 2004.



Note:  
The 72 portfolio companies with total investment outstanding of NT\$4.38bn originally under the surveillance of Small and Medium Enterprise Department were incorporated in August 2004.

CDIB's current investment strategy pursues a balance between higher-risk early-stage venture capital investments and comparatively lower-risk, expansion and late-stage private equity deals which yield steadier profits as well as growth potential and quicker returns. Moreover, we reach out for different investment opportunities, including initial price offering (IPO) for listing as well as corporate spin-off, restructuring, management buy-out (MBO), and leverage buy-out (LBO). Our investment strategy has transformed to cope with the changes in the macro environment. Meanwhile, we also offer investment banking services to the invested companies so as to cater their needs and to extend the scope of business opportunities.

Looking forward, we will continue to reinforce post-investing tracking and auditing management to ensure the good quality of our investment asset. We will also strengthen collaborations with other departments in order to capture a broader range of business opportunities.



## Overseas Direct Investment



CDIB provides the most extensive international network and the widest transaction experiences compared to other domestic investment institutions. As of the end of 2004, the overseas business department has more than 160 companies in its portfolio. Current investment strategy focuses mostly on late stage cases, adding to the liquidity of the portfolio and securing steadier returns. The fruitful progress in 2004 symbolizes a step forward towards our mission to become Asia's leading investment bank.

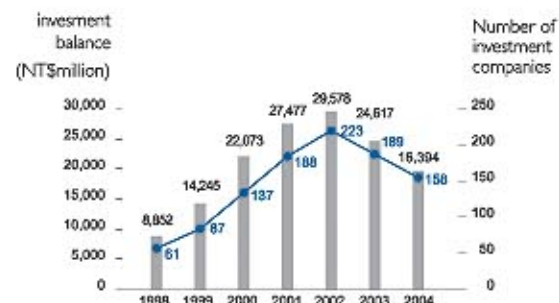
To be better positioned to respond to changing global economic conditions, CDIB has been actively revising its strategy and internal management structure for overseas investments. The aim is to reduce the risks and to improve the liquidity of the portfolio.

In the past, CDIB's overseas investment portfolio mainly consisted of projects in the industries of IT electronics, biotechnology and pharmaceuticals. In order to correspond to the needs of lower earnings volatility, the current investment reaches out to more mature sectors in manufacturing, financial and services, which offer more sustainable earnings and less volatile growth. The Asian market is set as our core investment target, among which countries with active and healthy capital markets are especially considered.

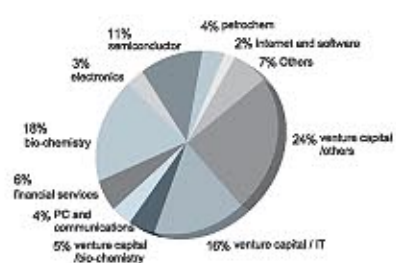
We also aim to apportion our portfolios fairly equally into early stage, expansion stage and late stage cases. Investment focus, under the guiding principle of "reasonable returns" shifts from early-stage start-ups to more mature companies including late-stage and pre-IPO investments. Such a shift of investment focus not only abridges periods of return, but also reduces risks and uncertainties so as to maintain appropriate level of investment return.

Since the beginning of this year, the overseas business department added 21 new investments to its portfolio, nearly half of which are IPO cases in Asia. With our established network and business connections, CDIB has successfully obtained the most popular IPO cases in various countries including Japan, Hong Kong, Thailand and Malaysia. Through strict screening and assessment, we proudly announce an average IRR of 28% on these investments. Going forward, we shall continue to cultivate our relationship with current portfolio companies as well as to target diversified investment projects overseas. However, we will not pursue aggressive growth in portfolio scale, but instead, will focus more on securing steady returns on investment.

Overseas investment portfolio  
(including reinvestments by subsidiaries)



Breakdown of portfolio investment  
by industry



## Project Finance

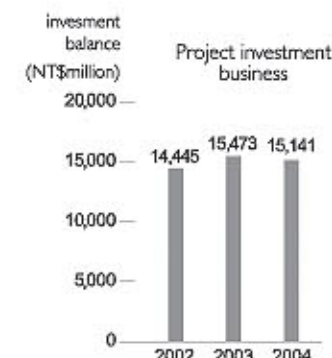


The Project Finance department has worked with Taipei city to construct the world's tallest skyscraper, has reduced the traveling time between the country's north and south; and with its series of investments in the independent power plants, has brought light and energy to local society. Going forward, we will focus on projects with lower risk and steadier returns, and will also emphasize our financial services on areas such as restructuring, syndication loans and merger and acquisition.

CDIB has been actively involved in project finance since 1984. With a strong team of experienced project finance experts, CDIB is able to provide quality service and maintain its position as market leader. Initially, the project finance business was primarily focused on providing financial advisory services for the government's transportation projects. Along with the emergence of the BOT model and large-scale private investment projects, CDIB also expanded into this new field of opportunity. In addition to financial advisory services, CDIB also plays an active role in arranging financing for either loan syndication or equity investments for both large-scale public and private investment projects.

2004 was a copious year for the Project Finance department. Our investment balance yielded NT\$15 billion, covering 18 large-scale projects. Our newly-added investments include the NT\$880 million participation of Taipei 101's rights issue, the capital injection of NT\$21 million to Ever Power IPP, NT\$1,220 million to Hsintao Power Corp. and NT\$999.9 million to the Taiwan High Speed Rail Corporation.

Our investments in power plants started as early as year 1995, when private sector power plants were first authorized. As a result of being the early mover, CDIB's investment returns, as well as businesses generated from financial consultancy and syndication loans to private sector power plants have consistently outperformed its competitors. Our total investment in IPPs reached NT\$5.083 billion at the end of 2004. Together, these IPPs generate a total of NT\$450mm dividends per annum to the Bank. In the future, such low-risk projects with stable dividends income will remain our prime investment targets.





In the highly competitive market of syndication loans, the Bank's Syndication Loan unit continues to make headway as it pulled off three major projects this year: the Global Mall project, the extension of Taichung Central project, and the re-financing project of Sun Ba Power Corporation. The re-financing initiative of Sun Ba Power Corporation, is particularly worthy of mention. With CDIB providing financial counseling and syndication banks round-up, Sun Ba successfully cut down its exposure to financing risks with regard to interest rates. In response to market evolutions and clients' ever more diversified needs, CDFH has introduced the concept of "Total Solution" to our syndicated loan operations. In practical terms, that means we offer clients not only the required capital from the syndicated loans but also advice on how to work with a variety of financing tools.

On the front of project finance counseling business, CDFH has acted as financial adviser to Far Eastern Electronic Toll Collection Co., Star Energy Power Corporation, and Sun Ba Power Corporation. In addition, CDIB has started penetrating into the corporate restructuring/M&A market, with many projects currently being evaluated.

CDFH, as an experienced direct investor in corporations, is knowledgeable of current industry environments and their future trends. Such expertise, coupled with our specialty in loan project planning and execution, enables us to offer troubled companies options such as restructuring, leverage buy-out, and follow-on lending/investments. Such offerings generate steady fee income, i.e. interest spreads, and advisory fees as well as potential capital gains from low-cost investments.

In the upcoming year, we will continue to blaze new paths in project finance and will continue to enlist talents to help provide our clients with the best services worthy of the banner of "Total Solutions."



## Corporate Banking Business



*CDFH's banking business provides not only lending services to its clients, but also financial advisories and other tailor-made products such as asset securitization as well as other trust businesses and securities investment operations. The new strategy for CDFH's banking business is to provide more creative solutions for clients' fundraising by integrating internal resources and to aim to offer "one-stop financial services" in the future.*

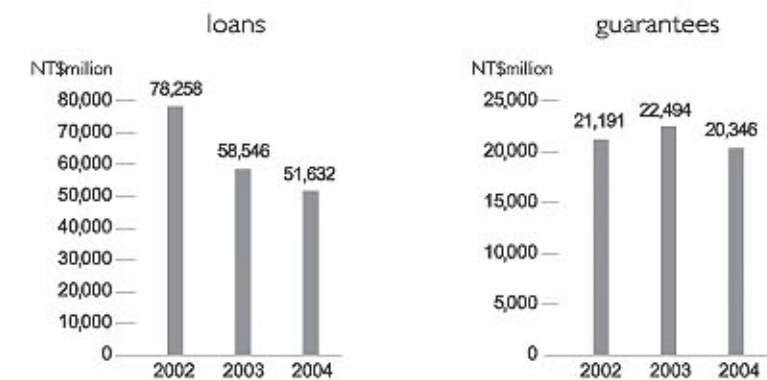
In a bid to increase profits and fend off price competition, our Banking Business department not only offers corporations and institutions such services as loans, guarantees, syndicated loans, and foreign exchanges, but has also made strategic and operation adjustments which aim to maximize exposures to fee income and profit.

In this past year, we have actively tried to improve our asset quality. Post the large-scale write-off of bad loans in 2003, CDIB has lowered its NPL ratio to 1.55%, with a peer-leading bad loan coverage exceeding 500%.

With such improvements in outstanding loan structure and the immediately followed overhaul of CDIB's outstanding loans to group clients, CDIB's top twenty group loan projects now consist of 39.6% of the Bank's total loan balances at the end of 2004.

In addition to adjusting the duration of loans to decrease the weighting of mid-to-longer term loans in the portfolio, CDIB has centralized the control of the branches' marketing and operational divisions, preventing possible inconsistency in lending standards.

To maintain our objective to maximize profit sources, the banking business department has in 2004 developed and launched novel financial products such as "a loan with investment options" and "a loan with asset swaps"; such is to hope that the Bank extends its services to offer leveraged buyouts as well as debt restructuring. Other than providing clients with mid-to-long-term working capital for the procurement of equipment or facilities or short-term working capital, CDIB will step in as the financial adviser whose involvement should help corporations lower operational cost in difficult times.





These newly developed banking businesses increase the Bank's potential gains in the future, especially if the capital market elevates.

Compared to the commercial lending business which has seen fierce competition in the past years, and as a result, a narrowing of interest spreads and weaker margins, CDFH's revised strategy and overall direction not only differentiates itself but also helps boost its earnings.

With its strong corporate finance business and the long-built mutual trust with its clients, CDFH's banking business looks to not only play a supportive role in the upcoming year, but also to grow into a full-fledged source of stable income.

We hope that the banking business department takes advantage of synergies from cross-departmental marketing made possible by the financial holding corporate structure. To effectively integrate resources within the financial holding company framework to forge a cross-departmental cooperative mechanism, CDFH has since August of 2004 had its lending department collaborate with GCSC in seven asset swap projects and one CB issuance/endorsement project.

In the wake of 2004's structural adjustment and marketing ability strengthening, the lending department looks to reclaim its market leadership in 2005 by regrouping forces to foray into the syndicated loan market. Going forward, CDFH looks to enrich the depth and diversity of its lending products by working closer to the Bank's newly established Treasury Marketing Unit (TMU). With the current outstanding credit claims combed through and bad loans rid of, future profits should serve as an undistorted reflection of operating performance.



## Treasury Marketing Unit Business

*CDFH, as we have demonstrated prowess in incorporating new products into our lineup, has been among the first batch of financial institutions to qualify for operations in items such as interest rates options, CB asset swap and options, index option market-making, stock option, warrant, forward rate agreement, NTD interest rate swap, and structured bonds. Innovation is what keeps CDFH in the lead as we excel in the financial service industry, and keeping tabs on the development of novel financial products is how we stake claims on our future growth.*

To expand its presence in novel financial product businesses, CDFH divided and expanded the Treasury Department in the second half of 2004 and recreated the aforementioned TMU, which takes charge of capital arrangements, operations in products such as bonds, foreign exchanges, and derivatives. The setup of such a new task force is meant to create varying hedging derivatives to suit the needs of clients, and to expand trading scales to provide clients with fuller services.

GCSC, as the other CDFH subsidiary, has been quite aggressive in developing new products and exploring new markets. It not only is one of the first securities firms to qualify for operations in interest rate options, CB asset swap and options, and index option market-making, but also has been pushing for such businesses as stock options, warrant, ETF, forward rate agreement, NTD rate swap, and structured bonds.

In order to realize synergies inherent in a financial holding company and to promote cross-departmental marketing, the new management has actively consolidated the businesses of CDIB and GCSC. The two subsidiaries together formed a joint platform of research and sales, which anticipates to maintain the Company's long-standing edge in Equity-linked Notes (ELN) and to solidify businesses of novel foreign exchange products. TMU, with its strength in financial engineering, efficiently allot the work between front and back offices.

Entering 2005, TMU will continue to assist corporate clients in areas such as wealth management financial planning and derivative services. For existing equity and bond trading, CDFH will strengthen the lineup of traders and enlarge the trading platform of NTD rate products and place the premium on asset/liabilities services for corporate clients. Specifically, we will present enterprises with such investment options as Taiex, OTC and equity derivatives such as forward exchange, exchange swap, interest rate, and exchange rate as hedging tools. Within legal boundaries, we will put such derivatives as raw materials to help corporations steer clear of rate risks and lower capital cost. With such services, we hope to be the best financial management consultant to our clients.







## Grand Cathay Securities Corporation (GCSC)

### Core Business



Stan Siao, Chairman of GCIG (left)  
Jen-Hai, President of GCIC (right)

*Enlarging our presence in the securities market continues to be our goal this year. The stable injection of fee income from securities is crucial to balance the Company's revenue mix and the scale-up and regionalization of the business is key to advance our competitiveness. With the securities business growing, we hope to create a dual-engine earnings model, which would thrust us further into the Asia-Pacific market.*

The consolidation of GCSC's securities business provided CDFH with a range of fully integrated financial products and services for both institutional and retail clients. GCSC, established for 15 years, is the leading domestic securities firm for the underwriting of equity and bond issues and has a strong reputation for developing innovative financial products. This is evident from the series of media acclaims from around the world:

- In 2003, GCSC was voted by Asiamoney as Taiwan's best domestic fixed-income house, and by Asset Magazine as Taiwan's best domestic investment bank.
- In 2004, the Securities was again selected by Asiamoney as Taiwan's best domestic bond house.

GCSC is involved in all aspects of the securities business, including securities brokerage, proprietary dealing, underwriting, share registrar services, future brokerage and trading and investment advisory services. We strive to assist our clientele to strengthen their financial structure, to improve their financial health, and to boost their operational efficiency.

In addition to the aforementioned services, the Personal Wealth Management (PWM) unit was established this year, expanding GCSC's operations to personal financing market.

Entering 2005, profit accretion and income stability remains the topmost of the Securities' agenda. We will actively secure quality clients with inherent growth potentials, and will work on branch consolidations as well as expansion of brokerage market share per branch to maintain the lead in operation efficiency. Going forward, GCSC will continue to expand its product lines as well as overseas channels, supporting CDFH in achieving its goal of becoming one of Asia's most professional and best-managed investment banks.

### Underwriting

We understand that underwriting is a "people business" and that is why GCSC values its very formidable underwriting team and continues to provide it with solid trainings, in hoping that they will in turn provide the best services to our corporate clients in IPO attempts and in rights issuance in securities markets here and abroad. As of the end of 2004, GCSC maintained its leading position in the market, successfully served as the lead underwriter for 29 cases, and completed 7 domestic M&A projects. Total underwriting value amounted to NT\$16.718bn, up more than 11% from 2003, the number of public subscriptions totaled 1,247,000, ranking GCSC as the market leader.

Business Results		
	2004	2003
Lead Manager for IPOs (no. of Companies)	8	15
Lead Manager for Fundraising (no. of Companies)	21	8
No. of Underwriting Subscription	1,246,612	787,525
Total Underwriting Amount (Unit: NT\$million)	16,718	13,440



Business Results		
	2004	2003
Bond Sales Volume	328.5	378.4
Ranking - Bond Sales	4th	3rd
Government Bonds Trading Volume	8,800	7,100
Market share - Government Bonds Trading	6.33%	5.44%
Ranking - Government Bonds Trading	1st	2nd

(Unit: NT\$billions)



## Fixed Income Securities Business

As the leading bond dealer in the market, GCSC has demonstrated ample ability in innovative product design. Our efforts to create values for issuers and investors by way of development of a multitude of complex and advanced products has not only been recognized by Asiamoney, but has also made us the second runner up in the Central Bank of China (Taiwan)'s evaluation of central government bond trading performance in 2003, the only securities house to be so honored.

In terms of trading volumes and profitability, GCSC is also amongst the top tier in the market. In 2004, GCSC's government bond trading totaled NT\$8,800bn for a peer-leading market share of 6.33%, and its primary market underwriting volume stood at NT\$32.85bn.

Aside from trading of government bonds, GCSC also is one of the few houses that provide a complete lineup of interest rate products, including straight bond, financial debentures, OTC-listed CB negotiated trading and conditional bond trading. Of these businesses, GCSC is particularly strong in the field of over the counter (OTC) corporate bond business; in fact, it is the first securities broker in Taiwan to provide two-way quotes.

In recent years, GCSC has pioneered in the development of new products such as asset securitization, CB asset swap, structured bonds, and rate derivatives. Year 2004 marked GCSC's completion of the first trading of bills in the monetary market, a milestone for securities firms who wish to be involved in the monetary market's bill business. Going forward, GCSC will continue to develop new products and to attract market participants to maintain its lead in the bond market.

## Brokerage Business

GCSC's total number of branches is 27 and its market share 2.21%. Going forward, GCSC will work on improving both its market shares as well as profitability in order to maximize its profit contribution to the Company.

## Registrar Service Business

GCSC has long been the choice broker for major enterprises when it comes to selection of registrar services. As of December 2004, GCSC has a total of 265 company clients and has serviced over 3.58mn shareholders. With such an impressive track record and years of experience under its belt, GCSC looks to maintain its lead amongst local brokerage houses.

## New Financial Product Business

GCSC has been regarded as the leading brand amongst local securities houses when it comes to the development of new financial products. As regulations became more flexible in recent years, GCSC has aggressively designed and promoted new products such as options, warrants, and equity-linked notes. GCSC was not only among the first to qualify for operations of structured products and CB asset swaps, but also the first amongst Taiwanese securities houses to issue domestic stock warrants. 2004 marked GCSC's major leap forward in its warrant businesses; ranking itself the 6th in the market in terms of warrants issued, and amongst the top three players in Taiex options trading.

Business Results		
	2004	2003
No. of Branches	27	31
Market Share - No. of Branches	2.43%	2.21%
Market Ranking	14th	14th
Market Share Per Branch	0.07%	0.07%

Business Results		
	2004	2003
No. of Company Clients	265	252
Market Share	10.39%	10.76%
Ranking - No. of	No.2	No.1
No. of Shareholders Serviced	3,584,662	3,587,833

## Securitization

One of every three financial asset securitization projects in the market is now lead-managed by GCSC, which made good time in introducing financial asset securitization products such as property development trusts and urban renewal property trusts into the market. Currently, over 70% of all public capital-raising issues are lead-managed by GCSC; the Securities' lead-managed securitized products totaled NT\$15.28bn as of December 2004, allowing it a leading market share of over 50%. As the market leader, GCSC has put much effort in promoting the development of the securitization market, i.e. the introduction of the "asset securitization products' trading platform", which promotes turnover and investors' participation in the secondary market. Going forward, GCSC will continue its presence in the financial asset securitization and real estate securitization businesses, and will strive to create a win-win situation for corporations and investors alike by continuing its innovations in product designs.

## Private Wealth Management (PWM)

The Private Wealth Management Division (PWM) was established to provide total financial planning solutions to high net worth individuals, families and small-to-mid-sized institutional investors through a one-stop platform. Using this platform, GCSC hopes to provide access to an exceptional range of financial products such as equities, fixed income securities, derivatives and mutual funds. GCSC's customers may expect utmost returns given the Securities' long-standing edge in product design innovation as well as integrated resources made available by the financial holding company framework.

**GCSC has been a long-time market leader in financial product innovation. Our track record includes the following:**

### Bond Market Products

- Lead Manager of Taiwan's first CLO (Collateralized Loan Obligation) public offerings
- Market's first bond forward transaction
- Launched GCSC G-Bond Index, Corporate Bond Index and Convertibles Index
- Launched the local monetary market's first bill transaction
- Completion of OTC's first bond redemption transaction
- One of the nine government bond dealers approved by the Central Bank of China (Taiwan)

### Derivative Products

- One of the first securities firms to secure approval to trade structured products
- One of the first securities firms to secure approval to trade Convertible Asset Swaps
- One of the first securities firms in Taiwan to usher in reset warrants
- One of the first securities firms in Taiwan to issue local warrants

### Asset Management

- GCSC's subsidiary, Grand Cathay Managed Futures, was the first to acquire a license to conduct discretionary trading services
- GCSC's subsidiary Grand Cathay Investment Services was the first to acquire a license to conduct discretionary trading services
- Grand Cathay Managed Futures was the first licensed Futures Brokerage Company in Taiwan

Business Results		
	2004	2003
No. of Stock Warrant Issues	26	12
Ranking - No. of Stock Warrants Issues	6th	9th
Total Issuing Amount of Warrants (NT\$million)	1,520	1,050
Taiex Options Market Making Trading Volume	4,910,824	2,127,838
Market Share - Trading Volume	6.20%	4.90%
Ranking - Trading Volume	No.2	No.3



# 轉變 Transformation

Change is in the air. The new management team has focused efforts on asset quality enhancement, organizational restructuring and integration of internal operations. Having turned around CDFH, we are ready to meet new challenges





## Bond marketing and Product Award

*Expanding our presence in the securities trading market is what we are aiming to do these days, as the stable fee income from securities trading could prove a vital source of profits for CDFH. To that end, we understand that scale and regional reach are two indicators of a financial holding company's competitiveness, which can be achieved via strategic M&As conducted by our securities subsidiary. Growth in our securities business means more stable income pattern for CDFH and our two-pronged offense launched by CDIB and GCSC should land us enough force to mark an impact in Asia-Pacific Region.*

### Bond market and merchandise

- GCSC acted as a co-arranger and lead manager for Credit Lyonnais' (now Calyon) NT\$8.8 billion Collateralized Loan Obligation (CLO) transaction - the first publicly offered securitization deal in Taiwan.
- GCSC is the first securities firm in Taiwan to begin bond forward trading.
- GCSC takes initiative in constructing domestic bond benchmark indices : Grand Cathay Government Bond Index, Corporate Bond Index, and Convertible Bond Index.
- GCSC is the first securities firm to trade bills in the domestic money market.
- GCSC completed the first transaction through the Government Bond Lending System of Gre Tai Securities Exchange (OTC in Taiwan).
- GCSC is one of the 11 Government Bond Primary Dealers selected by the Central Bank of China.

### Derivatives (novel financial product department)

- GCSC is among the first securities firms in Taiwan to issue structure notes.
- GCSC is among the first securities firms in Taiwan to trade CB Asset Swaps.
- GCSC is the first securities firm in Taiwan to issue reset warrants.
- GCSC is the first securities firm in Taiwan to issue warrants.

### Asset management operations

- Grand Cathay Managed Futures Corp. is the first managed futures company in Taiwan to obtain the license for discretionary investment management business.
- Grand Cathay Investment Services Corp. is among the first investment advisory firms in Taiwan to obtain the license for discretionary investment management business.
- Grand Cathay futures Corp. is the first futures company in Taiwan.



## Human Resources



*At CDFH, we consider our human resources our biggest asset since we believe "people" to be the key source of development in today's knowledge-based economy. As new talents are injected into the Company, we believe a new corporate culture will be formed, achieving new levels of excellence.*

### Cultivation

In 2004 CDFH conducted a thorough review of our compensation scheme and overhauled the system to reward personnel based on their position, responsibilities and accountability. We believe that a fair compensation and reward structure would help enlist and maintain talents and will also help establish a more accountability-oriented corporate culture.

### Communication

As an organization gets bigger, it becomes more difficult for management to stay intact with their staff. In response to such issue, CDFH holds weekly "happy hours", during which President Koo meets face to face with employees from all subsidiaries and informs them real-time of the Company's future operations and strategies. In addition, all top executives have adopted the "open-door policy", which aims to replace top-down notifications with mutual communications. We hope that with these efforts, we are able to establish a new corporate culture which allows better communications between management and employees, and results in smoother execution of corporate strategies.

### Challenge

Under the previous evaluation system, employees are notified of their performances through their direct supervisors; which often cause them to focus on short-term results, and fall short of encouraging them in potential future developments. We have thus in 2004 ushered in the 360-degree core competitiveness feedback mechanism which draws on the opinions of not only the supervisors, but also the employees' subordinates and peers. The feedback allows one to review one's edges and deficiencies from an all-around perspective. The goal is to construct a clear career roadmap for the employees, and would help them to explore areas that they need to enhance in order to add to their professionalism.

### Learning

The right person at the right place! To have training resources put to their best usage, CDFH has in 2004 established a training center in Nankang. Such a quality training space, coupled with our training sessions' double focus on banking knowledge and managerial skills, should enable best learning results for trainees.





## A Team of “Elites”

*CDFH maintains a well-diversified pool of employees, of which over half are post-university graduates with expertise in the field of technology, biotechnology, financial, engineering, etc. We place strong emphasis on the further training of this workforce, and are confident that they will help maximize the Company's shareholder value.*

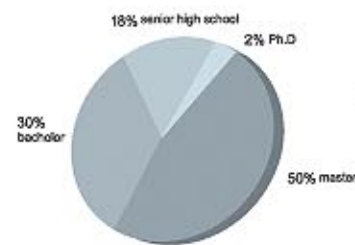
### Leaders in the Making

To build its own professional workforce, CDFH has established an Elite Development program, which offers just-out-of-campus graduates with tailor-made training; providing them access to a “fast track” career path inside CDFH.

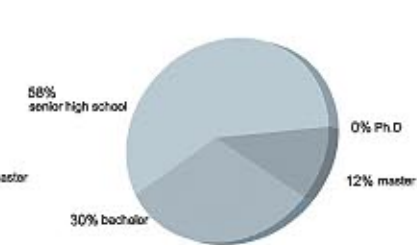
### About the Training...

These “elites” spend 4-6 months in training; the first few weeks of which an intensive, best-in-class training program, followed by rotations to different departments which allows familiarization of financial holding company operations such as research, marketing, and risk management, etc. Upon completion of the training, the “elites” are then assigned to different departments based on their interests as well as the departments' needs.

2004 CDIB's employee profile-education



2004 GCSC's employee profile-education



### Upon the Successful Completion of the Program...

CDFH allows and encourages all employees who are interested, including those enlisted from the “Elite Development Program” to rotate amongst its subsidiaries, which gives employees greater exposure to different professional fields. Overseas training is also available, for CDFH offers an on-the-job training program through its overseas subsidiaries. During the six-month training period, employees accepted into the program have the chance to broaden their international perspective and work experience. They are expected to return with greater international investment experience and apply their newly acquired skills to their jobs.





## Our Corporate Governance

*Post the series of financial scandals that swept through industries, including Taiwan's local chipmaker Procomp Informatics Co. in 2004 and the U.S. Enron crisis in 2002, financial market and firms alike have been trying harder than ever to regain shareholders' trusts. At CDFH, we've always believed that the quality of corporate governance is a prime indicator of an organization's real value. By instituting clearly defined and closely followed corporate governance guidelines, we protect our shareholders' interests and ultimately enhance the value of the organization.*

At a time when corporate scandals are many, companies must clearly define and adhere to regulation and control to keep the investing public's rights intact and to prevent resources from being wasted. In its Articles of Incorporation, CDFH has clearly defined its organizational structure and departmental functions and has also set up an independent internal audit department. The head of the internal audit department is not permitted to perform any other duties in conflict with the internal audit function. CDFH adheres to the guidelines set out by the Securities & Futures Bureau of the Financial Supervisory Commission, the Taiwan Stock Exchange, the Bankers Association and the Taiwan Securities Association regarding best practice and the principles for corporate governance. Implementation includes:

- The appointment of independent board directors and supervisors to enhance management efficiency
- Increased transparency of corporate operations and financial information via updates and disclosures on the official website, published financial statements, annual reports and investor roadshows
- Focusing on investor relations and setting up a dedicated investor relation section on the corporate website
- Strengthening risk management functions and internal controls





## Our Risk Management



*An efficient risk management system does not guarantee the absence of risks but the effective control of them. In line with domestic and international regulators' guidelines on financial institutions' risk management and to underpin its capital structure, CDFH has put in place a comprehensive set of measures, including an appropriate risk management structure and reporting system, to supervise risk management-related matters. Risk management is led by an independent department.*

The objective of CDFH's risk management is to seek a balance between risk and return to maximize shareholder value. Accordingly, the risk management structure and methodology has been developed based on CDFH's business and management practices.

### Organizational structure

The board sets objectives and determines the acceptable level of risk for capital allocation and establishes the appropriate level of the risk management department. The duty of the risk management department is to identify, evaluate and quantify risks, while the business departments focus on preventing and remedying such risks.

### Mark to market principle

Whenever there is market reference of value, all risk exposure and positions undertaken by CDFH and its subsidiaries will be marked to market.

### Inherent risks of revenues

All business departments are required to identify the risks in relation to the revenues they are responsible for generating.

### Risk evaluation method

CDFH has developed systematic techniques to measure each type of risk and to estimate potential losses in connection with positions taken and their correlation.

### Thorough control of exposure limits

A total exposure limit is set for each type of business according to relevant regulations and risk diversification requirements, and is set out in the internal business handbook.

### Risk management reporting

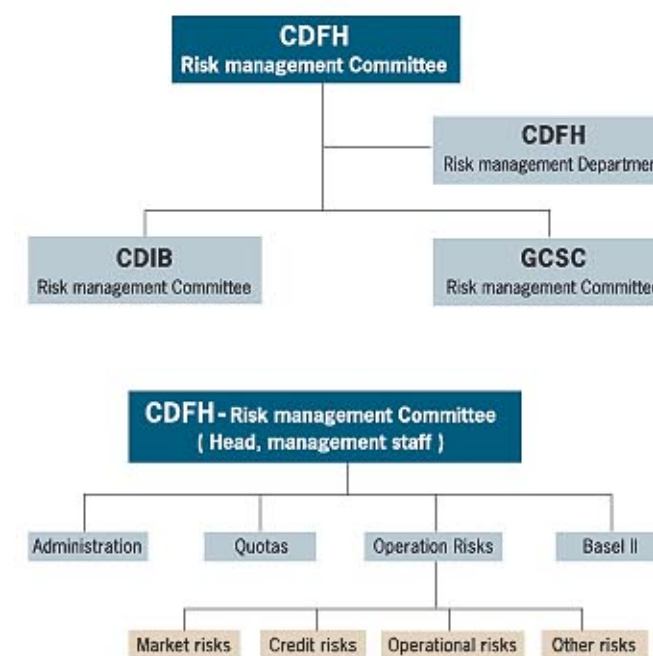
CDFH and its subsidiaries are required to regularly and periodically report on business risk and control status.

### Independent supervision

CDFH maintains the principle of keeping the risk management department wholly separate from, and independent of, the business departments that undertake the risks. Related functions, such as internal audit and legal functions are also included in the risk management mechanism and performed independently.

## Risk Management Structure

CDFH's risk management adopts a three-tier pyramid structure - the risk management committee, the business departments and the risk management department of subsidiaries.



### CDFH:

“ Risk Management Committee” – responsible for analyzing and controlling the overall group's risks, and establishing the appropriate risk management policies and procedures.

“ Risk Management Department” – support the Risk Management Committees and implement all risk management related policies and procedures.

### CDIB:

“ Risk Management Committee” – responsible for defining and measuring risks, supervising risks undertaken by the subsidiaries, and reporting regularly to CDFH's risk management committee.

### GCSC:

“ Risk Management Committee” – responsible for defining and measuring risks, supervising risks undertaken by the subsidiaries, and reporting regularly to CDFH's risk management committee.



## Scope of Risk Management

The scope of CDFH's risk management covers all types of risk factors for CDFH and its subsidiaries, both on and off the balance sheet. Risk factors are defined as those that will cause the value of assets or liabilities to be negatively affected. There are three major types of risk factors:

### Market Risks

Market risks arise due to market price fluctuations resulting in potential losses or lower than expected returns for the assets and liabilities on the balance sheets.

### Credit Risks

Credit risks relate to transaction counterparties' (including borrowers, investees or any transaction counterpart, etc.) defaulting or a deterioration of their credit rating. These primarily consist of loan credit risks, investment credit risks (where the investment is already marketable, it should be classified as a market risk), and settlement default risks.

### Operation Risks

Operation risks are losses caused directly or indirectly by improper actions or a failure of internal procedures, staff, or computer systems. Compliance risk is also regarded as part of operation risks.

## Compliance Measures for the New Basel Capital Accord

The New Basel Capital Accord was published in 2001. This stipulates that financial institutions must introduce a new set of systematic measures in order to comply with the new Accord that will come into effect in 2007. CDFH is taking the following measures to cope with these new regulatory changes:

- Participating in the study group organized by the Bureau of Monetary Affairs and The Bankers Association of the ROC
- Developing a quantitative database
- Providing quantitative information as performance feedback to business departments
- Highlighting the risks related to positions undertaken by business departments

## Social Contribution

*CDFH firmly believes in taking an active role in the community. As our contribution to society, CDFH aims to achieve its goal of providing a forum for more international views, promoting culture and facilitating broader understanding amongst humanity. We achieve these aims through our sponsorship of academic seminars, art events and social philanthropy.*

## Sponsorship of Academic Interaction

CDFH is an active sponsor of academic foundations and seminars. We aim to develop the sharing of international perspectives and research by providing a communication platform for academics, industry experts and government officials. Activities and foundations that we have supported this year include:

- Preparatory session for K.T. Li Foundation's Digital Knowledge Seminar
- Academic Foundation for NTU's Graduate Institute of Economics - "9th Seminar of Professor Liang Guo-Xu"
- Chung Hua Institution for Economic Research - "2005 - Entering a New Financial Era"
- Epoch Foundation - Asia Industrial and Economic Roundtable
- Mount Jade Science and Technology Association of Taiwan
- Taiwan Industrial Technology Association.

## Corporate Social Responsibility

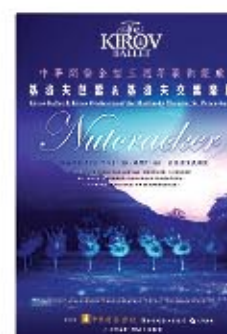
CDFH actively promotes and participates in philanthropic activities and has consistently provided support to under privileged members of society and to non-profit organizations. A few charity events we have hosted this year include:

- Taipei Zoo tour for children of Bethany Children's Home, Taiwan Fund for Children and Families, and the First Social Welfare Foundation
- Sponsored "The Nutcracker" KIROV Ballet for children of the Taipei School for the Hearing Impaired, Taipei County Affiliated Children's Home of Christian Mustard Seed Foundation, Child Welfare Service Center (Wanhua District, Taipei, Chinese Hsin-Chuan Association, and Glory Foundation

## Sponsorship of Fine Arts

CDFH has been a long-standing supporter of performing arts, including traditional Chinese opera, classical music and contemporary Taiwanese arts. Major sponsorship for this year includes:

- the Taiwan Connection Concert, orchestrated and performed by Chinese American musicians Hu Nai-Yuan and Huan Hai-Lun
- the debut performance of Russian's KIROV Ballet
- Concert of the three-time Grammy Award winner for female jazz singer, Dianne Reeves







# 展翅 Ascent

We take great pride in the excellent reputation that CDFH has enjoyed for decades, and aspire to improve our competitiveness to attain stronger market position and superior returns for our shareholders.



## Audited Financial Reports

### China Development Financial Holding Corporation and Subsidiaries

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
China Development Financial Holding Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of China Development Financial Holding Corporation and subsidiaries as of December 31, 2004 and 2003, 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 Corporation'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 Auditing and Certification of Financial Statements by Certified Public Accountants, the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Development Financial Holding Corporation and its subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with Criteria Governing the Preparation of Financial Reports by Financial Holding Companies, Criteria Governing the Preparation of Financial Reports by Public Banks (effective January 1, 2004), or Guidelines Governing the Preparation of Financial Reports by Securities Issuers (applicable to financial statements for 2003 and earlier), Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reporting by Futures Commission Merchants and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the accompanying consolidated financial statements, effective January 1, 2003, China Development Industrial Bank Inc. (CDIB, a Corporation subsidiary) changed its method for evaluating securities purchased. Starting in 2003, securities purchased are carried at the lower of cost or market of the total investment portfolio instead of each investment portfolio. In addition, CDIB's sales and purchases of bonds under agreements to repurchase or to resell were treated as outright sales or purchases. However, under the Criteria Governing the Preparation of Financial Reports by Public Banks effective January 1, 2004, the repurchase/resell transactions will be treated as financing. Also, effective May 27, 2003, in accordance with the rules issued by the Gre Tai Securities Market (the over-the-counter securities exchange of the Republic of China), Grand Cathay Securities Corporation's (a Corporation subsidiary) net gains or losses on bonds that are hedged through interest rate swap contracts are determined on individual-security basis instead of the portfolio basis used in prior periods.

*Deloitte & Touche*

February 21, 2005

#### 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 and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying 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.



**CONSOLIDATED BALANCE SHEETS**

DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2004		2003	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS	\$ 7,374,813	3	\$ 3,753,207	2
DUE FROM THE CENTRAL BANK AND OTHER BANKS	24,394,511	9	23,205,079	9
SECURITIES PURCHASED, NET	12,361,091	5	19,465,177	7
RECEIVABLES, NET	9,464,717	4	10,149,357	4
ACQUIRED LOANS	9,706,166	4	14,133,142	5
OTHER FINANCIAL ASSETS - CURRENT	1,635,736	1	1,000,853	-
OPERATING SECURITIES	32,828,612	12	29,990,678	11
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	7,691,155	3	2,537,789	1
LOANS, DISCOUNTS AND BILLS PURCHASED, NET	53,064,758	20	61,667,596	23
LONG-TERM INVESTMENTS				
Stocks - Equity method	23,440,292	9	26,291,386	10
- Cost method	54,025,466	21	58,481,740	22
Other	13,810,277	5	2,459,884	1
Long-term investments, net	91,276,035	35	87,233,010	33
PROPERTIES				
Cost				
Land	1,663,064	1	1,976,371	1
Buildings and facilities	1,853,489	1	2,237,908	1
Computer equipment	854,491	-	858,268	-
Transportation equipment	27,120	-	50,458	-
Other equipment	117,148	-	115,475	-
Leasehold improvements	253,839	-	212,807	-
Total cost	4,769,151	2	5,451,287	2
Accumulated depreciation	1,301,222	1	1,214,660	-
	3,467,929	1	4,236,627	2
Advances for acquisition of properties	25,406	-	25,172	-
Net properties	3,493,335	1	4,261,799	2
OTHER ASSETS	7,085,900	3	7,628,438	3
TOTAL	\$ 260,376,829	100	\$ 265,026,125	100
SECURITIES LOANED TO CUSTOMERS	\$ 1,431,035		\$ 777,346	

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

(With Deloitte &amp; Touche audit report dated February 21, 2005)

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
LIABILITIES				
Short-term loans	\$ 10,515,297	4	\$ 11,410,339	4
Commercial paper payable	1,996,176	1	3,804,076	2
Securities sold under agreements to repurchase	40,756,111	16	26,992,564	10
Liabilities for issuance of call (put) warrants, net	111,900	-	95,959	-
Derivative financial product liabilities - OTC	1,304,148	1	1,660,061	1
Call loans from banks	3,314,942	1	10,103,437	4
Payables	6,024,828	2	13,615,852	5
Other current liabilities	2,179,851	1	1,951,095	1
Deposits and remittances	33,436,651	13	40,231,434	15
Bank debentures payable	20,780,000	8	13,280,000	5
European convertible bonds, net of current portion	394,379	-	10,517,204	4
Bonds payable	12,000,000	5	12,000,000	5
Long-term loans	7,968,916	3	3,294,060	1
Other liabilities	1,187,621	-	1,099,249	-
Total liabilities	141,970,820	55	150,055,330	57
STOCKHOLDERS' EQUITY				
Stock - authorized 20,000,000 thousand shares				
Common stock - \$10 par value, issued - 11,214,247 thousand shares in 2004 and 11,250,818 thousand shares in 2003	112,142,470	43	112,508,180	43
Preferred stock - \$10 par value, issued - 625,000 thousand shares	6,250,000	2	6,250,000	2
Capital surplus				
Issue of stock in excess of par value	26,217,920	10	36,110,548	13
Treasury stock transactions	-	-	26,067	-
Accumulated losses	( 9,220,166)	(4)	( 8,201,641)	(3)
Unrealized losses on long-term investments	( 629,978)	-	( 68,292)	-
Cumulative translation adjustments	( 368,820)	-	490,571	-
Net loss not recognized as pension costs	( 2,530)	-	-	-
Treasury stock - at cost				
Held by the Corporation - 650,899 thousand shares in 2003	-	-	( 15,123,545)	(6)
Held by the subsidiaries - 881,451 thousand shares in 2004 and 927,719 thousand shares in 2003	( 15,982,887)	(6)	( 17,021,093)	(6)
Total stockholders' equity	118,406,009	45	114,970,795	43
TOTAL	\$ 260,376,829	100	\$ 265,026,125	100
SECURITIES DEPOSITED BY CUSTOMERS	\$ 12,821,390		\$ 11,781,131	



**CONSOLIDATED STATEMENTS OF INCOME**

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	2004		2003	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Income from long-term investments				
Gain on sale of investments, net	\$ 3,397,895	22	\$ 2,876,418	20
Other investment income	1,454,086	10	967,593	7
Total income from long-term investments	4,851,981	32	3,844,011	27
Interest	4,098,538	27	4,431,597	31
Service fees	1,684,495	11	1,303,474	9
Proceeds from acquired loans sold	1,572,780	11	684,724	5
Income from securities, net	1,100,669	7	2,592,916	18
Profit from issuing call (put) warrants	515,870	4	229,366	1
Gain from futures transactions	377,410	3	240,821	2
Revenue from providing agent's service for stock affairs	206,580	1	218,793	1
Revenue from derivative financial products - OTC	96,917	1	29,636	-
Other	503,011	3	857,472	6
Total operating revenues	15,008,251	100	14,432,810	100
<b>OPERATING EXPENSES</b>				
Provision for loss on long-term investments	10,312,518	69	10,475,565	73
Interest (Note 35)	2,302,336	15	2,049,239	14
Investment loss under the equity method, net	911,952	6	2,777,707	19
Provision for bad debts and losses on guarantees	860,893	6	6,570,775	45
Loss from derivative financial products - OTC	512,093	4	542,983	4
Provision of allowance for decline in market value of operating securities	210,621	1	-	-
Operating and administrative expenses	4,708,297	31	4,402,553	30
Other	256,368	2	389,614	3
Total operating expenses	20,075,078	134	27,208,436	188
<b>OPERATING LOSS</b>	(5,066,827)	(34)	(12,775,626)	(88)
<b>NONOPERATING REVENUES AND INCOME</b>	2,021,159	13	753,627	5
<b>NONOPERATING EXPENSES AND LOSSES</b>	514,747	3	417,707	3
<b>LOSS ON CONTINUING OPERATIONS BEFORE TAX</b>	(3,560,415)	(24)	(12,439,706)	(86)
<b>INCOME TAX EXPENSE</b>	1,203,479	8	729,139	5
<b>COMPREHENSIVE LOSS</b>	(4,763,894)	(32)	(13,168,845)	(91)

	2004		2003	
	Amount	%	Amount	%
<b>CUMULATIVE EFFECT OF ACCOUNTING CHANGE -</b>				
Evaluation of securities purchased	-	-	173,231	1
Evaluation of hedged interest rate swap contracts (net of income tax benefit \$15,206)	-	-	(45,619)	-
<b>CONSOLIDATED NET LOSS</b>	(4,763,894)	(32)	(13,041,233)	(90)
	<b>Pretax</b>	<b>After-tax</b>	<b>Pretax</b>	<b>After-tax</b>
<b>LOSS PER SHARE</b>				
Basic	\$ (0.42)	\$ (0.54)	\$ (1.33)	\$ (1.40)
Diluted	\$ (0.42)	\$ (0.54)	\$ (1.33)	\$ (1.40)

Pro forma information had there been no change in the method for evaluating securities purchased and interest rate swap contracts:

	2003	
	Pretax	After-tax
<b>CONSOLIDATED NET LOSS</b>	\$ (12,439,706)	\$ (13,168,845)
<b>LOSS PER SHARE</b>		
Basic	\$ (1.34)	\$ (1.42)
Diluted	\$ (1.34)	\$ (1.42)

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated February 21, 2005)



## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	Stock				Capital Surplus	Retained Earnings		(Accumulated Losses)		Unrealized Losses on Long-term Investments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Costs	Treasury Stock				Total Stockholders' Equity
	Common Stock		Preferred Stock			Legal Reserve	Special Reserve	Unappropriated Earnings (Deficits)	Subtotal				Held by the Corporation		Held by Subsidiaries		
	Shares(in Thousands)	Amount	Shares(in Thousands)	Amount									Shares (in Thousands)	Amount	Shares (in Thousands)	Amount	
BALANCE, JANUARY 1, 2003	10,769,674	\$ 107,696,737	625,000	\$ 6,250,000	\$ 41,262,999	\$ 13,047	\$ 6,133	\$ 6,145,796	\$ 6,164,976	\$ ( 1,236,863)	\$ 786,103	\$ -	( 650,899)	\$ ( 15,123,545)	( 914,470)	\$ ( 17,327,374)	\$ 128,473,033
Appropriation of 2002 earnings:																	
Legal and special reserve	-	-	-	-	-	614,580	4,205,832	( 4,820,412)	-	-	-	-	-	-	-	-	-
Cash dividends - \$0.085 per share	-	-	-	-	( 109,590)	-	-	( 737,190)	( 737,190)	-	-	-	-	-	-	-	( 846,780)
Preferred dividends	-	-	-	-	-	-	-	( 520,000)	( 520,000)	-	-	-	-	-	-	-	( 520,000)
Bonuses and remunerations to:																	
Directors and supervisors	-	-	-	-	-	-	-	( 60,000)	( 60,000)	-	-	-	-	-	-	-	( 60,000)
Employees - stocks	819	8,194	-	-	-	-	-	( 8,194)	( 8,194)	-	-	-	-	-	-	-	-
Capitalization of capital surplus - \$0.5 per share	498,096	4,980,960	-	-	( 4,980,960)	-	-	-	-	-	-	-	-	-	-	-	-
Translation adjustments on investments of equity-method investees	-	-	-	-	-	-	-	-	-	( 295,532)	-	-	-	-	-	-	( 295,532)
Reversal of unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-	-	-	-	-	1,168,571	-	-	-	-	-	-	1,168,571
Write-off of treasury stock - Grand Cathay Securities Corporation	( 17,771)	( 177,711)	-	-	( 36,342)	-	-	-	-	-	-	-	-	-	17,771	214,053	-
Repurchase of treasury stock - First Taiwan Securities Inc.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 220)	( 3,114)	( 3,114)
Resale of treasury stock - First Taiwan Securities Inc.	-	-	-	-	33	-	-	-	-	-	-	-	-	-	220	3,114	3,147
Transfer of treasury stocks to employees - Grand Cathay Securities Corporation	-	-	-	-	475	-	-	-	-	-	-	-	-	-	6,830	92,228	92,703
Stock dividends received by subsidiaries from the Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	( 37,850)	-	-	-
Consolidated net loss in 2003	-	-	-	-	-	-	-	( 13,041,233)	( 13,041,233)	-	-	-	-	-	-	-	( 13,041,233)
BALANCE, DECEMBER 31, 2003	11,250,818	\$ 112,508,180	625,000	\$ 6,250,000	\$ 36,136,615	\$ 627,627	\$ 4,211,965	( 13,041,233)	( 8,201,641)	( 68,292)	490,571	\$ -	( 650,899)	( 15,123,545)	( 927,719)	( 17,021,093)	\$ 114,970,795
Accumulated deficit offset by legal reserve	-	-	-	-	( 9,787,440)	( 627,627)	( 2,626,166)	13,041,233	9,787,440	-	-	-	-	-	-	-	-
Translation adjustments on investments of equity-method investees	-	-	-	-	-	-	-	-	-	( 859,391)	-	-	-	-	-	-	( 859,391)
Unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-	-	-	-	( 561,686)	-	-	-	-	-	-	-	( 561,686)
Write-off of treasury stock - China Development Industrial Bank Inc.	( 36,571)	( 365,710)	-	-	( 131,255)	-	-	( 410,637)	( 410,637)	-	-	-	-	-	36,571	907,602	-
Transfer of treasury stocks to employees - Grand Cathay Securities Corporation	-	-	-	-	-	-	-	( 5,168)	( 5,168)	-	-	-	-	-	9,697	130,604	125,436
Transfer of European convertible bonds	-	-	-	-	-	-	-	( 5,626,266)	( 5,626,266)	-	-	-	650,899	15,123,545	-	-	9,497,279
Net loss not recognized as pension costs	-	-	-	-	-	-	-	-	-	-	( 2,530)	-	-	-	-	-	( 2,530)
Consolidated net loss in 2004	-	-	-	-	-	-	-	( 4,763,894)	( 4,763,894)	-	-	-	-	-	-	-	( 4,763,894)
BALANCE, DECEMBER 31, 2004	11,214,247	\$ 112,142,470	625,000	\$ 6,250,000	\$ 26,217,920	\$ -	\$ 1,585,799	\$ ( 10,805,965)	\$ ( 9,220,166)	\$ ( 629,978)	\$ ( 368,820)	\$ ( 2,530)	\$ -	\$ -	( 881,451)	( 15,982,887)	\$ 118,406,009

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

(With Deloitte &amp; Touche audit report dated February 21, 2005)



**CONSOLIDATED STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net loss	\$( 4,763,894)	\$( 13,041,233)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for loss on long-term investments	10,312,518	10,475,565
Increase (decrease) in payables	( 7,746,728)	6,650,806
Decrease in securities purchased for trading purposes	6,857,743	356,503
Increase (decrease) in securities sold under agreements to repurchase	5,591,120	( 4,370,973)
Decrease (increase) in acquired loans	3,402,868	( 9,800,039)
Increase in operating securities	( 3,310,735)	( 616,346)
Decrease (increase) in securities purchased under agreements to resell	( 1,256,161)	24,562
Decrease (increase) in receivables	1,042,488	( 713,686)
Provision for bad debts and losses on guarantees	934,564	6,684,680
Investment loss under the equity method, net	911,952	2,777,707
Increase in receivable amount for margin loans, refinancing margin and refinancing deposit receivable	( 679,724)	( 2,889,471)
Futures trading margin	( 654,355)	( 562,830)
Deposit payable for securities financing	599,379	132,653
Adjustment in exchange gain on European convertible bonds	( 575,467)	( 49,911)
Increase in securities financing guarantee deposit	484,774	121,520
Cash dividends received from the equity-method investees	425,408	374,132
Depreciation and amortization	375,464	474,783
Loss (gain) on change in fair value of call (put) warrant liabilities	348,500	( 1,400)
Provision for (reversal of) losses on operating securities	210,621	( 54,033)
Increase (decrease) in other current liabilities	( 209,022)	538,132
Decrease in repurchased of issued call (put) warrants	( 167,675)	( 217,854)
Pension benefit payments charged against reserve	( 149,553)	( 106,408)
Increase (decrease) in derivative financial product liabilities	( 139,796)	1,194,875
Loss (gain) on change in fair value of repurchased of issued call (put) warrant	( 96,384)	51,051
Provision for pension expenses	92,818	110,127
Provision of allowance for loss on idle assets	90,000	-
Increase (decrease) in call (put) warrant liabilities	( 68,500)	210,500
Amortization of premium on bonds payable	( 46,204)	( 16,285)
Provision for (reversal of) trading losses reserve	( 44,541)	89,198
Increase in deferred income taxes	( 37,424)	( 255,428)
Increase in other financial assets - current	( 36,100)	( 209,062)
Cash flow from debit/credit items for consigned trading	( 24,673)	( 31,797)
Provision for (reversal of) losses on collaterals assumed	( 18,981)	36,013
Reversal of allowance for decline in market value of securities purchased	-	( 590,041)
Loss on disposal of collaterals assumed	-	30,549
Other	181,394	657,898
Net cash provided by (used in) operating activities	11,835,694	( 2,535,543)

(Continued)

	2004	2003
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in long-term investments	\$ (20,633,659)	\$ (11,626,930)
Decrease in loans, discounts and bills purchased	8,669,825	13,916,872
Increase in securities purchased under agreements to resell	( 3,897,205)	-
Cost of long-term investments sold	3,663,473	4,297,798
Increase in due from the Central Bank and other banks	( 1,189,432)	( 7,173,074)
Decrease (increase) in restricted assets	835,427	( 1,039,168)
Increase in other assets	( 374,397)	( 1,537,807)
Acquisition of properties	( 190,972)	( 375,553)
Proceeds from acquired loans sold	183,000	332,000
Proceeds from liquidation and capital decrease of investees	105,450	-
Proceeds from disposal of properties and idle assets	55,452	20,543
Net cash used in investing activities	( 12,773,038)	( 3,185,319)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in securities sold under agreements to repurchase	8,324,303	-
Increase in bank debentures payable	7,500,000	1,100,000
Decrease in deposits and remittances	( 6,794,783)	( 3,304,887)
Increase (decrease) in call loans from banks	( 6,788,495)	3,751,447
Increase in long-term loans	4,674,856	2,725,505
Increase (decrease) in commercial paper payable	( 1,807,877)	2,209,544
Increase (decrease) in short-term loans	( 848,409)	830,017
Increase (decrease) in other liabilities	254,097	( 135,428)
Reissue of treasury stock	125,436	92,703
Increase in bonds payable	-	9,000,000
Decrease in European convertible bonds	-	( 7,215,697)
Cash dividends paid	-	( 846,780)
Payment of preferred dividends	-	( 520,000)
Remuneration to directors and supervisors and bonus to employees	-	( 186,232)
Net cash provided by financing activities	4,639,128	7,500,192
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,701,784</b>	<b>1,779,330</b>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<b>( 80,178)</b>	<b>( 16,748)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>3,753,207</b>	<b>1,990,625</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 7,374,813</b>	<b>\$ 3,753,207</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 2,651,961	\$ 2,373,004
Income tax paid	\$ 725,928	\$ 115,704
<b>NONCASH INVESTING ACTIVITIES</b>		
Common stock converted from ECBs with one-year maturities	\$ 9,501,154	\$ -
Operating securities reclassified as other long-term investments	\$ 103,160	\$ -

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated February 21, 2005)



## Audited Financial Reports

### China Development Financial Holding Corporation

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
China Development Financial Holding Corporation

We have audited the accompanying balance sheets of China Development Financial Holding Corporation as of December 31, 2004 and 2003, 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 Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants, the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions 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 financial statements referred to above present fairly, in all material respects, the financial position of China Development Financial Holding Corporation as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with Criteria Governing the Preparation of Financial Reports by Financial Holding Companies and accounting principles generally accepted in the Republic of China.

As disclosed in Note 4 to the accompanying financial statements, effective January 1, 2003, China Development Industrial Bank Inc. (CDIB, a Corporation subsidiary) changed its method for evaluating securities purchased. Starting in 2003, securities purchased are carried at the lower of cost or market of the total investment portfolio instead of each investment portfolio. In addition, CDIB's sales and purchases of bonds under agreements to repurchase or to resell were treated as outright sales or purchases. However, under the Criteria Governing the Preparation of Financial Reports by Public Banks effective January 1, 2004, the repurchase/resell transactions will be treated as financing. Also, effective May 27, 2003, in accordance with the rules issued by the Gre Tai Securities Market (the over-the-counter securities exchange of the Republic of China), Grand Cathay Securities Corporation's (a Corporation subsidiary) net gains or losses on bonds that are hedged through interest rate swap contracts are determined on individual-security basis instead of the portfolio basis used in prior periods.

We have also issued an auditors' report on the consolidated financial statements of China Development Financial Holding Corporation as of and for years ended December 31, 2004 and 2003, in which we have expressed a modified unqualified opinion.

*Deloitte & Touche*

February 21, 2005

#### 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 and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying 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.



**BALANCE SHEETS**

DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2004		2003	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and deposits	\$ 3,283,504	2	\$ 924,954	1
Receivables	1,116,596	1	528,210	-
Prepaid expenses	5,844	-	7,412	-
Total current assets	4,405,944	3	1,460,576	1
<b>LONG-TERM EQUITY INVESTMENTS</b>				
Equity method	119,883,330	89	127,264,729	92
Cost method	10,000,000	8	10,000,000	7
Long-term equity investments, net	129,883,330	97	137,264,729	99
<b>PROPERTIES, NET</b>	16,984	-	12,230	-
<b>OTHER ASSETS</b>	6,546	-	73,795	-
<b>TOTAL</b>	<b>\$ 134,312,804</b>	<b>100</b>	<b>\$ 138,811,330</b>	<b>100</b>

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated February 21, 2005)

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Bank loans	\$ 8,115,297	6	\$ 6,669,411	5
Commercial paper payable	600,000	-	410,000	-
European convertible bonds, net	394,379	-	-	-
Payables	788,278	1	243,755	-
Total current liabilities	9,897,954	7	7,323,166	5
<b>LONG-TERM LIABILITIES</b>				
Corporate bonds payable	6,000,000	5	6,000,000	4
European convertible bonds, net	-	-	10,517,204	8
Total long-term liabilities	6,000,000	5	16,517,204	12
<b>OTHER ASSETS</b>	8,841	-	165	-
Total liabilities	15,906,795	12	23,840,535	17
<b>STOCKHOLDERS' EQUITY</b>				
Stock - authorized 20,000,000 thousand shares				
Common stock - \$10 par value; issued 11,214,247 thousand shares in 2004 and 11,250,818 thousand shares in 2003	112,142,470	83	112,508,180	81
Preferred stock - \$10 par value; issued 625,000 thousand shares	6,250,000	5	6,250,000	5
Capital surplus				
Issue of stock in excess of par value	26,217,920	20	36,110,548	26
Treasury stock transactions	-	-	26,067	-
Accumulated losses	( 9,220,166)	(7)	( 8,201,641)	(6)
Unrealized losses on long-term investments	( 629,978)	(1)	( 68,292)	-
Cumulative translation adjustments	( 368,820)	-	490,571	-
Net loss not recognized as pension costs	( 2,530)	-	-	-
Treasury stock - at cost				
Held by the Corporation - 650,899 thousand shares in 2003	-	-	( 15,123,545)	(11)
Held by subsidiaries - 881,451 thousand shares in 2004 and 927,719 thousand shares in 2003	( 15,982,887)	(12)	( 17,021,093)	(12)
Total stockholders' equity	118,406,009	88	114,970,795	83
<b>TOTAL</b>	<b>\$ 134,312,804</b>	<b>100</b>	<b>\$ 138,811,330</b>	<b>100</b>



**STATEMENTS OF INCOME**

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	2004		2003	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Investment income under the equity method	\$ 995,188	65	\$ 1,348,495	72
Investment income	523,492	34	523,808	28
Other revenue	8,954	1	6,736	-
Total operating revenues	1,527,634	100	1,879,039	100
<b>OPERATING COSTS</b>				
Investment loss under the equity method	( 6,160,777)	( 403)	( 14,513,350)	( 772)
GROSS LOSS	( 4,633,143)	( 303)	( 12,634,311)	( 672)
OPERATING EXPENSES	( 478,492)	( 32)	( 405,297)	( 22)
OPERATING LOSS	( 5,111,635)	( 335)	( 13,039,608)	( 694)
NONOPERATING INCOME AND REVENUE	1,068,693	70	451,433	24
NONOPERATING EXPENSES AND LOSSES	( 271,940)	( 18)	( 257,318)	( 14)
LOSS BEFORE INCOMETAX	( 4,314,882)	( 283)	( 12,845,493)	( 684)
INCOMETAX EXPENSE	( 449,012)	( 29)	( 195,740)	( 10)
NET LOSS	<u>\$ ( 4,763,894)</u>	<u>( 312)</u>	<u>\$ ( 13,041,233)</u>	<u>( 694)</u>

	2004		2003	
	Pretax	After-tax	Pretax	After-tax
<b>LOSS PER SHARE</b>				
Basic	<u>\$ ( 0.50)</u>	<u>\$ ( 0.54)</u>	<u>\$ ( 1.38)</u>	<u>\$ ( 1.40)</u>
Diluted	<u>\$ ( 0.50)</u>	<u>\$ ( 0.54)</u>	<u>\$ ( 1.38)</u>	<u>\$ ( 1.40)</u>
Pro forma information under the assumption that the Corporation's shares held by its subsidiaries were not treated as treasury stock:				
	2004		2003	
	Pretax	After-tax	Pretax	After-tax
NET LOSS	<u>\$ ( 4,314,882)</u>	<u>\$ ( 4,763,894)</u>	<u>\$ ( 12,845,493)</u>	<u>\$ ( 13,041,233)</u>
BASIC LOSS PER SHARE	<u>\$ ( 0.46)</u>	<u>\$ ( 0.50)</u>	<u>\$ ( 1.28)</u>	<u>\$ ( 1.30)</u>
DILUTED LOSS PER SHARE	<u>\$ ( 0.46)</u>	<u>\$ ( 0.50)</u>	<u>\$ ( 1.28)</u>	<u>\$ ( 1.30)</u>

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated February 21, 2005)



## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	Stock		Capital Surplus	Retained Earnings		(Accumulated Losses)		Unrealized Losses on Long-term Investments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Costs	Treasury Stock		Total Stockholders' Equity					
	Common Stock			Preferred Stock		Legal Reserve	Special Reserve				Unappropriated Earnings (Deficits)	Subtotal		Held by the Corporation	Held by Subsidiaries			
	Shares (in Thousands)	Amount		Shares (in Thousands)	Amount											Shares (in Thousands)	Amount	
BALANCE, JANUARY 1, 2003	10,769,674	\$ 107,696,737	625,000	\$ 6,250,000	\$ 41,262,999	\$ 13,047	\$ 6,133	\$ 6,145,796	\$ 6,164,976	\$( 1,236,863)	\$ 786,103	\$ -	( 650,899)	\$( 15,123,545)	( 914,470)	\$( 17,327,374)	\$ 128,473,033	
Appropriation of 2002 earnings:																		
Legal and special reserve	-	-	-	-	-	614,580	4,205,832	( 4,820,412)	-	-	-	-	-	-	-	-	-	-
Cash dividends - \$0.085 per share	-	-	-	-	( 109,590)	-	-	( 737,190)	( 737,190)	-	-	-	-	-	-	-	-	( 846,780)
Preferred dividends	-	-	-	-	-	-	-	( 520,000)	( 520,000)	-	-	-	-	-	-	-	-	( 520,000)
Bonuses and remunerations to:																		
Directors and supervisors	-	-	-	-	-	-	-	( 60,000)	( 60,000)	-	-	-	-	-	-	-	-	( 60,000)
Employees- stocks	819	8,194	-	-	-	-	-	( 8,194)	( 8,194)	-	-	-	-	-	-	-	-	-
Capitalization of capital surplus - \$0.5 per share	498,096	4,980,960	-	-	( 4,980,960)	-	-	-	-	-	-	-	-	-	-	-	-	-
Translation adjustments on investments of equity-method investees	-	-	-	-	-	-	-	-	-	-	( 295,532)	-	-	-	-	-	-	( 295,532)
Reversal of unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-	-	-	-	-	1,168,571	-	-	-	-	-	-	-	1,168,571
Write-off of treasury stock - Grand Cathay Securities Corporation	( 17,771)	( 177,711)	-	-	( 36,342)	-	-	-	-	-	-	-	-	-	17,771	214,053	-	-
Repurchase of treasury stock - First Taiwan Securities Inc.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	( 220)	( 3,114)	( 3,114)	-
Resale of treasury stock - First Taiwan Securities Inc.	-	-	-	-	33	-	-	-	-	-	-	-	-	-	220	3,114	3,147	-
Transfer of treasury stocks to employees - Grand Cathay Securities Corporation	-	-	-	-	475	-	-	-	-	-	-	-	-	-	6,830	92,228	92,703	-
Stock dividends received by subsidiaries from the Corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	( 37,850)	-	-	-	-
Net loss in 2003	-	-	-	-	-	-	-	( 13,041,233)	( 13,041,233)	-	-	-	-	-	-	-	-	( 13,041,233)
BALANCE, DECEMBER 31, 2003	11,250,818	112,508,180	625,000	6,250,000	36,136,615	627,627	4,211,965	( 13,041,233)	( 8,201,641)	( 68,292)	490,571	-	( 650,899)	( 15,123,545)	( 927,719)	( 17,021,093)	114,970,795	
Accumulated deficit offset by legal reserve	-	-	-	-	( 9,787,440)	( 627,627)	( 2,626,166)	13,041,233	9,787,440	-	-	-	-	-	-	-	-	-
Translation adjustments on investments of equity-method investees	-	-	-	-	-	-	-	-	-	-	( 859,391)	-	-	-	-	-	-	( 859,391)
Unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-	-	-	-	-	( 561,686)	-	-	-	-	-	-	-	( 561,686)
Write-off of treasury stock - China Development Industrial Bank Inc.	( 36,571)	( 365,710)	-	-	( 131,255)	-	-	( 410,637)	( 410,637)	-	-	-	-	-	36,571	907,602	-	-
Transfer of treasury stocks to employees - Grand Cathay Securities Corporation	-	-	-	-	-	-	-	( 5,168)	( 5,168)	-	-	-	-	-	9,697	130,604	125,436	-
Transfer of European convertible bonds	-	-	-	-	-	-	-	( 5,626,266)	( 5,626,266)	-	-	-	650,899	15,123,545	-	-	9,497,279	-
Net loss not recognized as pension costs	-	-	-	-	-	-	-	-	-	-	( 2,530)	-	-	-	-	-	( 2,530)	-
Net loss in 2004	-	-	-	-	-	-	-	( 4,763,894)	( 4,763,894)	-	-	-	-	-	-	-	-	( 4,763,894)
BALANCE, DECEMBER 31, 2004	11,214,247	112,142,470	625,000	6,250,000	26,217,920	-	1,585,799	\$( 10,805,965)	\$( 9,220,166)	\$( 629,978)	\$( 368,820)	\$( 2,530)	\$ -	\$ -	( 881,451)	\$( 15,982,887)	\$ 118,406,009	

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

(With Deloitte &amp; Touche audit report dated February 21, 2005)



**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$( 4,763,894)	\$( 13,041,233)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Investment loss under the equity method, net	5,165,589	13,164,855
Cash dividends received from the equity-method investees	920,169	4,800,426
Adjustment in exchange gain on European convertible bonds	( 575,467)	( 49,911)
Depreciation and amortization	70,354	208,288
Amortization in premium on corporate bonds payable	( 46,204)	( 16,285)
Provisions for pension expenses	3,700	-
Preferred cash dividends received	-	520,000
Net changes in operating assets and liabilities:		
Receivables	( 588,386)	( 527,159)
Prepaid expenses	1,568	( 1,352)
Payables	544,523	230,361
Net cash provided by operating activities	731,952	5,287,990
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of properties	( 7,516)	( 11,502)
Increase in other assets	( 1,687)	( 97,301)
Decrease in long-term investment	-	1,444,405
Net cash provided by (used in) investing activities	( 9,233)	1,335,602
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in bank loans	1,445,886	( 3,700,589)
Increase (decrease) in commercial paper payable	190,000	( 590,000)
Increase (decrease) in other liabilities	( 55)	165
Decrease in European convertible bonds	-	( 7,215,697)
Increase in corporate bonds payable	-	6,000,000
Cash dividend	-	( 846,780)
Payment of preferred paid dividends	-	( 520,000)
Remuneration to directors and supervisors	-	( 60,000)
Net cash provided by (used in) financing activities	1,635,831	( 6,932,901)
INCREASE (DECREASE) IN CASH AND DEPOSITS	2,358,550	( 309,309)
CASH AND DEPOSITS, BEGINNING OF YEAR	924,954	1,234,263
CASH AND DEPOSITS, END OF YEAR	\$ 3,283,504	\$ 924,954

	2004	2003
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 276,868	\$ 233,006
Income tax paid	\$ 402	\$ 502
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Common stocks converted from European convertible bonds with one-year maturities	\$ 9,501,154	\$ -

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche audit report dated February 21, 2005)



## OUR TEAM

### CDFH

#### Executive Officers

**Mu-Tsai Chen**  
Chairman

**Angelo J.Y. Koo**  
President and Chief Executive Officer

**Daniel C. Wu**  
Senior Executive Vice President

**David Chen**  
Executive Vice President

**Jack J.L. Chow**  
Executive Vice President  
& Auditor General

**Lawrence S. Liu**  
Executive Vice President and  
Chief Strategy Officer

**Sherie Chiu**  
Executive Vice President  
and Chief Financial Officer

**Melanie Y.C. Nan**  
Executive Vice President  
and General Counsel

**Joyce J.R. Chen**  
Executive Vice President

**Lai-Tsung Tsai**  
Executive Vice President

**Stan Siao**  
Executive Vice President

**Paul Wong**  
Executive Vice President

### CDIB

#### Executive Officers

**Angelo J.Y. Koo**  
Chairman and Chief Executive Officer

**Jeffrey C.J. Suen**  
President

**David Chen**  
Senior Executive Vice President

**Lai-Tsung Tsai**  
Executive Vice President

**Joyce J.R. Chen**  
Executive Vice President

**Jack J.L. Chow**  
Executive Vice President

**Shern-Yu Gong**  
Senior Vice President

**Jao-Ming Mong**  
Senior Vice President

**Johny Liu**  
Senior Vice President

**Eric Chuang**  
Senior Vice President

**Cheng-Liang Chou**  
Senior Vice President

**Ethan Hsu**  
Senior Vice President

**Chiang Sung**  
Senior Vice President

**Anne M.Y. Kuo**  
Senior Vice President

**Andy Dong**  
Vice President

**Chao Lun Pai**  
Vice President

**Hsue-Lee Lee**  
Vice President

**Tsung-Ching Tong**  
Vice President

**Sheng-Kun Chen**  
Vice President

**Ting-Fu Cheng**  
Vice President

**Josephine Tung**  
Vice President

**Paul Pang**  
Vice President

**Chimmy Wu**  
Vice President

**Peter Sun**  
Vice President

### GCSC

#### Executive Officers

**Stan Siao**  
Chairman of the Board

**Jeff Wang**  
President

**Michael Chang**  
Senior Executive Vice President

**Daniel S. Hsu**  
Senior Executive Vice President  
and Chief Financial Officer

**Jason Lee**  
Senior Executive Vice President

**Frank Fang**  
Senior Executive Vice President

**Samuel Shyong**  
Senior Executive Vice President

**Jason Cheng**  
Executive Vice President

**Frank Wang**  
Executive Vice President

**Yiming Weng**  
Executive Vice President

**Ted Huang**  
Executive Vice President

**Gary Huang**  
Executive Vice President

**Jimmy Cheng**  
Chief Auditor

**Jeff Huang**  
Executive Vice President



## **Company Information**

### **Annual Report**

Posted on CDFH's company website under "Investor Relations"

### **2003 Financial Statements**

Posted on CDFH's company website under "Investor Relations"

### **Directors and Supervisors**

Posted on CDFH's company website under "Investor Relations"

### **Direct Investment Portfolio Analysis**

Posted and regularly updated on CDFH's company website under "Investor Relations"

### **Risk Management**

Posted and regularly updated on CDFH's company website under "Investor Relations"

## **Information for Investors**

### **Registrar and Transfer Agent**

Grand Cathay Securities Corp.Registrar Dept.  
5F, No. 2, Sec. 1, Chung Ching South Road,  
Taipei, Taiwan, R.O.C.  
Tel: 886 2 2389 2999 Fax: 886 2 2389 6042

### **Investor Hot Line**

Tel: 0800 212 791 (domestic toll-free)

### **Investor Relations**

China Development Financial Holding Corp.  
Spokesperson / Sherie Chiu  
Tel: (02) 2756 1715

### **Shareholders Meeting Information**

Posted and regularly updated on CDFH's company website under "Investor Relations"

## **中華開發金融控股公司**

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