



2005

ANNUAL REPORT

Transition . Consolidation . Expansion



中華開發金融控股公司

CHINA DEVELOPMENT FINANCIAL HOLDING CORPORATION

China Development Financial Holding Corp. (CDFH) was established in December 2001 through a share swap with China Development Investment Bank and is composed of CDIB and Grand Cathay Securities Corporation. CDIB's main services include deposit accounts for corporate clients, loan facilities, direct investment, local and foreign remittances, and trust services as permitted by local authorities. Grand Cathay Securities is a full-service securities firm that brokers equities and bonds and engages in proprietary trading, new issue underwriting, registrar and transfer agent services and derivatives trading. Our team of highly specialized financial professionals enables us to provide a complete range of high value-added financial and wealth management services that can satisfy even the most demanding corporate and individual clients .

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China Development Financial Holding Corporation and Subsidiaries

Unit: NT\$ million, except NT\$ for per share information	2005	2004
Total Assets	280,541	260,377
Shareholders' Equity	131,029	118,406
Total Revenue	22,572	15,514
Net Income	10,540	(4,764)
Earnings per Share	0.96	(0.54)
Book Value Per Share	11.46	10.39
Return on Equity	8.44%	(4.08)%
Return on Assets	7.61%	(3.34)%
Other Information		
Double Leverage Ratio	108.92%	109.69%
Capital Adequacy Ratio	223.70%	223.60%

Total Assets



Shareholders' Equity



Total Revenue



Net Income





CDFH Chairman Chen-Yi Lin (right) and President and CEO Angelo J. Y. Koo (left)

China Development Corporation was established on May 14, 1959 and later became China Development Industrial Bank.

At a CDIB shareholders meeting on June 20, 2001, shareholders approved the establishment of China Development Financial Holdings Corporation through a share swap with the bank. CDFH formally commenced operations on December 28, 2001, with CDIB becoming a wholly owned subsidiary of CDFH.

Grand Cathay Securities Corp. was established on November 22, 1988. CDFH took over Grand Cathay Securities and First Taiwan Securities Corp. on November 8, 2002, and completed the merger of the two firms on December 31, 2002.

A New
Beginning**China Development Financial Holding: A New Beginning**

China Development Financial Holding (“CDFH”) and our predecessor, China Development Industrial Bank (“CDIB”), have been serving clients for 47 years, nurturing many businesses to success. In the early days of our proud past, we cooperated closely with the government in carrying out its economic policies, assuming a pioneering role in launching new industries and helping the country overcome challenges during difficult times. We made significant contributions to the promotion of the country's economic and industrial growth.

In recent years, however, as financial markets have grown increasingly volatile and competitive, financial service providers have been forced to redefine and reposition themselves. After meticulous planning, we decided to strategically expand our investment banking operations through mergers and acquisitions. By expanding the scale of our brokerage services, we have increased our revenues and diversified our sources of income, and, at the same time, capitalized on the abundant industrial resources and financial advantages of our subsidiaries to build one of Asia's top investment banks. To meet the internal and market challenges now confronting us, we are currently focused on reorganizing our investment businesses and developing new financial products.

We are integrating our domestic and foreign investments into one platform while consolidating our resources domestically and within the Asia-Pacific region, giving us a major competitive edge. We are also combining the sales activities of CDIB and Grand Cathay Securities Corp. to create a cross-selling platform. The newly established Treasury Market Unit offers our clients a one-stop outlet for a full range of financial services and products and helps them diversify investment risks through a combination of bonds, foreign currencies and derivatives.

Following a period of internal adjustment, CDFH generated outstanding results in fiscal 2005. Group revenues reached NT\$11.9 billion, seven times higher than revenues in fiscal 2004. Our after-tax profit was NT\$10.49 billion, a complete turnaround from the previous year's loss of NT\$4.764 billion. Earnings per share (EPS) hit NT\$0.96, while return on assets (ROA) and return on equity (ROE) reached 7.61% and 8.44% respectively. Grand Cathay Securities also had an outstanding year, reporting after-tax profits of NT\$1.443 billion, a five-year high. Its 2005 after-tax EPS of NT\$1.22 and ROE of 8.86% were the highest in the industry. With Grand Cathay Securities aggressively pursuing new investment banking and brokerage business, we expect a further breakthrough in fiscal 2006.

Although our business is constantly evolving, our core values have remained the same. We take pride in our relationships with our clients and cherish our employees, and promise that we will always be accountable to our shareholders and society.

Board of
Directors and
Supervisors

Chen-Yi Lin	Chairman	The International Commercial Bank of China
Angelo J. Y. Koo	Managing Director	Chien Ta Investment Co., Ltd.
Alan Wang	Managing Director	Chi Chie Investment Co., Ltd.
Long-I Liao	Independent Director	
Kou-I Yeh	Managing Director	Fulltime Investment Corp.
Sing-Ju Chang	Managing Director	Yuen Foong Yu Paper MFG. Co., Ltd. Grand Pacific Petrochemical Corp. LiLontex Corporation
Min-Hsun Chen	Director	Minlead Ltd.
Fu-Lin Chen	Director	Ye Chen Investment Co., Ltd.
Shiau Fung-Shyun	Director	Peck's Holding Ltd.
Han-Ton Lim	Director	Yao-Hwa Glass Co., Ltd. Management Commission
Chin Lin	Director	Acer Investment Inc.
Carolyn Yeh Shih	Director	Bank of Taiwan
Sam S. Chen	Director	Yao-Hwa Glass Co., Ltd. Management Commission
Ching-Jen Chen	Director	The International Commercial Bank of China
Meei Yeh Wei	Director	Bank of Taiwan
Shing-Shiang Ou	Director	Kai Tung Investment Co., Ltd.
Lawrence S. Liu	Director	
Gilbert Bao	Director	
Sherie Chiu	Director	KGI Securities Co., Ltd.
Tung Chao Chin	Director	GPPC Chemical Co., Ltd.
Chia Juch Chang	Independent Supervisor	
Fu Chuan-Hsun	Supervisor	Chunghwa Post Co., Ltd.
Kuo Yu Ling	Supervisor	China Life Insurance Co., Ltd.

China Development Financial Holding Corporation

China Development Industrial Bank

Grand Cathay Securities Corp.

Subsidiaries -Domestic

Subsidiaries -Overseas

China Venture Management, Inc.
Sino-Scan Venture Fund, Ltd.
R.O.C. Strategic Company, Ltd.
CDIB Strategic Venture Fund, Ltd.
R.O.C. Venture Company, Ltd.
China Development Asset Management Corporation
CDIB Equity Inc.
CDIB Knowledge-based Economy Capital Co., Ltd.
China Development Global Information Corporation
CDC Finance & Leasing Corporation

CDIB Venture Investment (USA) Limited
CDIB Venture Investment (ASIA) Limited
CDM Corporation
Japan Venture Capital Corporation
CDIB Capital Investment (Korea) Corp.
CDIB Europe Investment Co.
CDIB Australia Investment Inc.
CDIB Bioventures, Inc.
WebVC Corp.
CDIB Biotech USA Investment, Co., Ltd.
CDIB Biotech Venture Management, Inc.
CDIB Capital Investment Japan Ltd.
CDIB Capital Investment America Ltd.

Grand Cathay Futures Corporation
Grand Cathay Investment Services Corporation
Grand Cathay Managed Futures Corporation
Grand Cathay Holding Ltd.

Net profit in **2005** from our Direct Investment Department

totaled **NT\$7.25** billion,

beating expected targets by more than **10%**.

The amount of funds allocated totaled **NT\$8** billion,

a **30%** increase over **2004**.

China Development Industrial Bank

Investment Operations

Corporate Banking
Business

Project Financing

Treasury Marketing
Business

Investment Operations

China Development Financial Holding has generated consistently strong returns over our nearly five decades in the direct investment business. By the end of 2005, we were managing investments valued at NT\$70.3 billion in 425 companies through our Direct Investment Department. Our portfolio covers mainly electronic and related peripherals businesses engaged in a broad range of fields, from wireless communications, consumer electronic goods, optoelectronics and semiconductors to automotive parts, medical equipment, energy and the environment, biotechnology and pharmaceuticals. It is the largest portfolio dedicated to Taiwan's manufacturing sector and has a strong track record.

Backed by the Group's integrated resources and wealth of investment management experience, we offer our clients stable and diversified financial tools and management guidance that go beyond simple lending. Our partnership with Dragon Steel Corp. is a prime showcase of our capabilities. We helped Dragon Steel raise NT\$27 billion in capital to build a new blast furnace steel mill. Once the factory is completed, the company will have a stable supply of raw material that will help it lower production costs and improve the competitiveness of its products. We also helped Kingroup Automation Industry Corp. and Gallant Precision Machining Company complete successful mergers and also successfully participated in the listing of CCFL (cold cathode fluorescent light) giant Wellypower Optronics Corporation's initial public offering through a book building process.

Net profit in 2005 from our Direct Investment Department totaled NT\$7.25 billion, beating expected targets by more than 10%. The amount of funds allocated totaled NT\$8 billion, a 30% increase over 2004. At the same time, to integrate our domestic and foreign investments, our Direct Investment Department revamped its organizational structure and strategy in the following ways:

- Combined domestic and overseas investments into one department, resulting in the creation of a strategic alliance among our domestic and international clients where they can obtain new technology, solicit orders and secure outsourcing opportunities among themselves. This alliance links Taiwan's industries with other businesses in the Asia-Pacific region.
- Reorganized our business departments into specialized industrial groups, including optoelectronics, communications and semiconductors, information

electronics, traditional industries and life science. This enables us to master industry trends and enhance our deal sourcing capability.

- Optimized our investment portfolio to maximize strategic synergies and minimize investment risk and profit volatility.
- Developed new product lines to diversify risk, while at the same time expanding our sources of revenues and stabilizing our income streams.
- Became the lead investor in more projects, allowing us to structure the investment terms in ways that were optimal for us.
- Improved performance assessments and compensation systems to bring us in line with the top financial institutions in the Asia-Pacific region. This will enable us to attract the best talent in the field and gradually evolve into one of the top investment banks in the region.

We are also aggressively pursuing strategic relationships with top financial institutions around the globe, strategic partnerships that will not only raise our profile internationally but also offer us co-investment opportunities in other countries. The new product lines and profit opportunities derived from these initiatives will reduce our dependence on the risky Taiwan Stock Exchange. To ensure that our capital is invested in companies that offer our shareholders healthy returns within a reasonable time period, we are also carefully screening our portfolio. Investments with profit horizons of longer than three to four years may be divested.

Strengthening the productivity of our employees has been another key goal of our transition. We are currently consolidating our talent in every department and energetically reconfiguring our investment teams to unleash strategic synergies. We have established a business development unit that will not only support our industry-specific teams in drumming up business domestically, but also assist in the promotion of new products that will result in greater profitability and a stable income stream.

Corporate Banking Business

China Development Financial Holding is a leader in the corporate banking market because of the strong bond of mutual trust we have developed with our clients over the years. Our corporate banking business offers corporations and institutions loans, guarantees, loan syndication services and accounts receivable financing.



To strengthen our corporate banking performance, we are revising our strategic and commercial philosophy in a number of ways. First, we are optimizing loan terms and durations to decrease the weighting of mid- to long-term loans in our portfolio and are also extending the scope of our services to include financing for mergers and acquisitions and corporate debt restructuring. We primarily target medium to large enterprises with substantial growth potential, assisting them not only with working capital financing but also by providing financial planning support that helps them reduce operational costs.

Second, in view of changing market conditions and client needs, we have aggressively developed real estate trust and real estate securitization products. One product of note is our Real Estate Development Trust, which gives developers comprehensive financial backing under the management and control of a trust mechanism. This product ensures that projects will not be abruptly terminated before completion because of financial shortfalls, protecting the interests of both property developers and buyers. In the future, the trust business will support new opportunities with innovative financing features to help bolster revenues.

Our corporate banking business has also unleashed the cross-marketing synergies inherent to financial holding companies. These synergies are likely to yield even greater dividends in the coming year when the domestic economy, stock market and real estate sector are all expected to shine. China Development's cross-departmental sales strategy, expanded corporate banking platform and new financing products of greater scope and diversity leave us well positioned to capitalize on these positive economic trends and hit our target of 10% growth in our on-loan balance.

Project Financing

Project financing is an extremely important element in China Development Financial Holding's efforts to promote development financing. We have been a



leader among Taiwan's financial institutions in backing large projects since first getting involved in this niche market in 1984. In the 1980s, we acted primarily as financial advisers on large government transportation projects. More recently, we have acted in a similar capacity in major private infrastructure ventures as the government began adopting the BOT model or cooperated with private companies to undertake large-scale construction projects. CDFH develops financial and structural feasibility studies for these large-scale projects and also finances or invests in these projects in their later stages.

Beginning in 2004, we aggressively pursued corporate restructuring and merger and acquisition opportunities, targeting companies facing difficulties that had operational value or positive outlooks in their respective industries. As a financial adviser, we assess the enterprise's value, arrange new investment or financing and offer comprehensive financial planning that helps revive struggling enterprises and expands their commercial viability. CDFH can also provide management guidance and, if necessary, will actively solicit the participation of strategic partners to effectively reduce operational risks.

Our project financing business is well developed. Aside from investing in five private power plants that generate NT\$518 million in cash dividends per year, we completed the restructuring of Takumi Technology Co., Ltd. and China Fineblanking Technology Company in 2005, injecting much-needed capital and bringing about dramatic improvements in the companies' operations and financial situations. We have also been successful in the highly competitive syndication loan market, having arranged syndicated loans for two companies, Feng Hsin Iron & Steel Co., Ltd. and Vibo Telecom Inc., and refinanced Chiahui Power Corporation through a syndicated loan.

This year, our main commercial priorities will be corporate restructuring, mergers and acquisitions, corporate fixed income real estate securitization planning services and investments in industries with lower risk profiles and stable income streams.

Treasury Marketing Business

China Development Financial Holding's treasury marketing business primarily deals in short-term investments such as fixed income instruments, negotiable securities, convertible bonds and index futures.

To tap the potential of the market, our Treasury Department established a Treasury Marketing Unit in 2004 that tailors each project to the client's needs. Corporate customers are offered a broad range of risk hedging products, such as derivatives and foreign exchange-related products, that can help clients manage the financial risks associated with their assets and liabilities.

We primarily trade listed negotiable securities, and to expand our operations in this area, we recently created the Equity Trading Department. It specializes in convertible bonds and derivatives trading, index futures, options and other risk-hedging instruments. The department also effectively limits the exposure of our short- and long-term investments to market-driven risk.

Capitalizing on the holding company's resources, we are integrating Grand Cathay Securities' product development capability with China Development Investment Bank's comprehensive cross-selling platform, creating a one-stop sales outlet that embraces a common marketing approach. Aside from maintaining our edge in equity-linked notes, the active participation of the TMU will also enhance the quality of the advisory services we offer to our corporate clients in the areas of financial planning, foreign currency management, and financial derivative trading.

We also expect to expand our existing trading platform to include our corporate clients' assets and liabilities. We offer them the latest domestic and foreign equity-linked investment instruments and risk hedging tools, including forward exchanges, exchange swaps, interest rate and exchange rate instruments, and options. There is also the possibility that in the near future we will be able to engage in commodities trading and related products to help companies manage risk and effectively lower their operational costs.

2005 after-tax net profit hit a five-year high at **NT\$1.443** billion, **45.03%** higher than the **NT\$995** million recorded in **2004**.

Our after-tax earnings per share of **NT\$1.22** and return on equity of **8.86%** both led the industry among financial institutions with paid-in capital over **NT\$10** billion.

Grand Cathay Securities Corporation

Underwriting

Fixed Income Securities
Business

Brokerage Business

Registrar Services

New Financial Instruments

Securitization Operations

Wealth Management Services

Grand Cathay Securities Corporation's restructuring initiatives, which included strategic adjustments and internal reorganization, paid off in 2005. After-tax net profit hit a five-year high at NT\$1.443 billion, 45.03% higher than the NT\$995 million recorded in 2004. Our after-tax earnings per share of NT\$1.22 and return on equity of 8.86% both led the industry among financial institutions with paid-in capital over NT\$10 billion.

Grand Cathay's core business remains securities-related, but backed by the resources and expertise of our holding company (CDFH), we now have the resources and service capabilities of an investment bank. Our products and services include brokerage, proprietary trading, underwriting, bonds, innovative financial instruments and wealth management. Having such a wide variety of tools at our disposal enables us to not only offer corporate clients basic financial advisory services, but also to help them improve their financial and capital structure, expand their business scope and improve their operational efficiency.

In 2006, Grand Cathay is determined to meet the challenges posed by the explosion in information technology and growing trend toward consolidation and globalization by undertaking mergers and acquisitions and strategic alliances. Our ultimate goal is to become a truly regional securities house in Asia-Pacific. At the same time, we continue to place a high priority on creating new financial instruments, developing up a global network, and enhancing the level of specialization of our team while strengthening our use of information technology and introducing cross-specialty financial services. These measures enable us to offer clients the most diversified and cost-effective sources of funds and provide investors with timely, convenient and wide-ranging wealth management services.

Underwriting

Grand Cathay's underwriting team consists of specialists who have a wealth of experience in the field, but our most important asset is the collective knowledge we can bring to all underwriting projects. We team up with our research, proprietary trading and bonds departments in each phase of every project, a collaborative effort that enhances the quality of the services we provide.

By the end of 2005, Grand Cathay had helped 181 firms list on Taiwan's stock exchange or over the counter market, effectively fulfilling its role as a bridge to capital markets for our clients. With our help, our clients were



able to obtain funds for long-term development, strengthen their capital structures and improve the overall efficiency and quality of their operations.

Fixed Income Securities Business

As part of an ongoing liberalization process, the government authorized a number of new products to be traded on the local bond market in 2004, and Grand Cathay pounced on the opportunity. We were the first securities firm to engage in conditional bond trading, a milestone in opening up the money market bond business. In 2005, our government bond business again flourished, as we executed trades of more than NT\$11.92 trillion in value, which made us one of the leaders in bond trading.

From 2000 to 2005, our bond department underwrote 105 bond issuances valued at NT\$153.535 billion, more than any other firm in the industry. We were the market leader in 2005, both in terms of total number of issuances and total underwritten amount. The Bond Department's wealth of experience in capital markets and strong network of ties it maintains with state-owned enterprises, private corporations and large-scale financial institutions, have provided the edge needed to stay on top in the underwriting market and allow us to achieve sustainable growth.

In 2005, we also continued to serve as the standard-bearer among securities firms for domestic asset trading. The value of Grand Cathay's transactions in convertible bonds and options exceeded NT\$17 billion for the year, more than doubling the volume achieved in 2004 while keeping our market share well above 30%.

Brokerage Business

In 2005, we streamlined our brokerage sales network from 34 to 24 outlets but still generated a 2.17% market share. We intend to continue restructuring our organization by eliminating branches that are either performing poorly or are too close to other outlets as part of our effort to control operational costs and increase our market share and profitability.

Registrar Services

Grand Cathay is one of Taiwan's market leaders in share registrar and transfer agent services. At the end of 2005, we had a client pool of 245 companies, including 76 listed on the Taiwan Stock Exchange, 44 listed on the over-the-counter exchange, 22 listed on the emerging stock market and 103 yet to go public.

New Financial Instruments

Taiwan's warrants market experienced tremendous growth in 2005, with securities firms issuing 878 warrants (including 88 for over-the-counter listed companies), a 114% increase over the 411 warrants issued in 2004. Grand Cathay issued 32 warrants in 2005, of which 24 were Taiex-listed while the remaining eight were listed on the over-the-counter market. In the options market, we successfully pushed for more rational pricing and stronger circulation of Taiwan Stock Exchange index options (TXO), financial options (TFO), electronics options (TEO) and stock options (STO). Our trading volume of 6,053,019 contracts represented a 3.67% market share. Aside from establishing ourselves as one of the main market makers in the options market, we also created a stable, low-risk income stream for our shareholders.

Grand Cathay has also been active in the structured notes market, one of 23 securities firms authorized to issue notes since the market was opened to securities firms in 2003. In a market that totaled NT\$39.1 billion in transaction volume in 2005, we issued 192 notes with a transaction value of NT\$2.9 billion, ranking us in the top five among securities firms.



Securitization Operations

Grand Cathay is recognized as the leader among securities firms in the asset securitization market, underwriting nearly a third of all securitization instruments. Within the fixed income market, the scale of securitization products has surpassed that of bonds and corporate debt, and last year we played a major role in the market by jointly issuing with China Development Investment Bank NT\$5.1 billion in corporate-debt securitization products. We will continue our partnerships with other financial institutions in offering innovative products in this market, targeting any company with assets generating stable cash flow streams, including corporate loans, accounts receivable, rental income, and bonds.

Wealth Management Services

CDFH combined the resources of its subsidiaries to set up the Wealth Management Division, which caters to the investment needs of high net-worth individuals, families and small-to-mid sized institutional investors. Our wealth management team offers a far more diversified portfolio of tools and instruments than the standard time deposits and trusts provided by commercial banks. We can help clients with wealth management and planning through an investment management package that integrates stocks, bonds, new financial derivatives and foreign instruments.

Underwriting Results	2005	2004
No. of IPOs Serving as Lead Underwriter	3	8
No. of Fundraising Cases Serving as Lead Manager	6	21
No. of Underwriting Cases	509,000	1,247,000
Total Underwriting Amount (million NT\$)	10,852	16,718
Ranking in Underwriting Amount	2nd	3rd

Bond Trading Results	2005	2004
Bond Sales (billion NT\$)	34.85	32.85
Bond Sales Ranking	1st	4th
Government Bond Transaction Volume (billion NT\$)	11,900	8,800
Government Bond Market Share	4.83%	6.33%
Government Bond Transaction Value Ranking	1st	1st

Securities Business Results	2005	2004
No. of Branches	24	34
Market Share	2.17%	2.43%
Market Share Ranking	14th	14th
Market Share per Branch	0.09%	0.07%

Registrar and Transfer Services	2005	2004
No. of Clients	245	265
Market Share	9.61%	10.39%
Ranking within Securities Sector	2nd	2nd
No. of Shareholders Served	3.35 million	3.58 million

New Financial Products Results	2005	2004
No. of Warrants Issued	32	26
Warrant Volume Ranking	10th	6th
Issued Warrant Value (billion NT\$)	1.104	1.52



TRANSITION







CONSOLIDATION





EXPANSION

CORPORATE RESPONSIBILITY

Being accountable to
our shareholders,
our employees and society

Risk Management

China Development's competitive edge in financial markets over the past five decades stems largely from our ability to effectively manage risk. We believe that the goal of risk management is not to eliminate the risk inherent in financial market transactions, but to manage it in a way that allows for healthy returns without adverse consequences. In line with international trends, we have taken measures to strengthen our internal risk control systems, including developing a rigorous risk management framework, an independent risk monitoring department and reporting system, and a risk control platform and related technologies.

Risk Management Policies

Controlling risk is essential to the success of any financial institution, and we have made risk management an organizational and strategic priority that is firmly entrenched in our overall management philosophy. The qualitative and quantitative results of our risk control policies, for example, now serve as key operational benchmarks. The New Basel Capital Accord serves as the main reference for our risk management initiatives, and we also adhere to Taiwan laws and regulations and factor in China Development risk guidelines and business development strategies when we craft strategies to control risk.

These international standards and corporate risk guidelines help us establish detailed risk control criteria that enable our Group to manage, define, discuss and evaluate operational risks using a common language.

Risk Management Targets

The goal of China Development's risk management strategy is to balance risk and return in maximizing shareholder value. There are three major types of risk factors that negatively affect the value of our assets or increase our liabilities.

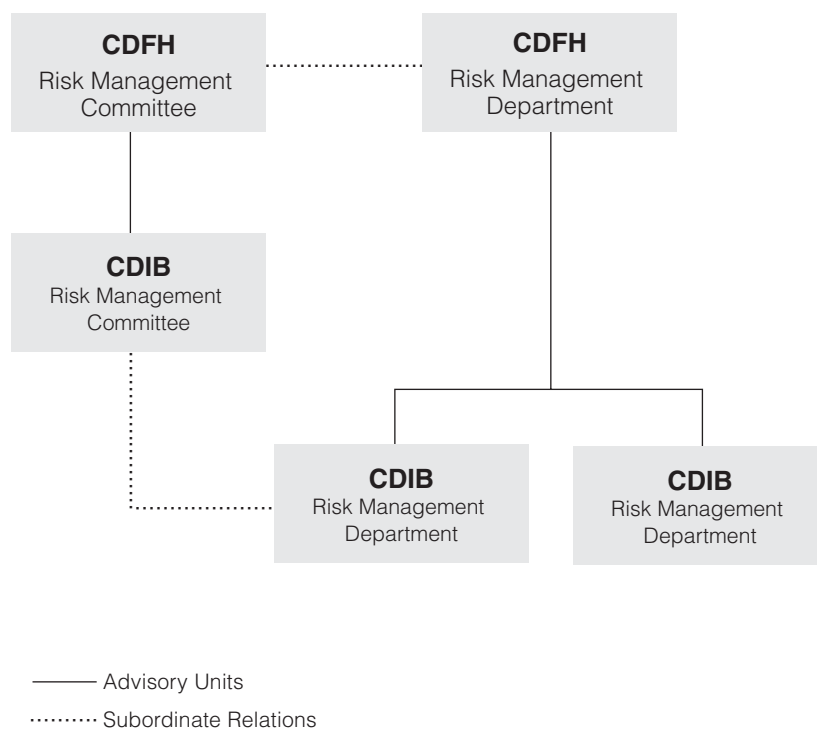
- Market risk
Market risk refers to the potential loss in value of financial assets and liabilities resulting from market fluctuations.
- Credit risk
Credit risk refers to potential losses stemming from the inability of borrowers or partners in market transactions to fulfill their contractual obligations. There is also the risk of losses because of the deterioration of their credit ratings.
- Operational risk
Operational risk refers to the potential losses resulting from poor internal control, human or systematic improprieties or errors, or outside factors.

Risk Management Outlook

Taiwan's Financial Supervisory Commission requires that all domestic financial institutions comply with the New Basel Capital Accord (Basel II) by the end of 2006. This will compel financial institutions to change the way they evaluate risk and push them to overhaul their information systems to bring them in compliance with the new guidelines. Basel II's main innovation is to encourage banks to develop an internal model that will help them more precisely estimate the risk factors associated with risk capital. Banks will be forced, therefore, to strengthen their risk control mechanisms and develop internal risk control models. We established early on a number of risk control units and are now in the process of completing related measures that will bring us into compliance with Basel II.

Risk Management Organization

We have created a comprehensive risk management organizational structure to establish clear lines of authority for managing risk within the Group.



Cultivating a Top-Notch Workforce

Replenishing our organization with new talent is essential to the Group's sustainable growth. Our human resources department has developed a broad range of recruitment techniques and built a vast talent databank to help find the best people when the organization needs them. We have also capitalized on China Development's Management Associate Program to stay on top of elite talents at prominent educational institutions in Taiwan and around the world. Through a systematic training program that includes internships, we pass on our knowledge and experience in a way that successfully nurtures these leaders of tomorrow and turns them into our greatest competitive assets.

Employee Training

China Development has never wavered in its commitment to the professional education of its employees. Following the expansion of the Nangang Education Training Center, we opened in 2005 the online “CDFH Finance Academy.” The Academy combines education training management and Internet learning on a Web-based platform, offering employees a wide range of educational resources that can help them grow on the job. The programs include professional training as well as instruction on personal growth, management and leadership skills, and industry laws and regulations. The 23,484 hours put in by employees on the system in 2005 and their positive feedback reflected the effectiveness of the courses and the acceptance of practical training integrated with digital learning.

Personal Growth Through Competency Training

Our 360-degree competency feedback program guides employees to take a broader view of their own competitive advantages, using constructive feedback to help them accept diversified core competency training. In 2005, we extended this competency management concept to the management level, hiring professional consultants to lead a “Management Competency Model Project,” targeting managers at different levels by designing high-level, middle-level and entry-level competency models. The program expanded on the basic core competency principles, and enabled managers to enhance their performances and generate better results. The program also offered the managers a blueprint for longer-term career development.



Giving Back to Society

Companies with vision understand the importance of caring for and giving back to society and can create a better living environment for all when joining with like-minded groups or individuals. In 2005, we created a 1,000-strong “Patrons for Sheltered Baking Workshop” team in support of the Eden Social Welfare Foundation's Sheltered Baking Workshop program that helps handicapped children become self-reliant. In 2006, we donated NT\$5 million to the Taitung County Education Bureau to supplement its school lunch program in remote areas, helping 3,600 students in 36 schools. We also sponsored Syin-Lu Social Welfare Foundation painter Wu Yi-lun, who suffers from cerebral palsy, and used her painting “The Fall Wind” on our year-end greeting card. These programs reflect our long-term commitment to public welfare and our goal to become a positive corporate model for society.

Patrons for “Sheltered Baking Workshop”

Those who subscribe to The Eden Social Welfare Foundation's Sheltered Baking Workshop program for NT\$1,800 per year get a box of baked goods delivered to them once a month. The program helps mentally challenged, autistic or physically challenged children working in the baking workshop develop normal work habits. For the first time in 2005, more than 1,000 employees partook in the “Patrons for Eden Foundation's Sheltered Baking Workshop” campaign, raising more than NT\$2 million for the children.

Taitung's School Lunch Program

Taiwan may be an affluent country, but Ministry of Education statistics show that in the southeastern county of Taitung, a number of families are unable to afford school lunches. The trend toward grandparents raising children in these areas has also indirectly contributed to a growing disparity in the students' nutritional intakes. We therefore decided to donate NT\$5 million to the Taitung County Education Bureau to provide more nutritional lunches for these economically disadvantaged children and give them the vitamins their young bodies need. We also hope the contribution will raise social awareness of children's nutritional deficiencies in Taiwan. China Development truly believes that investing in our children's futures is investing in our country's competitiveness.



China Development Financial Holding

2006

June

A common stock cash dividend of NT\$0.2 per share and stock dividend of NT\$0.3 per share are approved at the 2006 annual shareholders meeting.

Mar

Wins four director seats and one supervisor seat on the board of Taiwan International Securities Corp. at its annual shareholders meeting.

Mar

Mr. Lin Cheng-yi is elected as China Development Financial chairman.

2005

Dec

China Development Investment Bank cancels 795,461,590 shares it holds in CDFH. CDFH reciprocates by retiring its cross-held shares in CDIB, with the capital reduction taking place on December 27, 2005. After the capital reduction, CDFH's paid-in capital is NT\$109,577,954,100.

Sep

Establishes the Investment Banking Department.

Sep

Establishes the Direct Investment Department, led by Mr. Paul Yang.

Sep

The Human Resources and Corporate Affairs Department is split into the Human Resources Department and Corporate Affairs Department.

Sep

Annual shareholders meeting is held.

China Development Industrial Bank

2005

Dec

Cancels 795,461,590 shares held in China Development Financial Holding in accordance with Article 31 of the Financial Holding Company Act. The capital reduction takes place on December 27, 2005, after which paid-in capital of CDIB is NT\$83,853,994,100.

Nov

Integrates direct investment operations. The Investment Department, responsible for domestic investment business, and the Overseas Department, responsible for overseas investments, are merged into a single Investment Department.

Sep

Establishes Risk Management Department.

Jan

Establishes the Treasury Marketing Unit (TMU), which offers clients a one-stop outlet for a full range of financial services and products.

Grand Cathay Securities Corporation

2006

May

Divests three retail outlets, Hong Fu Securities & Futures Co., Ltd.'s Brokerage Department, and the Dasi and Bade branch offices.

Mar

Receives approval from Financial Supervisory Commission to offer wealth management services.

Mar

Becomes a market maker for Morgan Stanley Capital International (MSCI) Taiwan Index Options after gaining approval of Taiwan Futures Exchange.

2005

Jul

Establishes the Risk Management Department.

Mar

Becomes a market maker for Taiwan Electronic Index Options (TEO) and Taiwan Financial Index Options (TFO) after gaining approval of Taiwan Futures Exchange on March 28.

Jan

Establishes "Personalized Money Management Department," which is then renamed as "Wealth Management Department" in June.

Audited
Financial
Reports

**China Development Financial Holding
Corporation and Subsidiaries**

Consolidated Financial Statements for the
Years Ended December 31, 2005 and 2004 and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Development Financial Holding Corporation

We have audited the accompanying consolidated balance sheets of China Development Financial Holding Corporation and subsidiaries as of December 31, 2005 and 2004, 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 consolidated financial position of China Development Financial Holding Corporation and its subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, the Regulations Governing the Preparation of Financial Reports by Public Banks, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Criteria Governing the Preparation of Financial Reports by Securities Firms, the Criteria Governing the Preparation of Financial Reporting by Futures Commission Merchants, the Criteria Governing the Preparation of Financial Reporting and the related regulations by Futures Management Enterprise and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the accompanying consolidated financial statements, sales and purchases of bonds under repurchase or resale agreements issued by China Development Industrial Bank Inc. (CDIB, a Corporation subsidiary) 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/resale transactions will be treated as financing. In addition, China Development Financial Holding Corporation and subsidiaries adopted Statement of Financial Accounting Standards No. 35, 冀 "Accounting for Impairment of Assets" on January 1, 2005.

As disclosed in Note 2 to the accompanying consolidated financial statements, effective January 1, 2005, China Development Financial Holding Corporation and subsidiaries adopted the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," in the Republic of China. Thus, the consolidated entities for the year ended December 31, 2005 included non-majority-owned investee over which the Corporation had substantive control. On the other hand, the consolidated entities for the year ended December 31, 2004 included only subsidiaries which were majority-owned subsidiaries with at least 50% of direct or indirect common stock of the investees and with assets or operating revenues that individually reached at least 10% of the total assets or total operating revenues of their respective parent company.



April 7, 2006

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, 2005 AND 2004

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

ASSETS	2005		2004	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS	\$ 15,380,920	5	\$ 7,374,813	3
DUE FROM THE CENTRAL BANK AND OTHER BANKS	15,531,122	6	24,394,511	9
SECURITIES PURCHASED, NET	20,848,327	7	12,361,091	5
RECEIVABLES, NET	10,951,407	4	9,464,717	4
ACQUIRED LOANS	7,469,608	3	9,706,166	4
OTHER FINANCIAL ASSETS - CURRENT	5,425,606	2	1,635,736	1
OPERATING SECURITIES	43,596,125	16	32,828,612	12
SECURITIES PURCHASED UNDER RESALE AGREEMENTS	6,190,783	2	7,691,155	3
LOANS, DISCOUNTS AND BILLS PURCHASED, NET	57,170,071	20	53,064,758	20
LONG-TERM INVESTMENTS				
Stocks - equity method	4,361,832	1	23,440,292	9
- cost method	64,244,744	23	54,025,466	21
Other	13,658,298	5	13,810,277	5
Long-term investments, net	82,264,874	29	91,276,035	35
PROPERTIES				
Cost				
Land	2,225,196	1	1,663,064	1
Buildings and facilities	2,056,897	1	1,853,489	1
Computer equipment	810,574	-	854,491	-
Transportation equipment	23,878	-	27,120	-
Other equipment	129,808	-	117,148	-
Leasehold improvements	192,309	-	253,839	-
Leased assets	328,438	-	-	-
Total cost	5,767,100	2	4,769,151	2
Accumulated depreciation	(1,480,087)	-	(1,301,222)	(1)
Accumulated impairment	(60,000)	-	-	-
	4,227,013	2	3,467,929	1
Advances for acquisition of properties	24,194	-	25,406	-
Net properties	4,251,207	2	3,493,335	1
OTHER ASSETS	11,460,975	4	7,085,900	3
TOTAL	\$ 280,541,025	100	260,376,829	100
SECURITIES LOANED TO CUSTOMERS	\$ 1,406,815		\$ 1,431,035	

LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%
LIABILITIES				
Short-term loans	\$ 7,941,014	3	\$ 10,515,297	4
Commercial paper payable	3,196,620	1	1,996,176	1
Securities sold under repurchase agreements	50,831,707	18	40,756,111	16
European convertible bonds, net of current portion	-	-	394,379	-
Bonds payable - current portion	3,000,000	1	-	-
Liabilities for issuance of call (put) warrants, net	243,737	-	111,900	-
Derivative financial product liabilities	1,257,183	-	1,304,148	1
Call loans from banks	6,964,157	2	3,314,942	1
Payables	7,728,857	3	6,024,828	2
Other current liabilities	6,130,208	2	2,179,851	1
Deposits and remittances	15,777,091	6	33,436,651	13
Bank debentures payable	21,780,000	8	20,780,000	8
Bonds payable	16,800,000	6	12,000,000	5
Long-term loans	4,593,855	2	7,968,916	3
Other liabilities	3,267,111	1	1,187,621	-
Total liabilities	149,511,540	53	141,970,820	55
STOCKHOLDERS' EQUITY				
Parent company				
Stock - authorized 20,000,000 thousand shares				
Common stock - \$10 par value, issued - 10,332,796 thousand shares in 2005 and 11,214,247 thousand shares in 2004				
	103,327,954	37	112,142,470	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	15,890,777	6	26,217,920	10
Retained earnings (accumulated deficit)	4,423,531	1	(9,220,166)	(4)
Unrealized losses on long-term investments	(119,696)	-	(629,978)	-
Cumulative translation adjustments	268,996	-	(368,820)	-
Net loss not recognized as pension cost	(3,660)	-	(2,530)	-
Treasury stock - at cost				
Held by the subsidiaries - 881,451 thousand shares				
	-	-	(15,982,887)	(6)
Total stockholders' equity of the parent company	130,037,902	46	118,406,009	45
Minority interest	991,583	1	-	-
Total stockholders' equity	131,029,485	47	118,406,009	45
TOTAL	\$ 280,541,025	100	\$ 260,376,829	100
SECURITIES DEPOSITED BY CUSTOMERS	\$ 11,083,916		\$ 12,821,390	

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
OPERATING REVENUES				
Income from long-term investments				
Gain on sale of investments, net	\$ 7,533,474	33	\$ 3,397,895	22
Investment income recognized under the equity method, net	169,779	1	-	-
Other investment incomes	2,701,988	12	1,454,086	9
Total income from long-term investments	10,405,241	46	4,851,981	31
Interest	4,257,477	19	4,098,538	26
Proceeds from acquired loans sold	1,625,041	7	1,572,780	10
Service fees	1,693,319	8	1,684,495	11
Income from securities, net	2,363,220	11	1,100,669	7
Gain from option transactions	471,721	2	40,655	-
Reversal of allowance for decline in market value of operating securities	227,065	1	-	-
Reversal of allowance for credit losses and losses on guarantees	301,661	1	-	-
Financial consulting fees	204,790	1	126,990	1
Profit from issuing call (put) warrants, net	36,506	-	515,870	3
Revenue from stock brokering	186,005	1	206,580	1
Gain from derivative financial products	64,803	-	96,917	1
Gain from futures transactions	-	-	377,410	3
Other	734,857	3	841,612	6
Total operating revenues	22,571,706	100	15,514,497	100
OPERATING EXPENSES				
Operating and administrative expenses	5,637,311	25	4,708,297	30
Interest	1,975,229	9	1,852,246	12
Provision for loss on long-term investments	1,850,664	8	10,312,518	67
Provision for allowance for credit losses and losses on guarantees	-	-	860,893	6
Loss from futures transactions	131,535	1	-	-
Loss on derivative financial products	34,199	-	512,093	3
Investment loss recognized under the equity method, net	-	-	911,952	6
Allowance for decline in market value of operating securities	-	-	210,621	1
Other	276,251	1	256,368	2
Total operating expenses	9,905,189	44	19,624,988	127

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	Issued Stock				Retained Earnings		
	Common Stock		Preferred Stock		Capital Surplus	Legal Reserve	Special Reserve
	Shares	Amount	Shares	Amount			
	(in Thousands)		(in Thousands)				
BALANCE, JANUARY 1, 2004	11,250,818	\$ 112,508,180	625,000	\$ 6,250,000	\$ 36,136,615	\$ 627,627	\$ 4,211,965
Accumulated deficit offset of the 2003	-	-	-	-	(9,787,440)	(627,627)	(2,626,166)
Translation adjustments on investments of equity-method investees	-	-	-	-	-	-	-
Unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-	-	-
Write-off of treasury stock -							
China Development Industrial Bank	(36,571)	(365,710)	-	-	(131,255)	-	-
Transfer of treasury stocks to employees -							
Grand Cathay Securities Corporation	-	-	-	-	-	-	-
Transfer of European convertible bonds	-	-	-	-	-	-	-
Net loss not recognized as pension costs	-	-	-	-	-	-	-
Consolidated net loss in 2004	-	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2004	11,214,247	112,142,470	625,000	6,250,000	26,217,920	-	1,585,799
Accumulated deficit offset of the 2004	-	-	-	-	(9,220,166)	-	(1,585,799)
Translation adjustments on investments of equity-method investees	-	-	-	-	-	-	-
Reversal of unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-	-	-
Write-off of treasury stock -							
China Development Industrial Bank	(881,451)	(8,814,516)	-	-	(1,106,977)	-	-
Repurchase of treasury stock	-	-	-	-	-	-	-
Transfer of European convertible bonds	-	-	-	-	-	-	-
Net loss not recognized as pension costs	-	-	-	-	-	-	-
Effect of changes in minority interests	-	-	-	-	-	-	-
Consolidated net income in 2005	-	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2005	10,332,796	\$ 103,327,954	625,000	\$ 6,250,000	\$ 15,890,777	\$ -	\$ -

(Accumulated Losses)		Unrealized			Net Loss		Treasury Stock			
		Losses on	Cumulative	not Recognized	Held by the Corporation		Held by Subsidiaries		Minority	Total
Unappropriated		Long-term	Translation	as Pension	Shares	Shares	Minority	Total	Interests	Stockholders'
Earnings (Deficits)	Subtotal	Investments	Adjustments	Costs	(in Thousands)	Amount	(in Thousands)	Amount		Equity
(\$ 13,041,233)	(\$ 8,201,641)	(\$ 68,292)	\$ 490,571	\$ -	(\$ 650,899)	(\$ 15,123,545)	(\$ 927,719)	(\$ 17,021,093)	\$ -	\$ 114,970,795
13,041,233	9,787,440	-	-	-	-	-	-	-	-	-
-	-	-	(859,391)	-	-	-	-	-	-	(859,391)
-	-	(561,686)	-	-	-	-	-	-	-	(561,686)
(410,637)	(410,637)	-	-	-	-	-	36,571	907,602	-	-
(5,168)	(5,168)	-	-	-	-	-	9,697	130,604	-	125,436
(5,626,266)	(5,626,266)	-	-	-	650,899	15,123,545	-	-	-	9,497,279
-	-	-	-	(2,530)	-	-	-	-	-	(2,530)
(4,763,894)	(4,763,894)	-	-	-	-	-	-	-	-	(4,763,894)
(10,805,965)	(9,220,166)	(629,978)	(368,820)	(2,530)	-	-	(881,451)	(15,982,887)	-	118,406,009
10,805,965	9,220,166	-	-	-	-	-	-	-	-	-
-	-	-	637,816	-	-	-	-	-	-	637,816
-	-	510,282	-	-	-	-	-	-	-	510,282
(6,061,394)	(6,061,394)	-	-	-	-	-	881,451	15,982,887	-	-
-	-	-	-	-	(5,693)	(87,576)	-	-	-	(87,576)
(4,986)	(4,986)	-	-	-	5,693	87,576	-	-	-	82,590
-	-	-	-	(1,130)	-	-	-	-	-	(1,130)
-	-	-	-	-	-	-	-	-	941,224	941,224
10,489,911	10,489,911	-	-	-	-	-	-	-	50,359	10,540,270
\$ 4,423,531	\$ 4,423,531	(\$ 119,696)	\$ 268,996	(\$ 3,660)	-	\$ -	-	\$ -	\$ 991,583	\$ 131,029,485

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated total income (loss)	\$ 10,540,270	(\$ 4,763,894)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Provision for loss on long-term investments	1,850,664	10,312,518
Loss on changes in fair values of call warrant liabilities	424,579	348,500
Loss on asset impairment	400,429	-
Depreciation and amortization	364,860	375,464
Provision (reversal) of allowance for credit losses and reserve for guarantees	(301,661)	860,893
Gain on changes in fair value of issued call warrants repurchased	(300,062)	(96,384)
Deferred income taxes	239,148	216,774
Provision (reversal) of losses on operating securities	(227,065)	210,621
Investment loss (income) recognized under the equity method, net	(169,779)	911,952
Pension benefit payments charged reserve	(138,759)	(149,553)
Provision for pension expenses	108,078	100,610
Reversal of losses on decline in market value of securities purchased	(80,623)	-
Cash dividends received from equity-method investees	40,126	425,408
Provision (reversal) of allowance for securities trading losses	36,639	(44,541)
Loss (gain) on disposal of collaterals	(17,810)	39,926
Provision (reversal) of losses on valuation of collaterals	9,831	(18,981)
Adjustment of exchange gain on European convertible bonds	(441)	(575,467)
Amortization of premium on bonds payable	-	(46,204)
Provision for losses on idle assets	-	90,000
Net change in operating assets and liabilities		
Securities purchased for trading purposes	(4,569,743)	6,857,743
Receivables	(745,895)	1,163,244
Receivables on margin loans, refinancing margin and refinancing deposit receivable	1,117,479	(679,724)
Lease payments receivable	167,325	-
Receivables - acquired loans	2,181,710	3,274,348
Other financial assets - current	(1,726,125)	(36,100)
Guarantee deposits receivable from customers	1,372,296	-
Futures trading margins	507,728	(654,355)
Operating securities	(10,538,699)	(3,310,735)
Securities purchased under resale agreements	2,015,555	(1,256,161)
Securities sold under repurchase agreements	7,618,662	5,591,120
Call warrant liabilities	(140,289)	(68,500)
Repurchase of issued call warrants	147,608	(167,675)
Derivative financial product liabilities	(57,331)	(139,796)
Payables	568,546	(8,000,926)
Deposit payable for securities financing	(166,069)	599,379
Other current liabilities	(93,644)	(209,022)
Securities financing guarantee deposit	(121,112)	484,774
Debit/credit items for consigned trading	69,929	(24,673)
Other	(3,195)	20,712
Net cash provided by operating activities	10,383,160	11,641,295

(Continued)

	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in long-term investments	(\$ 10,009,184)	(\$ 20,633,659)
Decrease (increase) in due from the Central Bank and other banks	8,863,389	(1,189,432)
Cost of long-term investments sold	7,611,631	3,663,473
Decrease (increase) in loans, discounts and bills purchased	(5,473,053)	8,872,016
Decrease (increase) in restricted assets	(4,096,057)	835,427
Increase in other assets	(1,088,006)	(374,397)
Proceeds from acquired loans sold	543,130	183,000
Increase in securities purchased under resale agreements	(515,183)	(3,897,205)
Acquisition of properties	(182,633)	(190,972)
Proceeds from disposal of properties and idle assets	124,671	55,452
Proceeds from capital decrease of investees	22,140	105,450
Net cash used in investing activities	<u>(4,199,155)</u>	<u>(12,570,847)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in deposits and remittances	(13,591,219)	(6,794,783)
Increase in bonds payable	7,800,000	-
Increase (decrease) in call loans from banks	3,649,215	(6,788,495)
Decrease in short-term loans	(3,123,618)	(848,409)
Increase (decrease) in long-term loans	(2,758,925)	4,674,856
Increase in securities sold under repurchase agreements	2,396,525	8,324,303
Increase in other liabilities	1,623,639	246,305
Increase (decrease) in commercial paper payable	1,130,460	(1,807,877)
Cash paid to investors due to capital reduction	(1,023,003)	-
Increase in bank debentures payable	1,000,000	7,500,000
Redeemed in European convertible bonds	(311,348)	-
Cost of treasury stock purchase	(87,576)	-
Cash dividends paid	(37,500)	-
Remuneration to directors and supervisors and bonus to employees	(2,078)	-
Issuance of common stock for cash	375	-
Reissue of treasury stock	-	125,436
Net cash provided by (used in) financing activities	<u>(3,335,053)</u>	<u>4,631,336</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,848,952	3,701,784
EFFECT OF EXCHANGE RATE CHANGES	459,800	(80,178)
EFFECT OF CHANGES IN CONSOLIDATED ENTITIES	4,697,355	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,374,813	3,753,207
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 15,380,920</u>	<u>\$ 7,374,813</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 2,672,551	\$ 2,651,961
Income tax paid	\$ 740,934	\$ 725,928
NONCASH INVESTING AND FINANCING ACTIVITIES		
Bond payable with one-year maturity	\$ 3,000,000	\$ -
Common stocks converted from European convertible bonds	\$ 82,590	\$ 9,497,279
Long-term investment in bond reclassified as operating securities	\$ 31,490	\$ -
Other long-term investments reclassified as other financial assets - current	\$ 8,213	\$ -
Operating securities reclassified as other long-term investments in bonds	\$ -	\$ 103,160

Audited Financial Reports

China Development Financial Holding Corporation

Financial Statements for the
Years Ended December 31, 2005 and 2004 and
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China Development Financial Holding Corporation

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, 2005 and 2004, 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, related regulations and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of China Development Financial Holding Corporation as of and for the years ended December 31, 2005 and 2004, in which we have issued a modified unqualified audit report dated April 7, 2006.



April 7, 2006

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, 2005 AND 2004

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

ASSETS	2005		2004	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and deposits	\$ 498,919	1	\$ 3,283,504	2
Receivables	1,718,233	1	1,116,596	1
Prepaid expenses	2,701	-	5,844	-
Total current assets	2,219,853	2	4,405,944	3
LONG-TERM EQUITY INVESTMENTS				
Equity method	131,640,569	89	119,883,330	89
Cost method	12,973,604	9	10,000,000	8
Long-term equity investments, net	144,614,173	98	129,883,330	97
PROPERTIES, NET	31,530	-	16,984	-
OTHER ASSETS	23,338	-	6,546	-
TOTAL	\$ 146,888,894	100	\$ 134,312,804	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Bank loans	\$ 1,950,000	1	\$ 8,115,297	6
Commercial paper payable	-	-	600,000	-
European convertible bonds, net	-	-	394,379	-
Payables (Notes 2 and 15)	884,247	1	788,278	1
Total current liabilities	2,834,247	2	9,897,954	7
CORPORATE BONDS PAYABLE	14,000,000	9	6,000,000	5
OTHER LIABILITIES	16,745	-	8,841	-
Total liabilities	16,850,992	11	15,906,795	12
STOCKHOLDERS' EQUITY				
Stock - authorized 20,000,000 thousand shares				
Common stock - \$10 par value;				
issued 10,332,796 thousand shares in 2005 and				
11,214,247 thousand shares in 2004	103,327,954	71	112,142,470	83
Preferred stock - \$10 par value; issued 625,000				
thousand shares	6,250,000	4	6,250,000	5
Capital surplus				
Issue of stock in excess of par value	15,890,777	11	26,217,920	20
Retained earnings (accumulated losses)	4,423,531	3	(9,220,166)	(7)
Unrealized losses on long-term investments	(119,696)	-	(629,978)	(1)
Cumulative translation adjustments	268,996	-	(368,820)	-
Net loss not recognized as pension costs	(3,660)	-	(2,530)	-
Treasury stock - at cost				
Held by subsidiaries - 881,451 thousand shares	-	-	(15,982,887)	(12)
Total stockholders' equity	130,037,902	89	118,406,009	88
TOTAL	\$ 146,888,894	100	\$ 134,312,804	100

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
OPERATING REVENUES				
Investment income under the equity method	\$ 11,304,659	95	\$ 995,188	65
Investment income	606,135	5	523,492	34
Other revenue	-	-	8,954	1
Total operating revenues	11,910,794	100	1,527,634	100
OPERATING COST				
Investment loss under the equity method	-	-	(6,160,777)	(403)
GROSS PROFIT (LOSS)	11,910,794	100	(4,633,143)	(303)
OPERATING EXPENSES	(688,023)	(6)	(478,492)	(32)
OPERATING PROFIT (LOSS)	11,222,771	94	(5,111,635)	(335)
NONOPERATING INCOME AND REVENUE	4,155	-	1,068,693	70
NONOPERATING EXPENSE AND LOSS	(610,104)	(5)	(271,940)	(18)
INCOME (LOSS) BEFORE INCOME TAX	10,616,822	89	(4,314,882)	(283)
INCOME TAX EXPENSE	(126,911)	(1)	(449,012)	(29)
NET INCOME (LOSS)	\$ 10,489,911	88	(\$ 4,763,894)	(312)

	2005		2004	
	Pretax	After-tax	Pretax	After-tax
EARNINGS PER SHARE				
Basic and diluted	\$ 0.98	\$ 0.96	(\$ 0.50)	(\$ 0.54)

Pro forma information under the assumption that the Corporation's shares held by its subsidiaries were not treated as treasury stock:

	Pretax	After-tax
NET LOSS	(\$ 4,314,882)	(\$ 4,763,894)
EARNINGS PER SHARE		
Basic and diluted	(\$ 0.46)	(\$ 0.50)

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 10,489,911	(\$ 4,763,894)
Investment (income) loss under the equity method, net	(11,304,659)	5,165,589
Cash dividends received from the equity-method investees	693,341	920,169
Provisions for pension expenses	10,896	3,700
Depreciation and amortization	5,038	70,354
Payment of pension benefit	(1,525)	-
Adjustment in exchange gain on European convertible bonds	(441)	(575,467)
Amortization in premium on corporate bonds payable	-	(46,204)
Net changes in operating assets and liabilities:		
Receivables	(601,637)	(588,386)
Prepaid expenses	3,143	1,568
Payables	95,175	544,523
Net cash provided by (used in) operating activities	(610,758)	731,952
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in long-term investments	(2,973,604)	-
Acquisition of properties	(19,584)	(7,546)
Increase in other assets	(16,971)	(1,687)
Net cash used in investing activities	(3,010,159)	(9,233)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in corporate bonds payable	8,000,000	-
Increase (decrease) in bank loans	(6,165,297)	1,445,886
Increase (decrease) in commercial paper payable	(600,000)	190,000
Decrease in European convertible bonds	(311,348)	-
Acquisition of cost on treasury stocks	(87,576)	-
Increase (decrease) in other liabilities	553	(55)
Net cash provided by financing activities	836,332	1,635,831
INCREASE (DECREASE) IN CASH AND DEPOSITS	(2,784,585)	\$ 2,358,550
CASH AND DEPOSITS, BEGINNING OF YEAR	3,283,504	924,954
CASH AND DEPOSITS, END OF YEAR	\$ 498,919	\$ 3,283,504
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 244,458	\$ 276,868
Income tax paid	\$ 203,469	\$ 402
NONCASH INVESTING AND FINANCING ACTIVITIES		
Common stocks converted from European convertible bonds	\$ 82,590	\$ 9,497,279

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	Stock				Retained Earnings		
	Common Stock		Preferred Stock		Capital Surplus	Legal Reserve	Special Reserve
	Shares (in Thousands)	Amount	Shares (in Thousands)	Amount			
BALANCE, JANUARY 1, 2004	11,250,818	\$ 112,508,180	625,000	\$ 6,250,000	\$ 36,136,615	\$ 627,627	\$ 4,211,965
Accumulated deficit offset against legal reserve	-	-	-	-	(9,787,440)	(627,627)	(2,626,166)
Translation adjustments on investments of equity- method investees	-	-	-	-	-	-	-
Unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-	-	-
Write-off of treasury stock - China Development Industrial Bank Inc.	(36,571)	(365,710)	-	-	(131,255)	-	-
Transfer of treasury stocks to employees - Grand Cathay Securities Corporation	-	-	-	-	-	-	-
Transfer of European convertible bonds	-	-	-	-	-	-	-
Net loss not recognized as pension costs	-	-	-	-	-	-	-
Net loss in 2004	-	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2004	11,214,247	112,142,470	625,000	6,250,000	26,217,920	-	1,585,799
Accumulated deficit offset against legal reserve	-	-	-	-	(9,220,166)	-	(1,585,799)
Translation adjustments on investments of equity- method investees	-	-	-	-	-	-	-
Reversal of unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-	-	-
Write-off of treasury stock - China Development Industrial Bank Inc.	(881,451)	(8,814,516)	-	-	(1,106,977)	-	-
Repurchase of treasury stock	-	-	-	-	-	-	-
Transfer of European convertible bonds	-	-	-	-	-	-	-
Net loss not recognized as pension costs	-	-	-	-	-	-	-
Net income in 2005	-	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2005	10,332,796	\$ 103,327,954	625,000	\$ 6,250,000	\$ 15,890,777	\$ -	\$ -

(Accumulated Losses)		Unrealized			Net Loss		Treasury Stock			Total Stockholders' Equity
		Losses on	Cumulative	not Recognized	Held by the Corporation		Held by Subsidiaries			
Unappropriated Earnings (Deficits)	Subtotal	Long-term Investments	Translation Adjustments	as Pension Costs	Shares (in Thousands)	Amount	Shares (in Thousands)	Amount		
(\$ 13,041,233)	(\$ 8,201,641)	(\$ 68,292)	\$ 490,571	\$ -	(650,899)	(\$ 15,123,545)	(927,719)	(\$ 17,021,093)	\$ 114,970,795	
13,041,233	9,787,440	-	-	-	-	-	-	-	-	
-	-	-	(859,391)	-	-	-	-	-	(859,391)	
-	-	(561,686)	-	-	-	-	-	-	(561,686)	
(410,637)	(410,637)	-	-	-	-	-	36,571	907,602	-	
(5,168)	(5,168)	-	-	-	-	-	9,697	130,604	125,436	
(5,626,266)	(5,626,266)	-	-	-	650,899	15,123,545	-	-	9,497,279	
-	-	-	-	(2,530)	-	-	-	-	(2,530)	
(4,763,894)	(4,763,894)	-	-	-	-	-	-	-	(4,763,894)	
(10,805,965)	(9,220,166)	(629,978)	(368,820)	(2,530)	-	-	(881,451)	(15,982,887)	118,406,009	
10,805,965	9,220,166	-	-	-	-	-	-	-	-	
-	-	-	637,816	-	-	-	-	-	637,816	
-	-	510,282	-	-	-	-	-	-	510,282	
(6,061,394)	(6,061,394)	-	-	-	-	-	881,451	15,982,887	-	
-	-	-	-	-	(5,693)	(87,576)	-	-	(87,576)	
(4,986)	(4,986)	-	-	-	5,693	87,576	-	-	82,590	
-	-	-	-	(1,130)	-	-	-	-	(1,130)	
10,489,911	10,489,911	-	-	-	-	-	-	-	10,489,911	
\$ 4,423,531	\$ 4,423,531	(\$ 119,696)	\$ 268,996	(\$ 3,660)	-	\$ -	-	\$ -	\$ 130,037,902	

**China Development
Financial Holding**

Chen-Yi Lin
Chairman

Angelo J.Y. Koo
President and Chief Executive Officer

Dr. C. Daniel Wu
Senior Executive Vice President

Jack J. L. Chow
Executive Vice President
and Auditor General

Lawrence S. Liu
Executive Vice President
and Chief Strategy Officer

Paul Yang
Executive Vice President
and Chief Investment Officer

Sherie Chiu
Executive Vice President
and Chief Financial Officer

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

Stan Siao
Executive Vice President

Laura Huang
Executive Vice President

Joyce J.R. Chen
Executive Vice President

Beatrice Chou
Executive Vice President

Paul Wong
Executive Vice President

**China Development
Industrial Bank**

Angelo J.Y. Koo
Chairman and Chief Executive Officer

Philip Tsao
President

David S. Chen
Senior Executive Vice President

Jack J. L. Chow
Executive Vice President
and Auditor General

Lai-Tsun Tsai
Executive Vice President

Joyce J.R. Chen
Executive Vice President

J. M. Meng
Senior Vice President

Shen-Yu Gong
Senior Vice President

Johny Liu
Senior Vice President

Eric Chuang
Senior Vice President

Ethan Hsu
Senior Vice President

Chiang Sung
Senior Vice President

Anne M.Y. Kuo
Senior Vice President

Andy Tung
Vice President

Hsueh-Lee Lee
Vice President

Ting-Fu Cheng
Vice President

Ming Lin
Vice President

Vitti Lieu
Vice President

Josephine Tung
Vice President

Tony Lin
Vice President

Jany Wu
Vice President

Chih Lin
Vice President

Chimin Wu
Vice President

Peter Sun
Vice President

Joanne Yang
Vice President

**Grand Cathay
Securities Corporation**

Stan Siao
Chairman

Jeff Wang
President and Chief Executive Officer

Pin Chen
Acting President
and Senior Vice 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

Alfred Ying
Executive Vice President

Chun Hsieh
Vice President

Jimmy Cheng
Chief Auditor

Elaine Chen
Executive Vice President

Lin-Jie Huang
Executive Vice President

Company Information

Annual Report

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

2005 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".

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Shareholders Meeting Information

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



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