



中華開發工業銀行  
CHINA DEVELOPMENT INDUSTRIAL BANK

**ANNUAL REPORT 2003**

CHINA DEVELOPMENT INDUSTRIAL BANK  
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## Financial Highlights

In NT\$ Millions, except per share amounts

	2003	2002
Total Revenues	9,032	14,830
Net Income	(13,780)	7,462
Earnings per Share	(1.67)	0.87
Total Assets	217,881	220,459
Shareholders' Equity	134,533	150,245
Other Information		
Overdue Loan Ratio	1.2%	1.8%
Capital Adequacy Ratio	32.0%	35.0%
Long-term Credit Ratings		
Taiwan Ratings	twAA	twAA+
Standard & Poor's	A-	A-
Short-term Credit Ratings		
Taiwan Ratings	twA-1	twA-1
Standard & Poor's	A-1	A-2

\* In the second half of 2003, CDIB took the strategic decision to re-evaluate its loan and direct investment portfolio. CDIB carried out a comprehensive review of the quality and book valuation of its assets in order to fully and adequately reflect their current market value in the financial statements. On the back of our asset revaluation, CDIB booked an investment loss provision of NT\$10.7bn and a loan loss provision of NT\$6.3bn, bringing total provisions to NT\$17bn. The overdue loan ratio also declined to 1.2%, slipping below the 3% industry benchmark for sound asset quality.

## Core Values



Chairman & CEO, Angelo J.Y. Koo



# Integrity, Prudence, Expertise, Innovation.



China Development Industrial Bank (CDIB) was established on 14 May 1959 as the China Development Corporation under the auspices of the World Bank and the Economic Stabilization Committee of the ROC Executive Yuan. Its birth brought together public and private-sector resources to create Taiwan's first privately chartered financial institution devoted to providing long-term financing for economic development. For over 40 years, CDIB has continuously supported the country's economic policies by actively playing a forward-looking and pioneering role, and has made genuine contributions to national economic and industrial development. It is particularly proud of its record in providing equity financing. After more than 40 years of efforts in developing the direct investment business, CDIB's total direct investments stood at NT\$106.6 billion at the end of 2003, the largest market share in the business. In the area of investment banking, since 1984, CDIB has provided financial advisory services for major infrastructure projects, corporate finance, securities issuance and underwriting, and has developed a variety of financial and commercial feasibility frameworks for different types of projects. It has established a professional reputation in the domestic market, and is the market's dominant leader.



President, Jeffrey Suen

## Building for Growth

### Unrivalled Competitive Advantages

With more than 40 years of experience in the direct investment market, CDIB is Taiwan's largest and most prestigious direct investment financial institution. It is proud to have the market's most highly qualified and specialized team and the strongest industry knowledge across all sectors that is unmatched by competitors. 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. In order to develop strong long-term partnerships with the companies in which it invests, CDIB has placed directors and supervisors in over 50% of its portfolio companies.

Compared with commercial banks, CDIB offers a broader range of financial services to institutional clients. It also enjoys a sound financial structure with a higher capital adequacy ratio and lower leverage. CDIB places great emphasis on training and on the high quality of its human capital. Management experience gained from several decades of industry investment means that CDIB has been able to develop the most sophisticated and professional team of employees in the industry. CDIB enjoys a unique advantage over other venture capital firms because it has established its own in-house research department, which produces in-depth primary research on macroeconomic and industry trends and also assesses new developments in technology. Based on these analyses, CDIB is able to identify attractive investment opportunities ahead of its competitors.

Based on its long experience, CDIB has developed systematic procedures for investment deal approval and risk management. CDIB is able to assess relevant investment risks and make appropriate adjustments that are in line with the growth of its investment portfolio. CDIB will incorporate increasingly sophisticated risk management tools in order to more accurately forecast potential market and credit risks that are inherent in its asset portfolio.



CDIB senior management team, from left to right:

Joyce Chen	Executive Vice President	Angelo J.Y. Koo	Chairman & CEO
Alex Kwan	Senior Vice President	David Chen	Senior Executive Vice President
Jeffrey Suen	President	Jack J.L. Chow	Auditor General, Executive Vice President
		Lai-Tsung Tsai	Executive Vice President

## Operating Strategy

CDIB's future operating strategy is to strengthen its leadership in the private equity business. CDIB will also increase the contribution of fee income, maximize treasury operation returns and emphasize corporate governance. To help achieve this goal, CDIB has devised the following guidelines for the year 2004 that will help build the business for future growth:

- With a view to establishing an extensive investment network, CDIB will focus on its core competencies in direct investment, and continue to integrate resources. CDIB aims to establish an industrial specialist system to develop LBO, MBO and restructuring businesses. CDIB's goal is to establish business alliances with top tier international venture capital firms. Through these alliances, CDIB will gradually penetrate key high tech industries on a global basis, aiming to open up new markets for these companies and to create new investment opportunities.
- In regard to asset quality, CDIB carried out a comprehensive review of the quality and book valuation of its assets to fully and adequately reflect their current market value. By strengthening the audit and tracking procedures of its loans as well as establishing early-warning concentration management mechanisms, CDIB will have better control of credit lines, minimize the risks of loans, and facilitate the monitoring, transferring, and processing of non-performing loans (NPL). In addition, CDIB will develop lending products such as leveraged buyouts, loans with stock options, and restructured syndicated loans to leverage CDIB's unique strength.
- In order to expand its revenue base, CDIB will develop new financial products, promote financial advisory, trust, securitization and fund management services. CDIB Will increase commitment in short-term equity trading, and grow foreign currency, fixed-income securities and derivatives trading.
- CDIB will strengthen risk management mechanisms to optimize capital allocation. It will also introduce best management practices from leading international banks to implement risk-adjusted performance review and compensation systems. Furthermore, CDIB will adopt measures to enhance transparency and the disclosure of information, such as annual reports, website and investor roadshows.
- CDIB is the flagship subsidiary of its parent company, China Development Financial Holding Corporation (CDFH). CDIB's competitive advantage stems from its solid institutional client base and extensive experience in wholesale banking. Building on these core competencies, CDFH will emphasize the integration of in-house resources and organizational development in order to achieve increased management efficiency, grow its distribution network and encourage cross-selling to broaden revenue sources.

## Direct Investment

Direct investment is primarily focused on principal investments employing CDIB's own funds. This includes domestic investment, overseas investment and small and medium enterprises ('SME'). It is also involved in fund management and provides asset management services.

- Direct Investment: spans all industries, while maintaining a strong focus on the manufacturing sectors, e.g. semiconductor, computer, communications and electronic components.
- Overseas Investment: with a current portfolio comprising of investments in eighteen countries, with an emphasis on telecoms, wireless communication, TFT LCD and IC design.
- SME Business: targets domestic SMEs with strong growth potential and provides fully integrated financial services including equity investment, commercial lending and advisory services.

CDIB's position as market leader stems from its:

- Ability to access quality investment opportunities
- Focus on emerging industries or geographical areas with high growth potential
- Professional management and thorough evaluation of investment opportunities
- Participation as board directors and supervisors for portfolio companies and assistance in their corporate development
- Exit strategy to achieve a balance between investment returns and potential impact on portfolio companies



In 2004, CDIB is focusing its direct investment on:

- **Vertical and horizontal sector integration**

CDIB will exploit new value within specific strategic industries, such as semiconductor, computer, telecommunication and electronic components, through increasing investment in R&D, design, and component manufacturing. It will also expand into new industries such as biotechnology and the digital home entertainment field.

- **Promoting and facilitating industry restructuring**

CDIB will target two types of corporate clients for business opportunities: those in mature industries with growth potential and those who require gradual and steady rehabilitation . CDIB will also look into opportunities for business spinoffs, MBOs or LBOs.

- **Assisting clients in building up their overseas operations**

As industries in Taiwan become increasingly globalized, CDIB will assist its domestic clients in building their international networks, while at the same time introducing new technologies into Asia.

- **Promoting international cooperation and technology transfers**

Our overseas investment business will no longer be volume driven. Instead, our goal is to establish business alliances with top tier international venture capital firms. Through these alliances, CDIB will gradually penetrate key high tech industries on a global basis, such as information technology, telecommunications and biotechnology. CDIB will make its extensive business network in Asia available to its overseas direct investments, aiming to open up new markets for these companies and to create new investment opportunities.

- **Strengthening overseas investment management**

CDIB will continue to streamline its investment management process and investment holding structure in order to improve performance tracking for its overseas direct investments.





## Milestone Transaction

### Pixim – Most Creative Financing

In April 2003, CDIB structured a new financial product for Pixim, an IC chip manufacturer. This new product, which provided total funding of US\$22m combined features of both equity investment and factoring. It successfully attracted participation from several top US venture capital funds, such as the Mayfield Fund, Mohr Davidow Ventures and Newbury Ventures. In addition to venture capital investors, a number of industry investors also participated, including TSMC through the Emerging Alliance Fund under its affiliate VentureTech Alliance LLC, Arm and Synopsys.

In addition to creating a new financing instrument for Pixim, CDIB also assisted Pixim in developing sales in Taiwan which enabled Pixim to grow its business while securing adequate funding for its operations.

## Direct Investment Outstanding

Total Investment Outstanding Unit: NT\$ Million

1999	59,615
2000	75,414
2001	81,162
2002	96,728
2003	90,632

No. of Portfolio Companies

1999	324
2000	357
2001	403
2002	440
2003	472

## Direct Investment Business Review

CDIB's direct investment business faced tough competition in 2003. Competition stiffened, as a number of other financial holding companies were very active in setting up venture capital firms to seek out direct investment opportunities. In addition, in the second quarter of 2003, the recovery of the global economy and investor confidence were hit by the SARS epidemic. This meant it became even more difficult to find quality investment deals. The global and local economy gradually bottomed out in the second half of 2003, which prompted CDIB to review its organizational structure and implement the following measures:

- **Re-organization of overseas investment business**

To streamline operations and maximize efficiency of internal resources, CDIB merged its overseas and technology development departments.

- **Set-up of the SMEs unit**

The SMEs unit primarily targets growing companies with the potential for public listing, or companies in traditional industries aiming to restructure their business. In Taiwan, this target group comprises around 50,000 companies; it is considered an emerging market with lucrative banking business opportunities. Given a broader base of SMEs each requiring a smaller amount of funding, it is easier to diversify risks.

- **Thorough revaluation of investments**

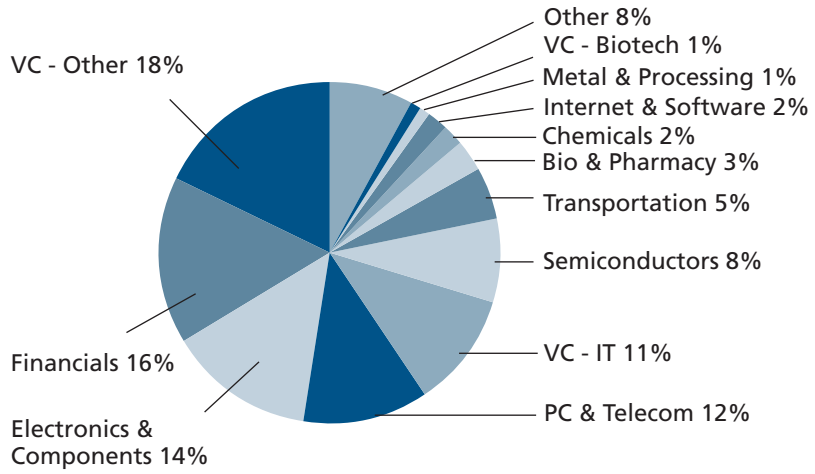
CDIB will thoroughly assess all existing investments based on the most conservative criteria and recognize provisions for investment losses.

## Investment Appropriation

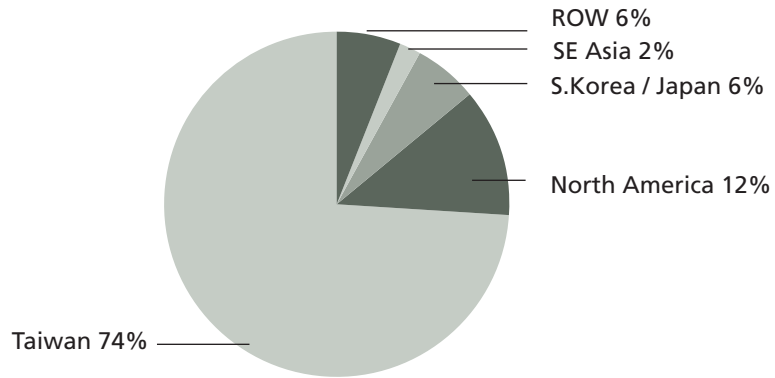
Unit: NT\$ Million



### Investment Breakdown by Industry



### Investment Breakdown by Country



## Domestic Direct Investment

CDIB is a market leader in domestic direct investment, with holdings totaling NT\$63.3bn and a 30% market share. There are over 60 professionals with postgraduate qualifications in the domestic direct investment department. These specialists are responsible for sourcing, assessing and managing investment deals. CDIB's strategy and competitive edge in domestic investment is:

- **Investment focus on industries with growth potential and integration opportunities**

Compared to the majority of venture capital firms which have limited investment opportunities, CDIB has comprehensive information on companies across all sectors based on its scaled investment portfolio. Based on this, it is able to enjoy strong growth, achieve favorable returns and diversify risk at the same time.

- **Long-term commitment to clients**

Through in-depth industry analysis, CDIB selects companies from Taiwan that are competitive in the global marketplace. It looks for high-tech companies with a strong management team. CDIB then provides long-term funding and management know-how to spur corporate growth and assist these corporations in expanding their business operations.

- **Strong and long-term client base**

CDIB has built a solid base of long-term clients based on a strong track record spanning several decades. These long-term clients provide further investment opportunities and facilitate CDIB's information flow. Its strong client relationships and in-depth sector knowledge are unrivalled in the industry.

In 2003, investments totaling NT\$2,332m were made in 26 companies across a wide spread of industries. These investments focused primarily on the semiconductor, computer, communications and electronic component sectors.

## Domestic Investments

### Total Investment Outstanding

Unit:NT\$Million

1999	44,420
2000	53,286
2001	53,798
2002	67,732
2003	63,273

### No. of Portfolio Companies

1999	237
2000	246
2001	258
2002	270
2003	261



Industry	Newly added Portfolio
Semiconductor	PhiPal Technologies, Simpall Electronics, Himax Technology, Chipsense, Uni Light Tech, Terawins, Allied Integrated Patterning
PC & Telecom	A-DATA Technology, Tee Hwa Technology
Distribution	Laster Tech
Biotechnology	Lotus Pharmaceutical
Electronics & Components	Toppoly Optoelectronics, YCL Electronics, Porkia Technology Technology, Powertech Industrial, Everst Display Technology, Daxon Technology, Solteam Electronics, Huges Hi-Tech
Internet & Software	AboveE Technology, Insrea Game Center
Automobiles & Parts	Tsang Yow Industrial, Hu Lane Associate, DEPO Auto Parts
Metal Processing	Besco Pneumatic, DE POAN Pneumatic

### Industry Mix of Domestic Investments

Unit: NT\$Million

	No. of Portfolio Companies	Amounts	Weightings%
Electronics & Components	74	11,697	24
PC & Telecom	29	9,735	20
Venture Capital <sup>(1)</sup>	16	8,173	17
Semiconductors	45	6,224	13
Transportation	5	4,165	8
Petrochemicals & Chemicals	12	1,723	4
Internet & Software	17	1,057	2
Metal Processing	10	1,032	2
Biotechnology & Medical Equipment	13	923	2
Others	39	4,438	8
<b>Total</b>	<b>260</b>	<b>49,167</b>	<b>100</b>

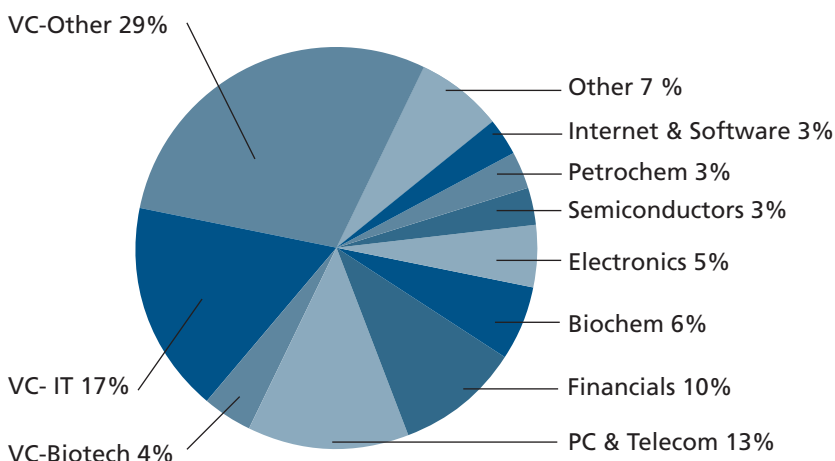
(1) Excluding CDIB's long-term investment in GCS

## Overseas Direct Investment

CDIB provides the most extensive international network and the widest transaction experience among all domestic investment institutions, with 54 investment professionals holding postgraduate qualifications responsible for sourcing and managing overseas investments. As of the end of 2003, the overseas business department (including investments by subsidiaries) had investments totaling NT\$26.9bn in some 189 companies. To be best positioned to respond to the ever-changing global economic situation, CDIB has been actively revising its strategy and internal management structure for overseas investments.

In 2003, CDIB increased its investment in undervalued stocks to NT\$5,441m, up 72.1% YoY, diversified over 18 countries including the US, South Korea, Japan, Australia and SE Asia.

## Investment Breakdown by Industry (Incl. Investments by Subsidiaries)



## Overseas Investments & No. of Portfolio Companies (Incl. Investments by Subsidiaries)

Total Investment Outstanding		Unit:NT\$Million
1999	15,195	
2000	22,128	
2001	27,364	
2002	28,996	
2003	26,876	

No. of Portfolio Companies	
1999	87
2000	111
2001	145
2002	170
2003	189

## SME Direct Investment

The SME unit was set up in order to focus internal resources and business development efforts on domestic small and medium enterprises and so offer more comprehensive financial services to SMEs. CDIB has a strong competitive advantage over general banks and venture capital firms, as it is a one-stop shop providing equity investment, corporate lending and sophisticated tailored financial products. The SME unit saw outstanding performance in its first year of operation. Its core strategy is as follows:

- **Flexibility in the cross-selling of different products**

Creating investment opportunities by establishing lending relationship with SMEs; while securing lending and underwriting business through its equity investments.

- **Actively sourcing investment targets**

Rapidly developing its client base through marketing and promotional events, such as competition for start-up ventures sponsored by the government and industry associations.

As of the end of 2003, the SME unit had taken on 27 new clients, and is now involved in 32 ventures with investment totaling NT\$930m. Some of its clients are already listed as 'emerging stocks,' bringing significant potential capital gains for CDIB.



## Corporate Banking



CDIB's corporate banking business primarily provides financial services for corporations, government entities and institutions. ”



CDIB's corporate banking business is primarily focused on institutional banking with the following core services:

- Banking business: to provide lending services and financing solutions to corporations, public sector entities and institutions.
- Trust services: to provide trust services for institutional clients in two major areas: securities investment management and asset securitization of financial assets such as auto loans, commercial leasing and credit card financing.
- Project finance: to provide financial advisory services for large-scale infrastructure and commercial development projects, to act as the arranger of loans for equity investment and to participate as an investor or lender on a selective basis.

As competition increases in the financial markets and more financial products become available, the client base is also becoming increasingly sophisticated. In 2004, CDIB will place greater emphasis on integrating its in-house resources in order to provide clients with fully integrated financial solutions, so as to be best positioned to meet various clients' needs. CDIB will focus on:

- Banking business: to further promote its loan with equity derivatives so as to generate higher investment returns.
- Trust services: to actively promote securitization services for financial and real estate assets; exploit new investment targets for trust funds and provide trust fund management services.
- Project finance: to exploit specialized investment targets suitable for asset management where CDIB can add value by providing financial expertise and advisory services, e.g. the upcoming fundraising for a restructuring fund which will target portfolio companies requiring rehabilitation.



### Highway ETC Project

The Highway Electronic Toll Collection ('ETC') Project is one of the most sought after government contracts in recent years. It has been contracted by the Ministry of Transportation and Communication using a BOT model and has a licensing period of 20 years. The project aims to ease highway congestion caused by the manual collection of tolls and also aims to boost toll revenues. The payment system is expected to generate business opportunities beyond its current application ETC.

CDIB acted as the financial advisor to the FarEastone consortium who won the bid for the Highway ETC project. CDIB will provide the relevant equity and debt financing services to the consortium.



## Banking Business

CDIB's corporate banking business primarily provides financial services for corporations, government entities and institutions. CDIB, as an industrial bank, is required to extend no less than 60% of total credits to manufacturing industries. Therefore, CDIB's banking clients are primarily manufacturing industries, such as semiconductor, utilities, chemical materials, basic metals, petrochemical and LCD.

During the past few years, the domestic banking industry has seen fierce competition, which has resulted in the narrowing of interest spreads and weaker margins for the commercial lending business. CDIB was formerly the market leader in loan syndications, however, it was forced to take a more conservative position due to the overall decline in profitability in this market segment.

Concurrently, CDIB revised the strategy and overall direction of its lending business, aiming to differentiate itself from other commercial banks and to further strengthen margins. The new strategy for CDIB's banking business is to provide more creative solutions for clients' fundraising by integrating internal resources. In line with this, the banking business department has developed and launched three new financial products, all of which were highly rated by clients:

- **Loan with convertible bonds**

When clients require funding, CDIB will provide a loan together with an offering for a convertible bond issue. CDIB will also acquire the convertible bonds to be held for future potential capital gains instead of normal interest spreads.

- **A loan with stock warrants attached**

When clients require funding, CDIB will provide a loan with clients' stock warrants attached. CDIB will hold the stock warrants for potential capital gains.

- **Financing & advisory services for restructuring**

For specific clients who are restructuring their business, CDIB acts as financial advisor and provides funds during the restructuring process.

Although these new financial products are still lending driven, the special features or services incorporated into the package means that returns can be further boosted by potential capital gains while maintaining the same level of risk.

## Loans Outstanding

Unit: NT\$ Million

2001	76,276
2002	78,258
2003	58,546

## Trust Business

### Asset Securitization

- **Real Estate Securitization**

Three types of real estate securitization trusts are offered, each based on the individual needs of the different parties involved:

**Property development trusts:** Based on the real estate trust structure, CDIB actively assists property owners or developers in structuring the trust, providing financial advisory services, fundraising, and the monitoring of designated accounts in accordance with rights and benefits transfer and other lending terms. CDIB also provides a safe and secure transaction mechanism for related parties and prevents uncertainties during the start-up phase.

**Property income trusts:** Following the asset securitization legislation passed by the Legislative Yuan in July 2003, a piece of existing and operating property asset can be made more liquid through securitization and attract investors for stable yields. Through the trust structure, CDIB issues securities on property with stable yields to provide a new investment instrument for investors.

**Urban renewal property trusts:** Given the large scale and high complexity involved in urban renewal projects, CDIB provides a communication system for all related parties through its trust scheme. To assist landlords or developers in achieving urban regeneration, CDIB provides land development services, urban renewal, construction planning, financial advisory services, fundraising, monitoring of designated accounts and trust management.

- **Financial Asset Securitization**

Securitization of financial assets is one of the new fundraising tools available to companies and financial institutions. Securitization of financial assets can help improve efficiency of fund use and bolster the financial structure, particularly for non-bank finance companies that have higher funding costs. CDIB provides financial asset securitization services to financial service companies such as auto loans, commercial leasing and credit card businesses.

### Securities Investment Operation

- **Pooling Management**

This entails the setting up pooled fund accounts to allow trustors to invest in all kinds of investment products, i.e. equities and fixed-income securities in Taiwan or overseas.

- **Mutual Funds**

This comprises beneficiary certificates on specific investment targets to raise funds from investors.

- **New Financial Products**

CDIB has introduced new financial products from overseas, which are marketed through its sales network and branches, aiming to provide a wider range of financial products to customers.



## Project Finance

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 BOT model and large-scale private sector 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 sector investment projects.

The targeted transaction type of project finance tends to be large-scale in terms of investment size, resulting in long payback period and low investment liquidity.

## Treasury & Capital Markets



CDIB's Treasury and Trading department is responsible for funding and short-term investment using CDIB's own funds.



CDIB's Treasury and Trading department is responsible for funding and proprietary trading. However, subject to the Banking Laws and other related regulations, CDIB's treasury operations are much more restricted than the proprietary dealing operations of securities firms. Therefore, in compliance with existing regulations, the strategy for CDIB's treasury operations is to maximize returns based on CDIB's business characteristics and asset allocation as well as risks of different investment instruments.

### Operation Results & Investments Positions

Unit: NT\$Million

	FY04 Budget	FY03	FY02	YoY (%)
<b>Investment Positions</b>				
Stocks	5,313	4,936	3,122	58
Bonds	9,888	5,185	9,083	(42.9)
<b>Total</b>	<b>15,201</b>	<b>10,121</b>	<b>12,205</b>	<b>(17.1)</b>
<b>Investment Gains/(Losses)</b>				
Stocks	645	465	(600)	-
Bonds	206	407	276	47.5
Forex & Derivatives	60	12	1	1,100.0
<b>Total</b>	<b>911</b>	<b>884</b>	<b>(323)</b>	<b>-</b>

With the economic and stock market recovery in the second half of 2003, the treasury & trading department has been building up its position of stock investments. The bond position has been reduced on the expectation of potential interest rate hikes. As a result of this, the allocation ratio of stocks to bonds rose to 1:1 at the end of 2003, from 1:3 in 2002. The total investment return in 2003 stood at 8.7%, compared with a negative 2.6% in 2002.

Looking forward to 2004, stock investment position should see a moderate increase of 7.6%, while CDIB's bond position is expected to grow significantly by NT\$4.7bn or 90.7% by end of 2004 on the back of a planned market arbitrage program to commence in the second half of 2004. The investment return budgeted for 2004 is 6%, relatively conservative compared with 8.7% of 2003, mainly due to consideration of the wider fluctuations of market movements.

## Affiliated Businesses

### China Venture Management, Inc. (CVM)

CDIB set up China Venture Management, Inc. (CVM) in 1986 to conduct venture capital investment business. Thanks to the hard work of the management team, CVM is now firmly placed as one of Taiwan's best-performing venture capital fund management companies. The funds under the CVM banner not only provide high-tech enterprises with the injections of capital that they need, but the management team also actively assists invested businesses in implementing important operating decisions such as technology transfers and strategic alliances, all the way through to successful IPO. Even after stock market or OTC listing, CVM continues to strengthen investees' financial and operational planning, increase their overall competitive advantages and help them grow into major high-tech companies.

Through a combined strategy of careful investment target selection and rigorous post-investment management, the companies invested by CVM in recent years have achieved outstanding performances in terms of both scale and profitability. As of the end of 2003, 81 invested companies have proceeded to IPO in Taiwan or overseas. The overall performance of the various venture capital funds managed by CVM has also been highly satisfactory for shareholders. The status of these funds is summarized below:

### Industry Mix of Domestic Investments

Unit: NT\$Million

Yearfounded	Fund name	Size	Current status
1985	Sino-Scan Venture Fund, Ltd.	500	38 of 58 investees are listed in Taiwan or abroad
1989	ROC Venture Company Ltd.	608	39 of 74 investees are listed in Taiwan or abroad
1993	ROC Strategic Company Ltd.	575	22 of 46 investees are listed in Taiwan or abroad
1996	China Alliance Venture Fund Ltd.	720	20 of 50 investees are listed in Taiwan or abroad
1998	Wa Tech Venture Capital Co., Ltd.	682	23 of 49 investees are listed in Taiwan or abroad
1998	Kingdom Venture Capital Co., Ltd.	500	12 of 35 investees are listed in Taiwan or abroad
1999	China Corporate Venture Fund Ltd.	675	23 of 49 investees are listed in Taiwan or abroad
2002	CDIB. Strategic Venture Fund Ltd.	1500	4 of 13 investees are listed in Taiwan or abroad

In addition to the funds above, which stress a strategic division of labor and alliance between Taiwan, the US and mainland China, in 1994, CVM and the internationally renowned venture capital company, Oxton, set up Jerusalem Pacific Ventures (JPV). The alliance brings together Israel's strengths in technological research and development and the manufacturing



capabilities of Taiwanese-owned companies. With its highly innovative approach, this fund has not only won the strong support and participation of the Israeli government, but has also attracted investment from technology-based European conglomerates and from Taiwanese and American financial institutions as well.

In November 2001, CVM was appointed Investment Sub-Advisor to the Asia Corporate Partners Fund (ACPF), a US\$155 million fund that mainly invests in the manufacturing industry around the Asia-Pacific region. Its major investors include internationally prominent corporate and public investors such as the California Public Employees' Retirement System (CalPERS), BNP Paribas of France, Capital International of the US, and Tamasek Holdings of Singapore. The relationship with ACPF has enabled CVM to expand its strategic collaborations with international financial groups, and provides opportunities for the future expansion and internalization of the venture capital funds under CVM's own banner.

Looking back at 2003, Taiwan had been under the threat of bubble technological growth and economic recession for three years. However, in 2003, the situation gradually improved. The capital market is booming and the prospect of the technological industry has brightened. All these factors are advantageous for venture capital investment in terms of investment profitability and investment opportunities. The Ministry of Finance further lifted restrictions on venture capital that has resulted in capital efficiency of the venture capital market. Looking forward through 2004, given the fact that the technological industry will be booming and the capital market is expected to grow, hence, the performance of both CVM and its venture capital fund will be better than that of 2003.

### **China Development Asset Management Company**

China Development Asset Management Company (CDAMC) was incorporated in 2001, in response to government policies to reduce the overdue loans ratio in Taiwan's banking sector. CDIB took the lead role in setting up CDAMC and contributed 100% of its share capital of NT\$5 billion. CDAMC's current strategy is to set up a separate asset management company, held as a subsidiary, for each non-performing loan (NPL) portfolio acquired, and to commission an asset management service company to plan and carry out the portfolio's management. In the future CDAMC will consider bringing in foreign investors who are interested in Taiwanese NPLs to boost CDAMC's purchasing power.

CDAMC was the first private-sector asset management company in Taiwan to become fully operational. Since its establishment, it has purchased NPL portfolios from various Taiwanese banks: CDIB, Enterprise Bank of Hualien, United World Chinese Commercial Bank, Jih Sun International Bank, Macoto Bank, Taichung Commercial Bank and Taiwan Cooperation Bank. These NPLs, together with the NT\$6 billion portfolio purchased from Cosmos Bank in collaboration with Lone Star, have a total purchase value of NT\$70.8 billion. After one-year's endeavors, it earned a total of NT\$65 million in 2003 and is expected to see further growth in 2004.



English Translation of a Report Originally Issued in Chinese

CHINA DEVELOPMENT INDUSTRIAL BANK INC. AND SUBSIDIARIES

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
China Development Industrial Bank Inc.

We have audited the accompanying consolidated balance sheets of China Development Industrial Bank Inc. (the "Bank") and subsidiaries as of December 31, 2003 and 2002 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 Bank'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 Rules Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Industrial Bank Inc. and its subsidiaries as of December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers 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 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.

January 28, 2004



### 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.

**CONSOLIDATED BALANCE SHEETS**

DECEMBER 31, 2003 AND 2002

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

ASSETS	2003		2002	
	Amount	%	Amount	%
<b>CASH</b>	\$ 1,500,387	1	\$ 323,218	-
<b>DUE FROM OTHER BANKS</b>	326,416	-	1,178,538	-
<b>CALL LOANS TO BANKS</b>	10,799,373	5	4,232,071	2
<b>DUE FROM THE CENTRAL BANK</b>	12,405,706	6	11,799,934	5
<b>SECURITIES PURCHASED-Net</b>	12,433,954	6	10,660,798	5
<b>RECEIVABLES-Net</b>	1,961,537	1	1,799,524	1
<b>ACQUIRED LOANS</b>	14,132,520	6	4,506,111	2
<b>LOANS-Net</b>	61,668,596	28	82,061,965	37
<b>LONG-TERM INVESTMENTS</b>				
Equity method	27,114,718	12	28,684,382	13
Cost method	71,055,577	33	72,269,813	33
<b>Long-term investments-net</b>	<b>98,170,295</b>	<b>45</b>	<b>100,954,195</b>	<b>46</b>
<b>PROPERTIES</b>				
Cost				
Land	483,638	-	483,638	-
Buildings and facilities	1,177,036	1	1,191,784	1
Computer equipment	343,707	-	314,352	-
Transportation equipment	34,191	-	41,017	-
Other equipment	115,178	-	113,615	-
Lease improvements	-	-	1,988	-
Total cost	2,153,750	1	2,146,394	1
Accumulated depreciation	763,584	-	731,885	-
	1,390,166	1	1,414,509	1
Advances for acquisition of properties	4,082	-	22,969	-
Net properties	1,394,248	1	1,437,478	1
<b>OTHER ASSETS</b>				
Other assets	2,277,671	1	696,407	-
Deferred tax assets	810,690	-	808,356	1
Total other assets	3,088,361	1	1,504,763	1
<b>TOTAL ASSETS</b>	<b>\$ 217,881,393</b>	<b>100</b>	<b>\$ 220,458,595</b>	<b>100</b>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche report dated January 28, 2004)

LIABILITIES AND STOCKHOLDERS' EQUITY	2003		2002	
	Amount	%	Amount	%
<b>LIABILITIES</b>				
Call loans from banks	\$ 10,103,437	5	\$ 6,351,990	3
Short-term loans	2,100,000	1	-	-
Commercial paper issued	1,195,265	-	594,542	-
Payables	10,401,125	5	4,568,532	2
Deposits and remittances	41,592,456	19	45,021,434	20
Bank debentures	13,880,000	6	12,180,000	6
Long-term loans	3,294,060	2	568,555	-
Other liabilities	782,534	-	928,113	1
Total liabilities	83,348,877	38	70,213,166	32
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock-\$10 par value; authorized and issued-8,678,422 thousand shares	86,784,220	40	86,784,220	39
Preferred stock-\$10 par value; authorized and issued-625,000 thousand shares	6,250,000	3	6,250,000	3
Capital surplus				
Additional paid-in capital	35,269,939	16	35,269,939	16
Treasury stock transactions	78,468	-	78,468	-
Surplus recognized under the equity method	122,139	-	123,602	-
Gain on property disposal	-	-	1,876	-
Donated capital	20	-	1,742	-
Retained earnings				
Legal reserve	23,733,111	11	21,494,007	10
Special reserve	-	-	222,083	-
Unappropriated earnings (accumulated losses)	( 13,779,931 )	( 6 )	7,461,803	3
Unrealized losses on long-term investments	( 1,654,091 )	( 1 )	( 5,448,824 )	( 2 )
Cumulative translation adjustments	512,765	-	790,637	-
Treasury stock, at cost-122,561 thousand shares	( 2,784,124 )	( 1 )	( 2,784,124 )	( 1 )
Total stockholders' equity	134,532,516	62	150,245,429	68
<b>COMMITMENTS AND CONTINGENCIES</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$217,881,393</b>	<b>100</b>	<b>\$ 220,458,595</b>	<b>100</b>

**CONSOLIDATED STATEMENTS OF INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

	2003		2002	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Income from long-term investments				
Gain on sale of investments-net	\$ 2,854,624	32	\$ 7,308,896	49
Other investment income	914,049	10	621,851	4
	<u>3,768,673</u>	<u>42</u>	<u>7,930,747</u>	<u>53</u>
Interest	3,111,556	34	4,088,525	28
Gain on sale of acquired loans	684,708	8	13,333	-
Income from securities-net	1,222,598	14	2,105,499	14
Service fees	198,121	2	401,689	3
Exchange gains-net	-	-	228,336	2
Other	46,631	-	61,529	-
	<u>9,032,287</u>	<u>100</u>	<u>14,829,658</u>	<u>100</u>
<b>OPERATING EXPENSES AND LOSSES</b>				
Interest	1,512,871	17	1,962,302	13
Provision for loss on long-term investments	8,931,713	99	1,106,645	8
Investment loss under the equity method-net	4,116,480	45	1,046,101	7
Provision for bad debts and losses on guarantees	6,687,421	74	2,139,276	15
Exchange losses-net	247,808	3	-	-
Operating and administrative expenses	1,450,469	16	1,632,403	11
Other	36,644	1	41,092	1
	<u>22,983,406</u>	<u>255</u>	<u>7,927,819</u>	<u>54</u>
Total operating expenses and losses				
<b>OPERATING INCOME (LOSS)</b>	<b>( 13,951,119 )</b>	<b>( 155 )</b>	<b>6,901,839</b>	<b>46</b>
<b>NONOPERATING REVENUES AND INCOME</b>	<b>195,905</b>	<b>2</b>	<b>161,755</b>	<b>1</b>
<b>NONOPERATING EXPENSES AND LOSSES</b>	<b>92,236</b>	<b>1</b>	<b>60,147</b>	<b>-</b>
<b>CONTINUING OPERATION'S INCOME (LOSS) BEFORE TAX</b>	<b>( 13,847,450 )</b>	<b>( 154 )</b>	<b>7,003,447</b>	<b>47</b>
<b>INCOME TAX BENEFIT (EXPENSE)</b>	<b>( 105,712 )</b>	<b>( 1 )</b>	<b>458,356</b>	<b>3</b>
<b>CUMULATIVE EFFECT OF ACCOUNTING CHANGE- Evaluation of securities purchased</b>	<b>173,231</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>NET INCOME (LOSS)</b>	<b><u>( \$ 13,779,931 )</u></b>	<b><u>( 153 )</u></b>	<b><u>\$ 7,461,803</u></b>	<b><u>50</u></b>

	2003		2002	
	Pretax	After tax	Pretax	After tax
<b>EARNINGS PER SHARE</b>				
Basic earnings (loss) per share	<u>( \$ 1.66 )</u>	<u>( \$ 1.67 )</u>	<u>\$ 0.81</u>	<u>\$ 0.87</u>

Pro forma information had there been no change in method for evaluating securities purchased:

	2003		2002	
	Pretax	After tax	Pretax	After tax
<b>NET INCOME (LOSS)</b>				
	<u>(\$13,847,450)</u>	<u>(\$13,953,162)</u>	<u>\$ 7,176,678</u>	<u>\$ 7,635,034</u>

	2003		2002	
	Pretax	After tax	Pretax	After tax
<b>EARNINGS PER SHARE</b>				
Basic earnings (loss) per share	<u>( \$ 1.68 )</u>	<u>( \$ 1.69 )</u>	<u>\$ 0.83</u>	<u>\$ 0.89</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche report dated January 28, 2004)

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousands of New Taiwan Dollars, Except Cash Dividends and Capital Increase by Cash Per Share)

	CAPITAL STOCK		PREFERRED STOCK		CAPITAL SURPLUS
	Shares (in Thousands)	Amount	Shares (in Thousands)	Amount	
<b>BALANCE, JANUARY 1, 2002</b>	7,838,422	\$ 78,384,220	625,000	\$ 6,250,000	\$ 22,885,732
Appropriation of 2001 earnings					
Legal reserve	-	-	-	-	-
Retained earnings transferred from special reserve	-	-	-	-	-
Cash dividends-\$1.105 per share	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Bonuses and remunerations to:					
Directors and supervisors	-	-	-	-	-
Employees - cash	-	-	-	-	-
Total	7,838,422	78,384,220	625,000	6,250,000	22,885,732
Capital increase - cash, \$25 per share, base date: September 5, 2002	840,000	8,400,000	-	-	12,600,000
Reversal of capital surplus recognized under the equity method	-	-	-	-	( 10,105)
Translation adjustments on investments of equity-method investees	-	-	-	-	-
Translation adjustments	-	-	-	-	-
Unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-
Unrealized loss on long-term investments-parent company	-	-	-	-	-
Net income in 2002	-	-	-	-	-
<b>BALANCE, DECEMBER 31, 2002</b>	8,678,422	86,784,220	625,000	6,250,000	35,475,627
Appropriation of 2002 earnings					
Legal and special reserve	-	-	-	-	-
Cash dividends-\$0.553 per share	-	-	-	-	-
Bonuses to employees-cash	-	-	-	-	-
Dividends to preferred stock	-	-	-	-	-
Reversal of capital surplus from disposal of fixed assets	-	-	-	-	( 1,876)
Total	8,678,422	86,784,220	625,000	6,250,000	35,473,751
Reversal of capital surplus recognized under the equity method	-	-	-	-	( 1,463)
Translation adjustments on investments of equity-method investees	-	-	-	-	-
Translation adjustments	-	-	-	-	-
Reversal of unrealized losses on long- term investments recognized under the equity method	-	-	-	-	-
Reversal of unrealized loss on long- term investments - parent company	-	-	-	-	-
Reversal of capital surplus from donated capital	-	-	-	-	( 1,722)
Net loss in 2003	-	-	-	-	-
<b>BALANCE, DECEMBER 31, 2003</b>	8,678,422	\$ 86,784,220	625,000	\$ 6,250,000	\$ 35,470,566

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

(With Deloitte &amp; Touche report dated January 28, 2004)



RETAINED EARNINGS			UNREALIZED LOSS ON LONG- TERM INVESTMENTS	CUMULATIVE TRANSLATION ADJUSTMENTS	TREASURY STOCK		
Legal Reserve	Special Reserve	Unappropriated earnings (accumulated losses)			Shares (in Thousands)	Amount	Total
\$ 17,861,290	\$ 695,450	\$ 12,109,059	(\$ 787,413)	\$ 143,011	( 122,561)	(\$ 2,784,124)	\$ 134,757,225
3,632,717	-	( 3,632,717)	-	-	-	-	-
-	( 473,367)	473,367	-	-	-	-	-
-	-	( 8,661,456)	-	-	-	-	( 8,661,456)
-	-	( 126,795)	-	-	-	-	( 126,795)
-	-	( 60,000)	-	-	-	-	( 60,000)
-	-	( 101,458)	-	-	-	-	( 101,458)
21,494,007	222,083	-	( 787,413)	143,011	( 122,561)	( 2,784,124)	125,807,516
-	-	-	-	-	-	-	21,000,000
-	-	-	-	-	-	-	( 10,105)
-	-	-	-	484,428	-	-	484,428
-	-	-	-	163,198	-	-	163,198
-	-	-	( 449,450)	-	-	-	( 449,450)
-	-	-	( 4,211,961)	-	-	-	( 4,211,961)
-	-	7,461,803	-	-	-	-	7,461,803
21,494,007	222,083	7,461,803	( 5,448,824)	790,637	( 122,561)	( 2,784,124)	150,245,429
2,239,104	( 222,083)	( 2,017,021)	-	-	-	-	-
-	-	( 4,800,426)	-	-	-	-	( 4,800,426)
-	-	( 126,232)	-	-	-	-	( 126,232)
-	-	( 520,000)	-	-	-	-	( 520,000)
-	-	1,876	-	-	-	-	-
23,733,111	-	-	( 5,448,824)	790,637	( 122,561)	( 2,784,124)	144,798,771
-	-	-	-	-	-	-	( 1,463)
-	-	-	-	( 148,368)	-	-	( 148,368)
-	-	-	-	( 129,504)	-	-	( 129,504)
-	-	-	1,168,571	-	-	-	1,168,571
-	-	-	2,626,162	-	-	-	2,626,162
-	-	-	-	-	-	-	( 1,722)
-	-	( 13,779,931)	-	-	-	-	( 13,779,931)
\$ 23,733,111	\$ -	(\$ 13,779,931)	(\$ 1,654,091)	\$ 512,765	( 122,561)	(\$ 2,784,124)	\$ 134,532,516

CHINA DEVELOPMENT INDUSTRIAL BANK INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousands of New Taiwan Dollars)

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	(\$ 13,779,931)	\$ 7,461,803
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Increase in acquired loans	( 9,799,417 )	( 2,505,111 )
Provision for loss on long-term investments	8,931,713	1,106,645
Provision for bad debts and losses on guarantees	6,687,421	2,139,276
Investment loss under the equity method-net	4,116,480	1,046,101
Decrease (increase) in receivables	( 706,111 )	892,076
Decrease (increase) in securities purchased for trading purposes	( 1,205,678 )	1,001,573
Provision (reversal) of allowance for decline in market value of securities purchased	( 567,478 )	519,449
Increase in payables	5,832,593	2,280,888
Cash dividends received from equity-method investees	362,359	540,110
Deferred income taxes	( 356,598 )	( 870,000 )
Pension benefit payments charged against reserve	( 106,408 )	( 120,081 )
Depreciation and amortization	92,727	109,733
Provision for pension benefits	73,638	84,464
Provision for losses on collaterals assumed	36,013	59,495
Loss on disposal of collaterals assumed	30,549	-
Provision for losses on securities trading	25,442	13,304
Net losses on property disposal	451	145
Other	379	-
Net cash provided by (used in) operating activities	( 331,856 )	13,759,870
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in loans	13,915,872	( 9,895,180 )
Increase in long-term investments	( 10,989,574 )	( 25,369,904 )
Decrease (increase) in call loans to banks	( 6,567,302 )	2,927,929
Cost of long-term investments sold	3,952,399	5,785,546
Decrease in due from other banks	852,122	796,173
Increase in due from the Central Bank	( 605,772 )	( 4,951,137 )
Decrease (increase) in other assets	( 1,173,570 )	1,346,766
Proceeds from disposal of nonperforming loans	332,000	748,000
Acquisition of properties	( 59,130 )	( 38,245 )
Proceeds from property disposal	2,795	3,778
Net cash used in investing activities	( 340,160 )	( 28,646,274 )

	2003	2002
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	(\$ 4,800,426 )	(\$ 8,661,456)
Increase (decrease) in call loans from banks	3,751,447	( 465,885 )
Increase (decrease) in deposits and remittances	( 3,428,978 )	6,883,504
Increase in commercial paper payable	600,723	594,542
Increase in short-term loans	2,100,000	-
Increase (decrease) in bank debentures	1,700,000	( 4,620,000 )
Payment of preferred dividends	( 520,000 )	( 126,795 )
Decrease in other liabilities	( 152,854 )	( 198,965 )
Remuneration to directors and supervisors and bonus to employees	( 126,232 )	( 161,458 )
Decrease in long-term loans	2,725,505	45,719
Capital increase by cash	-	21,000,000
Net cash provided by financing activities	1,849,185	14,289,206
<b>INCREASE (DECREASE) IN CASH</b>	<b>1,177,169</b>	<b>( 597,198 )</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>323,218</b>	<b>920,416</b>
<b>CASH, END OF YEAR</b>	<b>\$ 1,500,387</b>	<b>\$ 323,218</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ 1,562,809	\$ 2,314,534
Income tax paid	\$ 50,616	\$ 53,123

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche report dated January 28, 2004)



CHINA DEVELOPMENT INDUSTRIAL BANK INC.

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders

China Development Industrial Bank Inc.

We have audited the accompanying balance sheets of China Development Industrial Bank Inc. (the "Bank") as of December 31, 2003 and 2002 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Rules Governing the Audit of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 Industrial Bank Inc. as of December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended, in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the accompanying financial statements, effective January 1, 2003, China Development Industrial Bank 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.

We have also audited the consolidated financial statements of China Development Industrial Bank Inc. as of and for the years ended December 31, 2003 and 2002, on which we have expressed a modified unqualified opinion, respectively.

January 28, 2004



### **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.

CHINA DEVELOPMENT INDUSTRIAL BANK INC.

**BALANCE SHEETS**

DECEMBER 31, 2003 AND 2002

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

ASSETS	2003		2002	
	Amount	%	Amount	%
CASH	\$ 98,079	-	\$ 91,919	-
DUE FROM OTHER BANKS	326,416	-	1,178,538	-
CALL LOANS TO BANKS	10,799,373	5	4,232,071	2
DUE FROM THE CENTRAL BANK	12,405,706	6	11,799,934	5
SECURITIES PURCHASED-Net	11,478,954	6	10,215,024	5
RECEIVABLES-Net	3,859,978	2	3,695,527	2
LOANS-Net	58,545,820	29	78,258,352	36
<b>LONG-TERM INVESTMENTS</b>				
Equity method	31,804,146	15	33,433,072	15
Cost method	70,888,793	35	71,835,811	33
Long-term investments-net	102,692,939	50	105,268,883	48
<b>PROPERTIES</b>				
Cost				
Land	483,638	-	483,638	-
Buildings and facilities	1,177,036	1	1,191,784	1
Computer equipment	341,594	-	312,905	-
Transportation equipment	32,461	-	39,287	-
Other equipment	111,551	-	110,898	-
Total cost	2,146,280	1	2,138,512	1
Accumulated depreciation	761,645	-	730,607	-
	1,384,635	1	1,407,905	1
Advances for acquisition of properties	4,082	-	22,969	-
Net properties	1,388,717	1	1,430,874	1
<b>OTHER ASSETS</b>				
Other assets	792,756	-	678,355	-
Deferred tax assets	808,356	1	808,356	1
Totals	1,601,112	1	1,486,711	1
<b>TOTAL ASSETS</b>	<b>\$ 203,197,094</b>	<b>100</b>	<b>\$ 217,657,833</b>	<b>100</b>

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche report dated January 28, 2004)

LIABILITIES AND STOCKHOLDERS' EQUITY	2003		2002	
	Amount	%	Amount	%
<b>LIABILITIES</b>				
Call loans from banks	\$ 10,103,437	5	\$ 6,351,990	3
Payables	2,017,472	1	2,505,001	1
Deposits and remittances	41,665,207	20	45,140,745	21
Bank debentures	13,880,000	7	12,180,000	5
Long-term loans	222,415	-	306,555	-
Other liabilities	776,047	1	928,113	1
Total liabilities	68,664,578	34	67,412,404	31
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock-\$10 par value; authorized and issued-8,678,422 thousand shares	86,784,220	43	86,784,220	40
Preferred stock-\$10 par value; authorized and issued-625,000 thousand shares	6,250,000	3	6,250,000	3
Capital surplus				
Additional paid-in capital	35,269,939	17	35,269,939	16
Treasury stock transaction	78,468	-	78,468	-
Surplus recognized under the equity method	122,139	-	123,602	-
Gain on property disposal	-	-	1,876	-
Donated capital	20	-	1,742	-
Retained earnings				
Legal reserve	23,733,111	12	21,494,007	10
Special reserve	-	-	222,083	-
Unappropriated ( <i>accumulated losses</i> )	( 13,779,931 )	( 7 )	7,461,803	3
Unrealized losses on long-term investments	( 1,654,091 )	( 1 )	( 5,448,824 )	( 2 )
Cumulative translation adjustments	512,765	-	790,637	-
Treasury stock, at cost-122,561 thousand shares	( 2,784,124 )	( 1 )	( 2,784,124 )	( 1 )
Total stockholders' equity	134,532,516	66	150,245,429	69
<b>COMMITMENTS AND CONTINGENCIES</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
	\$ 203,197,094	100	\$ 217,657,833	100

CHINA DEVELOPMENT INDUSTRIAL BANK INC.

**STATEMENTS OF INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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

	2003		2002	
	Amount	%	Amount	%
<b>OPERATING REVENUES</b>				
Income from long-term investments				
Gain on sale of investments-net	\$ 2,854,624	34	\$ 7,308,896	49
Other investment income	914,049	11	621,851	4
	<u>3,768,673</u>	<u>45</u>	<u>7,930,747</u>	<u>53</u>
Interest	3,111,556	37	4,088,525	27
Income from securities-net	1,199,152	15	2,162,221	15
Service fees	198,121	2	401,689	3
Exchange gain-net	-	-	228,336	2
Other	46,631	1	61,529	-
	<u>8,324,133</u>	<u>100</u>	<u>14,873,047</u>	<u>100</u>
<b>OPERATING EXPENSES AND LOSSES</b>				
Interest	1,397,593	17	1,962,280	13
Provision for loss on long-term investments	8,931,713	107	1,106,645	8
Investment loss under the equity method-net	4,073,408	49	1,217,549	8
Provisions for bad debts and losses on guarantees	6,514,413	78	1,508,262	10
Exchange loss-net	247,808	3	-	-
Operating and administrative expenses	1,251,823	15	1,493,233	10
Other	36,644	1	41,092	-
	<u>22,453,402</u>	<u>270</u>	<u>7,329,061</u>	<u>49</u>
<b>OPERATING INCOME (LOSS)</b>	<b>( 14,129,269 )</b>	<b>( 170 )</b>	<b>7,543,986</b>	<b>51</b>
<b>NONOPERATING REVENUES AND INCOME</b>	<b>182,974</b>	<b>2</b>	<b>150,608</b>	<b>1</b>
<b>NONOPERATING EXPENSES AND LOSSES</b>	<b>6,867</b>	<b>-</b>	<b>691,147</b>	<b>5</b>
<b>CONTINUING OPERATION'S INCOME (LOSS) BEFORE TAX</b>	<b>( 13,953,162 )</b>	<b>( 168 )</b>	<b>7,003,447</b>	<b>47</b>
<b>INCOME TAX BENEFIT</b>	<b>-</b>	<b>-</b>	<b>458,356</b>	<b>3</b>
<b>CUMULATIVE EFFECT OF ACCOUNTING CHANGE- Evaluation of securities purchased</b>	<b>173,231</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>NET INCOME (LOSS)</b>	<b>( \$ 13,779,931 )</b>	<b>( 166 )</b>	<b>\$ 7,461,803</b>	<b>50</b>



	2003		2002	
	Pretax	After tax	Pretax	After tax
<b>EARNINGS PER SHARE</b>				
Basic earnings (loss) per share	<u>( \$ 1.67 )</u>	<u>( \$ 1.67 )</u>	<u>\$ 0.81</u>	<u>\$ 0.87</u>

Pro forma information had there been no change in method for evaluating securities purchased:

	2003		2002	
	Pretax	After tax	Pretax	After tax
<b>NET INCOME (LOSS)</b>				
	<u>( \$13,953,162 )</u>	<u>( \$13,953,162 )</u>	<u>\$ 7,176,678</u>	<u>\$ 7,635,034</u>

	2003		2002	
	Pretax	After tax	Pretax	After tax
<b>EARNINGS PER SHARE</b>				
Basic earnings (loss) per share	<u>( \$ 1.69 )</u>	<u>( \$ 1.69 )</u>	<u>\$ 0.83</u>	<u>\$ 0.89</u>

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche report dated January 28, 2004)

CHINA DEVELOPMENT INDUSTRIAL BANK INC.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousands of New Taiwan Dollars, Except Cash Dividend and Capital Increase by Cash Per Share)

	CAPITAL STOCK		PREFERRED STOCK		CAPITAL SURPLUS
	Shares (in Thousands)	Amount	Shares (in Thousands)	Amount	
<b>BALANCE, JANUARY 1, 2002</b>	7,838,422	\$ 78,384,220	625,000	\$ 6,250,000	\$ 22,885,732
Appropriation of 2001 earnings					
Legal reserve	-	-	-	-	-
Retained earnings transferred from special reserve	-	-	-	-	-
Cash dividends-\$1.105 per share	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Bonuses and remunerations to:					
Directors and supervisors	-	-	-	-	-
Employees-cash	-	-	-	-	-
Total	7,838,422	78,384,220	625,000	6,250,000	22,885,732
Capital increase-cash \$25 per share, base date September 5, 2002	840,000	8,400,000	-	-	12,600,000
Reversal of capital surplus recognized under the equity method	-	-	-	-	( 10,105)
Translation adjustments on investments of equity-method investees	-	-	-	-	-
Translation adjustments Unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-
Unrealized loss on long-term investments-parent company	-	-	-	-	-
Net income in 2002	-	-	-	-	-
<b>BALANCE, DECEMBER 31, 2002</b>	8,678,422	86,784,220	625,000	6,250,000	35,475,627
Appropriation of 2002 earnings					
Legal and special reserve	-	-	-	-	-
Cash dividends-\$0.553 per share	-	-	-	-	-
Bonuses to employees-cash	-	-	-	-	-
Dividends to preferred stock	-	-	-	-	-
Reverse capital surplus from disposal of fixed assets	-	-	-	-	( 1,876)
Total	8,678,422	86,784,220	625,000	6,250,000	35,473,751
Reversal of capital surplus recognized under the equity method	-	-	-	-	( 1,463)
Translation adjustments on investments of equity-method investees	-	-	-	-	-
Translation adjustments Reversal of unrealized losses on long-term investments recognized under the equity method	-	-	-	-	-
Reversal of unrealized loss on long- term investments-parent company	-	-	-	-	-
Reversal of capital surplus from donated capital	-	-	-	-	( 1,722)
Net loss in 2003	-	-	-	-	-
<b>BALANCE, DECEMBER 31, 2003</b>	8,678,422	\$ 86,784,220	625,000	\$ 6,250,000	\$ 35,470,566

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

(With Deloitte &amp; Touche report dated January 28, 2004)

RETAINED EARNINGS							
Legal Reserve	Special Reserve	Unappropriated earnings (accumulated losses)	UNREALIZED LOSS ON LONG-TERM INVESTMENTS	CUMULATIVE TRANSLATION ADJUSTMENTS	TREASURY STOCK		Total
					Shares (in Thousands)	Amount	
\$ 17,861,290	\$ 695,450	\$ 12,109,059	(\$ 787,413)	\$ 143,011	( 122,561)	(\$ 2,784,124)	\$ 134,757,225
3,632,717	-	( 3,632,717)	-	-	-	-	-
-	( 473,367)	473,367	-	-	-	-	-
-	-	( 8,661,456)	-	-	-	-	( 8,661,456)
-	-	( 126,795)	-	-	-	-	( 126,795)
-	-	( 60,000)	-	-	-	-	( 60,000)
-	-	( 101,458)	-	-	-	-	( 101,458)
21,494,007	222,083	-	( 787,413)	143,011	( 122,561)	( 2,784,124)	125,807,516
-	-	-	-	-	-	-	21,000,000
-	-	-	-	-	-	-	( 10,105)
-	-	-	-	484,428	-	-	484,428
-	-	-	-	163,198	-	-	163,198
-	-	-	( 449,450)	-	-	-	( 449,450)
-	-	-	( 4,211,961)	-	-	-	( 4,211,961)
-	-	7,461,803	-	-	-	-	7,461,803
21,494,007	222,083	7,461,803	( 5,448,824)	790,637	( 122,561)	( 2,784,124)	150,245,429
2,239,104	( 222,083)	( 2,017,021)	-	-	-	-	-
-	-	( 4,800,426)	-	-	-	-	( 4,800,426)
-	-	( 126,232)	-	-	-	-	( 126,232)
-	-	( 520,000)	-	-	-	-	( 520,000)
-	-	1,876	-	-	-	-	-
23,733,111	-	-	( 5,448,824)	790,637	( 122,561)	( 2,784,124)	144,798,771
-	-	-	-	-	-	-	( 1,463)
-	-	-	-	( 148,368)	-	-	( 148,368)
-	-	-	-	( 129,504)	-	-	( 129,504)
-	-	-	1,168,571	-	-	-	1,168,571
-	-	-	2,626,162	-	-	-	2,626,162
-	-	-	-	-	-	-	( 1,722)
-	-	( 13,779,931)	-	-	-	-	( 13,779,931)
\$ 23,733,111	\$ -	(\$ 13,779,931)	(\$ 1,654,091)	\$ 512,765	( 122,561)	(\$ 2,784,124)	\$ 134,532,516

CHINA DEVELOPMENT INDUSTRIAL BANK INC.

**STATEMENTS OF CASH FLOWS**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002  
(In Thousands of New Taiwan Dollars)

	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	(\$ 13,779,931 )	\$ 7,461,803
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loss on long-term investments	8,931,713	1,106,645
Provision for bad debts and losses on guarantees	6,514,413	1,508,262
Investment loss under the equity method	4,073,408	1,217,549
Increase in receivables	( 708,548 )	( 1,003,953 )
Increase in securities purchased for trading purposes	( 700,678 )	( 698,427 )
Provision (reversal) of allowance for decline in market value of securities purchased	( 563,252 )	515,223
Increase (decrease) in payables	( 487,529 )	221,607
Cash dividends received from equity-method investees	362,359	540,110
Deferred income taxes	( 354,264 )	( 870,000 )
Pension benefit payments charged against reserve	( 106,408 )	( 120,081 )
Depreciation	90,971	106,006
Provision for pension benefits	73,638	84,464
Provision (reversal) for losses on collaterals assumed	( 39,757 )	59,495
Loss on disposal of collaterals assumed	30,549	-
Provision for losses on securities trading	25,442	13,304
Net losses (gains) on property disposal	( 709 )	145
Loss on disposal of nonperforming loans	-	631,014
Net cash provided by operating activities	<u>3,361,417</u>	<u>10,773,166</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in loans	13,235,035	( 6,091,567 )
Increase in long-term investments	( 10,886,574 )	( 24,865,355 )
Decrease (increase) in call loans to banks	( 6,567,302 )	2,927,929
Cost of long-term investments sold	3,684,874	5,785,546
Decrease in due from other banks	852,122	796,173
Increase in due from the Central Bank	( 605,772 )	( 4,951,137 )
Decrease in other assets	369,330	1,362,836
Proceeds from disposal of nonperforming loans	332,000	748,000
Acquisition of properties	( 57,555 )	( 35,540 )
Proceeds from property disposal	2,795	3,778
Net cash provided by (used in) investing activities	<u>358,953</u>	<u>( 24,319,337 )</u>

	2003	2002
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	( \$ 4,800,426 )	(\$ 8,661,456 )
Increase (decrease) in call loans from banks	3,751,447	( 465,885 )
Increase (decrease) in deposits and remittances	( 3,475,538 )	7,002,815
Increase (decrease) in bank debentures	1,700,000	( 4,620,000 )
Payment of preferred dividends	( 520,000 )	( 126,795 )
Decrease in other liabilities	( 159,321 )	( 198,965 )
Remuneration to directors and supervisors and bonus to employees	( 126,232 )	( 161,458 )
Decrease in long-term loans	( 84,140 )	( 216,281 )
Capital increase by cash	-	21,000,000
Net cash provided by (used in) financing activities	( 3,714,210 )	13,551,975
<b>INCREASE IN CASH</b>	<b>6,160</b>	<b>5,804</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>91,919</b>	<b>86,115</b>
<b>CASH, END OF YEAR</b>	<b>\$ 98,079</b>	<b>\$ 91,919</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ 1,475,633	\$ 2,309,770
Income tax paid	\$ 50,524	\$ 52,700

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche report dated January 28, 2004)

## Board of Directors and Supervisors

<b>CHAIRMAN</b>	Angelo J. Y. Koo
<b>MANAGING DIRECTORS</b>	Mu-Tsai Chen
	Dr. C. Daniel Wu
	Alan Wang
	Dr. C.Y. Cyrus Chu
	Kou-I Yeh
	Sing-Ju Chang
	Fu-Lin Chen
	Fung-Shyun Shiau
	Han-Ton Lim
	Hoe-Toen Tang
	Chin Lin
	C.S. Chou
	Ching-Jen Chen
	Carolyn Yeh Shih
	Min-Wer Chen
	Yeou Tsair Tsai
	Lawrence S. Liu
	Sherie Chiu
	Gilbert Bao
	Chao-Chin Tung
<b>RESIDENT SUPERVISOR</b>	Tain -Jy Chen
<b>SUPERVISORS</b>	Yi-Yi Tai
	Yu-Ling Kuo

China Development Industrial Bank

## Executive Officers

**Angelo J.Y. Koo**  
Chairman & CEO

**Jeffrey Suen**  
President

**David Chen**  
Senior Executive Vice President

**Lai-Tsung Tsai**  
Executive Vice President

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

**Alex C.S. Kwan**  
Senior Vice President

**Chao-Lun Pai**  
Vice President

**Shern-Yu Gong**  
Senior Vice President

**Jao-Ming Mong**  
Senior Vice President

**Paul Pang**  
Vice President

**Ting-Fu Cheng**  
Vice President

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

**David Feng**  
Vice President

**Chiang Sung**  
Senior Vice President

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

**Cheng-Liang Chou**  
Senior Vice President

**Ethan Hsu**  
Senior Vice President

**Jeffrey Gu**  
Vice President

**Hsue-Lee Lee**  
Vice President

**Sheng-Kun Chen**  
Vice President

**Cheng-Liang Chou**  
Senior Vice President

**Josephine Tung**  
Vice President

**Yi-Lu Kung**  
Vice President

**Chun-Hsien Yang**  
Vice President