

China Development Financial Holdings Tax Governance Report 2023

Tax Governance and Risk Management Mechanism

To keep abreast with international tax governance trends and strengthen compliance with tax regulations, CDF and its subsidiaries maintain the goal of fulfilling their corporate responsibilities, and achieving sustainable development. CDF formulated the “Tax Governance Policy” with the Board of Directors acting as the highest decision-making unit of the tax governance mechanism to approve the overall tax governance policy to ensure the effectiveness of the group's tax governance operation. CDF's tax governance practice in 2022 was reported to the Board of Directors for review and approval in 2023. CDF and its subsidiaries should comply with the tax governance policies as below:

Comply with Tax Regulations	Properly handle taxation and tax reports in accordance with tax laws of countries of operation, and fulfill social responsibilities as taxpayers.
Manage Tax Risks	In advance of conducting the business, tax evaluation and assessment should be performed with consideration of Company's reputation, risk management, and sustainable operation, and control tax risk effectively.
Comply with Economic Substance	Do not transfer value created to low tax jurisdictions for the sole purpose of tax avoidance.
Comply with Arm's Length Principles	Comply with transfer pricing requirements and arm's length principles in tax law for related party transactions.
Establish Communication Channels	Maintain an appropriate relationship with the tax authorities with honesty and openness to communicate and dispel doubt on important tax issues in a timely manner.
Improve Information Transparency	Comply with all relevant regulations, such as financial reporting guidelines and annual report disclosure of tax information, and increase tax information transparency through proper reporting system.
Strengthen Tax Expertise	Continue to comprehend new knowledge and changes in taxation laws and regulations and strengthen the taxation expertise of employees of CDF and its subsidiaries through educational trainings.

Revenue and Tax Information in 2023

CDF registered revenue of NT\$344,007 million and profit (loss) before income tax of NT\$25,020 million in 2023; income tax paid (on cash basis) totaled NT\$1,540 million, and income tax accrued for the current year reached NT\$1,911 million. Taiwan is CDF's primary operating base. In 2023, Taiwan's revenue, profit (loss) before income tax, income tax paid (on cash basis), and income tax accrued for the current year accounted for 96.57%, 91.79%, 89.95% and 98.16%, respectively, of all operating bases. The following table shows the amount and percentage by tax jurisdiction:

Unit: NT\$ Million, %

Tax Jurisdiction	Numbers of Employees	Revenues	%	Profit (Loss) before Income Tax	%	Income Tax Paid (on Cash Basis)	%	Income Tax Accrued-Current Year	%
Taiwan	24,199	332,209	96.57	22,966	91.79	1,385	89.95	1,876	98.16
China	16	172	0.05	11	0.04	4	0.24	4	0.20
Hong Kong	675	6,436	1.87	888	3.55	119	7.75	26	1.36
Singapore	154	2,713	0.79	626	2.50	24	1.56	1	0.05
Indonesia	92	142	0.04	(18)	(0.07)	5	0.30	4	0.21
U.S.A.	3	63	0.02	21	0.09	1	0.06	-	0.02
Cayman Islands	-	869	0.25	(42)	(0.17)	-	-	-	-
British Virgin Islands	-	1,403	0.41	568	2.27	2	0.14	-	-
Total	25,139	344,007	100.00	25,020	100.00	1,540	100.00	1,911	100.00

Note:

1. Financial information are based on the statutory financial statements of each entity. Revenues and profit (loss) before tax do not include revenues from other entities using equity method.
2. For the reconciliation of income tax payable and income tax expenses for the current year under the accrual basis, please refer to "Income Tax Information in 2022 and 2023."

Income Tax Information in 2022 and 2023

Unit: NT\$ million

Item	2022	2023
Net Profit Before Income Tax	21,941	20,577
Income Tax Expense	5,552	1,629
Income Tax Paid	5,765	1,540

Effective tax rate

Item	2022	2023	Average	Average After Adjustment	Peer Average
Effective tax rate (%)	25.30	7.92	16.89	23.26	14.97
Cash tax rate (%)	26.28	7.48	17.18	26.00	13.41

Note:

1. Effective tax rate = Income tax expense/Net profit before income tax.
2. Cash tax rate = Income tax paid/Net profit before income tax.
3. The average effective tax rate and cash tax rate in the industry are cited from the 24 industry groups of the Global Industry Classification Standard(GICS) published in the 2023 Sustainability Assessment Companion, a publication of RobecoSAM.

Analysis of Tax Rate Differences in 2022 and 2023

In 2022 and 2023, CDF's effective tax rate and cash tax rate averaged 16.89% and 17.18% respectively. With insurance business contributing to most of the profit, CDF falls into the insurance industry under the Global Industry Classification Standard (GICS). The global insurance industry's effective tax rate and cash tax rate averaged 14.97% and 13.41% respectively.

The reason for the differences between the effective tax rates and cash tax rates of CDF and the average tax rates of the insurance industry based on GICS are as follows:

1. The primary region of CDF's operations is in Taiwan, where the corporate income tax rate in Taiwan is 20% under the regular income tax system and 12% under the basic income tax system.
2. The considerable portion of CDF's profits is derived from non-taxable income (e.g., OBU income, OSU income, and domestic securities investment gain/loss), resulting in a difference in effective tax rate.
3. The differences between the effective tax rates and cash tax rates are due to the timing difference of the actual cash payments being made in the following fiscal year, in addition to the impact of deferred income tax expenses.

The reasons why CDF's effective tax rate and cash tax rate were lower than the global insurance industry's average tax rate are summarized below.

Item	Tax Rate (%) or Effect of Tax Rate (%)	Description
Average effective tax rate (A)	16.89	
Single jurisdiction tax code (B)	6.37	<ol style="list-style-type: none"> 1. The primary region of CDF's operations is in Taiwan, where the corporate income tax rate in Taiwan is 20% under the regular income tax system and 12% under the basic income tax system. 2. The considerable portion of CDF's profits is derived from non-taxable income (e.g., OBU income, OSU income, and domestic securities investment gain/loss), resulting in a difference in effective tax rate.
Average effective tax rate after adjustment (C)=(A)+(B)	23.26	
Timing-net deferred tax assets/liabilities and major issues outside of the two year period reported (D)	2.74	The differences between the effective tax rates and cash tax rates are due to the timing difference of the actual cash payments being made in the following fiscal year, in addition to the impact of deferred income tax expenses.
Average cash tax rate after adjustment (F)=(C)+(D)	26.00	

Strengthening Compliance with Global Transfer Pricing and Information Transparency

In response to international requirements for the three-tiered documentation framework for transfer pricing, which consists of “Master File”, “Local File”, and “Country-by-Country Reporting”, each company followed the regulations of their respective countries to complete the Master File, Local File, and Country-by-Country Report to enhance the transparency of the taxation information of the Group, and use it as a reference for the self-examination of the related party transaction transfer pricing to implement and strengthen the compliance of global transfer pricing.

Constituent Entities by Tax Jurisdiction in 2023

Tax Jurisdiction	Constituent Entities Resident in the Tax Jurisdiction	Main Business Activity(ies)				
		Provision of Services to Unrelated Parties	Regulated Financial Services	Insurance	Holding Shares or Other Equity Instruments	Others
Taiwan	China Development Financial Holding Corporation				✓	
	CDIB Capital Group				✓	
	CDIB Capital Management Corporation	✓			✓	
	CDIB Venture Capital Corporation				✓	
	China Development Asset Management Corp.	✓				
	CDIB Capital Innovation Advisors Corporation	✓				
	KGI Life Insurance Co., Ltd.			✓		
	KGI Bank Co., Ltd.		✓		✓	
	CDIB Management Consulting Corporation				✓	
	CDC Finance & Leasing Corporation	✓				
	KGI Securities Co., Ltd.		✓		✓	
	KGI Futures Co., Ltd.		✓		✓	
	KGI Information Technology Co., Ltd.	✓				
	KGI Securities Investment Trust Co., Ltd.		✓			
	KGI Securities Investment Advisory Co., Ltd.		✓			
	KGI Insurance Brokers Co., Ltd.		✓			
	KGI Venture Capital Co., Ltd.				✓	
China	CDIB Private Equity (China) Corporation				✓	✓
	CDIB Private Equity (Fujian) Co., Ltd.	✓			✓	
	CDIB Yida Private Equity (Kunshan) Co., Ltd.	✓			✓	
	CDIB Private Equity Management (Fujian) Enterprise (Limited Partnership)	✓			✓	
	CDIB Yida Private Equity Management (Kunshan) Enterprise (Limited Partnership)	✓			✓	
	CDIB International Leasing Corp.	✓				
	CDIB Private Equity (Kunshan) Corporation	✓				
	CDIB Guoke Private Equity (Kunshan) Co., Ltd.	✓				
Hong Kong	CDIB Private Equity (Hong Kong) Corporation Limited	✓			✓	
	CDIB Venture Capital (Hong Kong) Corporation Limited				✓	
	CDIB Capital International (Hong Kong) Corporation Limited					✓
	KGI Hong Kong Limited					✓
	KGI International (Hong Kong) Limited		✓			
	KGI International Finance Limited		✓			

Tax Jurisdiction	Constituent Entities Resident in the Tax Jurisdiction	Main Business Activity(ies)				
		Provision of Services to Unrelated Parties	Regulated Financial Services	Insurance	Holding Shares or Other Equity Instruments	Others
Hong Kong	KGI Asset Management Limited		✓			
	KGI Asia Limited		✓			
	KGI Nominees (Hong Kong) Limited					✓
	KGI Futures (Hong Kong) Limited		✓			
	Global Treasure Investments Limited					
	KGI Investments Management Limited		✓			
	KGI Capital Asia Limited		✓		✓	
	KGI Finance Limited		✓			
Singapore	KGI Asia (Holdings) Pte. Ltd.				✓	
	KGI Securities (Singapore) Pte. Ltd.		✓			
Indonesia	PT KGI Sekuritas Indonesia		✓			
U.S.A.	CDIB Capital International (USA) Corporation					✓
	SCBS 1 Holding Corporation				✓	
	CDIB NY 5 LLC				✓	
Cayman Islands	CDIB Capital International Corporation	✓			✓	
	CDIB Capital Asia Partners Limited	✓				
	CDIB X Finance I Holding Limited				✓	
	CDIB Intelligence Partners Limited	✓				
	CDIB Buyout Partners Limited	✓				
	KG Investments Holdings Limited				✓	
	KGI International Holdings Limited				✓	
	CDIB Asia Secured Credit Opportunities GP Ltd.	✓				
	CDIB TMK Finance Holding Limited				✓	
	CDIB Pearl Holding Limited				✓	
	CDIB Real Estate Credit Ltd.				✓	
The British Virgin Island	CDIB Global Markets Limited				✓	
	CDIB Capital Investment I Limited				✓	
	CDIB Capital Investment II Limited				✓	
	Richpoint Company Limited				✓	
	KGI International Limited				✓	
	KGI Limited				✓	

Note:

1. The main business activity of CDIB Private Equity (China) Corporation and KGI Hong Kong Limited is management and consulting. CDIB Capital International (Hong Kong) Corporation Limited and CDIB Capital International (USA) Corporation mainly engage in private equity advisory services. KGI Nominees (Hong Kong) Limited mainly serves as a trust agent.
2. Global Treasure Investments Limited has ceased operations.