

China Development Financial Holdings Tax Governance Report 2022

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, achieving sustainable development. CDF formulated the “Tax Governance Policy” with the BOD 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 2021 was reported to the BOD for review and approval in 2022. 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 2022

CDF registered revenue of NT\$442,065 million and profit (loss) before income tax of NT\$25,556 million in 2022; income tax paid (on cash basis) totaled NT\$5,765 million, and income tax accrued for the current year reached NT\$2,479 million. Taiwan is CDF's primary operating base. In 2022, Taiwan's revenue, profit (loss) before income tax, income tax paid (on cash basis), and income tax accrued for the current year accounted for 97.90%, 98.41%, 96.70% and 98.96%, 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	23,781	432,800	97.90	25,151	98.41	5,575	96.70	2,453	98.96
China	6	171	0.04	55	0.22	3	0.05	4	0.15
Hong Kong	710	5,299	1.20	229	0.90	135	2.35	18	0.71
Singapore	149	1,833	0.41	397	1.55	33	0.57	-	-
Indonesia	96	191	0.04	17	0.07	5	0.10	3	0.14
U.S.A.	5	79	0.02	(14)	(0.06)	-	-	1	0.04
Cayman Islands	-	871	0.20	64	0.25	-	-	-	-
British Virgin Islands	-	821	0.19	(343)	(1.34)	14	0.23	-	-
Total	24,747	442,065	100.00	25,556	100.00	5,765	100.00	2,479	100.00

Note:

- 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.
- 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 2021 and 2022."

Income Tax Information in 2021 and 2022

Unit: NT\$ million

Item	2021	2022
Net Profit Before Income Tax	52,200	21,941
Income Tax Expense	Current Income Tax	1,236
	Deferred Tax	4,316
	Total	5,552
Income Tax Paid	5,240	5,765

Effective Tax Rate

Item	2021	2022	Average	Average After Adjustment	Peer Average
Effective Tax Rate (%)	9.77	25.30	14.37	24.56	19.50
Cash Tax Rate (%)	10.04	26.28	14.84	25.14	24.66

Note:

- Effective tax rate = Income tax expense/Net profit before income tax.
- Cash tax rate = Income tax paid/Net profit before income tax.
- 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 2022 Sustainability Assessment Companion, a publication of RobecoSAM.

Analysis of Tax Rate Differences in 2021 and 2022

In 2021 and 2022, CDF's effective tax rate and cash tax rate averaged 14.37% and 14.84% 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 19.50% and 24.66% respectively.

The reason for discretion between the effective tax rate and cash tax rate for CDF and the average tax rate of insurance industries of GICS is described below:

1. A difference in effective tax rates is because that the primary region of CDF's operations is in Taiwan, where the corporate income tax rate is lower than the majority of countries, and that the considerable portion of CDF's profits is derived from nontaxable income or tax-exempt income (e.g., OBU income, OSU income, and domestic securities investment gain/loss).
2. A difference in cash tax rates is because that, in addition to timing differences (e.g., valuation gain/loss and unrealized exchange gain/loss) and the deduction of loss amount, the primary region of CDF's operations is Taiwan, where income tax payable for the current year calculated based on taxable income of the year of declaration is declared and paid at the end of May of the following year according to the Income Tax Act in Taiwan.

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)	14.37	
Single jurisdiction tax code (B)	10.19	The difference between CDF's effective tax rate and peer average is because that primary region of CDF's operations is in Taiwan, where the corporate income tax rate is lower than the majority of countries, and that the considerable portion of CDF's profits is derived from nontaxable income or tax-exempt income (e.g., OBU income, OSU income, and domestic securities investment gain/loss).
Average effective tax rate after adjustment (C)=(A)+(B)	24.56	
Timing-net deferred tax assets/liabilities and major issues outside of the two year period reported (D)	0.58	The differences in effective tax rates and cash tax rates are due to timing differences (e.g., valuation gain/loss and unrealized exchange gain/loss) and the deduction of loss amount, the primary region of CDF's operations is Taiwan, where income tax payable for the current year calculated based on taxable income of the year of declaration is declared and paid at the end of May of the following year according to the Income Tax Act in Taiwan.
Average cash tax rate after adjustment (F)=(C)+(D)	25.14	

Strengthening Compliance with Global Transfer Pricing and Information Transparency

In response to the international requirements, adoption of a three-tiered transfer pricing documentation framework, which consists of “Master File”, “Local File”, and “Country-by-Country (CbC) Reporting” are needed. In 2022, CDF followed the regulations of the countries where the subsidiaries are located and Taiwan to prepare the 2021 Master File and Local File, and complete the CbC Reporting for Taiwan, South Korea and Indonesia 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 2022

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	✓				
	China 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.		✓				

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	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		✓			
	KGI Asset Management Limited		✓			
	KGI Asia Limited		✓			
	KGI Nominees (Hong Kong) Limited					✓
KGI Futures (Hong Kong) 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	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				✓	
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				✓	
The British Virgin Island	CDIB Global Markets Limited				✓	
	CDIB Capital Investment I Limited				✓	
	CDIB Capital Investment II 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
The British Virgin Island	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.