

**KGI SECURITIES CO. LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Six-Month Periods Ended June 30, 2016 and 2015**  
**With Independent Accountant's Audit Report**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese  
Report of Independent Auditors

The Board of Directors  
KGI Securities Co. Ltd.

We have audited the accompanying consolidated balance sheet of KGI Securities Co. Ltd. (the Company) and its subsidiaries as of June 30, 2016, December 31, 2015 and June 30, 2015, and the related consolidated comprehensive income statements, statements of changes in equity and statements of cash flows for the six-month periods ended June 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of partial subsidiaries, which statements mentioned above are based solely on the reports of the other auditors. The financial statements of these subsidiaries reflect NT 8,947,341 thousand dollars (2.70% of consolidated total assets), NT 6,969,865 (2.54% of consolidated total assets) and NT 7,164,723 (2.37% of consolidated total assets) of total assets as of June 30, 2016, December 31, 2015 and June 30, 2015, respectively; and NT 27,899 thousand dollars (11.34% of consolidated income before income tax) and NT 27,185 thousand dollars (1.66% of consolidated income before income tax) of income before income tax for the three-month periods ended June 30, 2016 and 2015, respectively; and NT 57,059 thousand dollars (13.33% of consolidated income before income tax) and NT 73,374 thousand dollars (2.55% of consolidated income before income tax) of income before income tax for the six-month periods ended June 30, 2016 and 2015, respectively; and NT 884 thousand dollars loss (0.27% of consolidated other comprehensive income and losses) and NT 193 thousand dollars loss (0.02% of consolidated other comprehensive income and losses) of the other comprehensive income or loss for the three-month periods ended June 30, 2016 and 2015, respectively; and NT 1,845 thousand dollars loss (0.33% of consolidated other comprehensive income and losses) and NT 369 thousand dollars loss (0.03% of consolidated other comprehensive income and losses) of the other comprehensive income for the six-month periods ended June 30, 2016 and 2015, respectively.

We conducted our audits in accordance with "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in Republic of China. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of June 30, 2016, December 31, 2015 and June 30, 2015 and the results of its operations and its cash flows for the three-month and six-month periods ended June 30, 2016 and 2015 in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Securities Issuers, and International Accounting Standards No. 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission of the Republic of China.

As described in Notes IV.3 and VI.31 of consolidated financial statements, the acquisition of KGI Fraser Securities Pte. Ltd. by the investee, KGI Asia (Holdings) Pte. Ltd., had been approved by the authorities of Republic of China and Singapore and the acquisition procedure was completed on January 30, 2015.

In addition, we have also audited the single financial statements of the Company for the periods ended June 30, 2016 and 2015, under separate cover, on which we have issued a modified unqualified opinion thereon.

A handwritten signature in black ink that reads "Ernst & Young". The signature is written in a cursive, flowing style.

Ernst & Young  
Taipei, Taiwan  
Republic of China

August 26, 2016

Notice to Readers

The accompanying financial statements are intended only to present the financial position and 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.

English Translation of Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
June 30, 2016, December 31, 2015 and June 30, 2015  
(Expressed in New Taiwan Thousand Dollars)

ASSETS	6/30/16	12/31/15	6/30/15
<b>CURRENT ASSETS</b>			
Cash and cash equivalents (Notes VI.1 and VII)	\$12,256,918	\$12,451,577	\$15,541,235
Financial assets measured at fair value through profit or loss-current (Notes VI.2, VI.20, VII and VIII)	109,227,065	78,370,844	83,665,995
Financial assets measured at cost-current (Notes VI.3)	1,140,897	891,740	406,890
Available-for-sale financial assets-current (Notes VI.4, VII and VIII)	7,108,979	7,361,442	9,073,473
Bonds purchased under resale agreements (Notes VI.6)	20,449,681	16,445,429	18,766,043
Margin loans receivable (Notes VI.7 and VII)	29,411,981	36,427,062	50,159,049
Refinancing margin	-	6,563	-
Refinancing deposits receivable	-	5,462	-
Trading securities receivable (Notes VI.8)	4,821,853	2,726,584	1,164,050
Customers' margin accounts (Notes VI.9 and VII)	38,406,838	31,684,109	31,146,935
Futures commission merchant receivable (Notes VI.10)	-	-	-
Stock borrowing collateral price	156,509	446,427	212,475
Stock borrowing margin	5,961,083	6,563,279	3,904,318
Notes receivable	197	707	2,427
Accounts receivable (Notes VI.11 and VII)	40,673,962	17,670,580	26,454,543
Prepayments	346,198	288,517	336,635
Other financial assets-current (Notes VI.1)	5,671,501	4,566,804	2,884,429
Current tax assets (Notes VII)	573,437	573,425	457,245
Other current assets (Notes VII and VIII)	32,325,091	34,706,980	35,348,633
Total Current Assets	308,532,190	251,187,531	279,524,375
<b>NON-CURRENT ASSETS</b>			
Financial assets measured at fair value through profit or loss-non-current (Notes VI.2 and VIII)	50,046	50,443	50,760
Financial assets measured at cost-non-current (Notes VI.3)	920,587	918,099	1,078,306
Available-for-sale financial assets-non-current (Notes VI.4)	171,335	281,804	133,713
Held to maturity financial assets-non-current (Notes VI.5)	300,000	300,000	40,000
Investments accounted for using the equity method (Notes VI.12 and VIII)	2,028,877	2,102,991	2,008,364
Property and equipment (Notes VI.13, VII and VIII)	6,295,425	6,295,222	6,165,166
Investment property (Notes VI.14, VII and VIII)	273,914	285,870	286,957
Intangible assets (Notes VI.15 and VI.31)	8,697,592	8,777,348	8,824,263
Deferred tax assets	330,936	401,372	415,764
Other non-current assets (Notes VI.16, VII and VIII)	3,327,756	3,862,012	3,944,824
Total Non-current Assets	22,396,468	23,275,161	22,948,117
<b>TOTAL ASSETS</b>	<b>\$330,928,658</b>	<b>\$274,462,692</b>	<b>\$302,472,492</b>

(Continue on next page)

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

(Continue from previous page)

English Translation of Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2016, December 31, 2015 and June 30, 2015

(Expressed in New Taiwan Thousand Dollars)

LIABILITIES AND EQUITY	6/30/16	12/31/15	6/30/15
<b>CURRENT LIABILITIES</b>			
Short-term borrowings (Notes VI.17 and VII)	\$17,915,870	\$15,800,326	\$32,832,511
Commercial papers payable (Note VI.18)	8,976,833	5,102,353	14,340,274
Financial liabilities measured at fair value through profit or loss-current (Notes VI.19 and VI.20)	19,819,272	13,721,222	14,749,065
Bonds sold under repurchase agreements (Notes VI.21 and VII)	84,799,124	58,601,838	56,142,691
Deposits for short sales (Notes VI.7 and VII)	2,233,020	3,377,214	2,467,077
Short sales proceeds payable (Notes VI.7 and VII)	13,111,086	13,780,419	12,629,253
Securities lending refundable deposits	9,844,090	6,663,512	8,299,720
Futures customers' equity (Notes VII)	37,450,325	30,716,503	30,261,318
Accounts payable (Notes VI.22 and VII)	54,617,642	31,595,874	41,191,304
Amounts received in advance	6,231	850	1,526
Amounts collected for other parties	1,683,947	4,648,854	1,916,234
Other payable	1,738,862	2,732,766	2,729,907
Other financial liabilities-current (Notes VI.20)	8,128,314	12,074,908	8,415,529
Current tax liabilities (Notes VII)	1,029,481	1,049,654	1,212,965
Current portion of long-term borrowings (Note VI.23)	969,660	1,006,520	-
Other current liabilities	90,836	123,025	113,542
<b>Total Current Liabilities</b>	<b>262,414,593</b>	<b>200,995,838</b>	<b>227,302,916</b>
<b>NON-CURRENT LIABILITIES</b>			
Bonds payable (Notes VI.23)	7,000,000	7,000,000	8,001,400
Liabilities reserve-non-current (Note VI.25)	155,657	155,574	160,181
Deferred tax liabilities	1,025,407	1,024,073	990,230
Other non-current liabilities	683,491	695,324	411,462
<b>Total Non-Current Liabilities</b>	<b>8,864,555</b>	<b>8,874,971</b>	<b>9,563,273</b>
<b>Total Liabilities</b>	<b>271,279,148</b>	<b>209,870,809</b>	<b>236,866,189</b>
<b>EQUITY</b>			
Capital stock abstract (Note VI.26)			
Common stock	34,988,123	37,988,123	37,988,123
Capital reserve (Notes VI.26)	8,642,200	8,639,723	8,637,480
Retained earnings (Note VI.26)			
Legal reserve	3,843,376	3,611,026	3,611,026
Special reserve	8,064,313	7,599,614	7,599,614
Unappropriated earnings (Note VI.26)	251,649	2,323,499	2,418,600
Other equity			
Exchange differences resulting from translating the financial statements of a foreign operation	8,914	291,607	(396,064)
Unrealized gain or loss on available-for-sale financial assets	547,895	829,116	2,446,201
Equity attributable to owners of the parent company	56,346,470	61,282,708	62,304,980
Non-controlling interests (Note VI.26 and VI.32)	3,303,040	3,309,175	3,301,323
<b>Total Equity</b>	<b>59,649,510</b>	<b>64,591,883</b>	<b>65,606,303</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$330,928,658</b>	<b>\$274,462,692</b>	<b>\$302,472,492</b>

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

English Translation of Financial Statements Originally Issued in Chinese  
KGI SECURITIES Co. LTD. AND SUBSIDIARIES  
CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS  
For the Three-Month and Six-Month Periods Ended June 30, 2016 and 2015  
(Expressed in New Taiwan Thousand Dollars except for Earnings Per Share)

	For the Three-Month Periods Ended		For the Six-Month Periods Ended	
	June 30		June 30	
	2016	2015	2016	2015
<b>REVENUES</b>				
Brokerage handling fee revenue (Notes VI.27 and VII)	\$1,671,107	\$2,867,787	\$3,611,983	\$4,820,854
Revenue from borrowed securities	89,378	76,608	158,463	148,362
Revenue from underwriting business (Notes VI.27 and VII)	139,291	123,767	268,983	259,047
Revenue from wealth management services-net	13,001	7,694	26,528	16,566
Gains/(losses) on disposal of trading securities-net(Notes VI.27)	(186,307)	1,228,175	(79,354)	2,247,679
Revenue from providing agency service for stock affairs (Notes VII)	42,922	42,215	76,442	77,305
Interest income (Notes VI.27)	698,799	964,053	1,389,389	1,876,427
Dividend income	60,846	75,192	61,796	78,198
Gains/(losses) on trading securities measured at fair value through profit or loss-net (Note VI.27)	(195,057)	(292,577)	485,504	215,507
Gains/(losses) on covering of borrowed securities and bonds with resale agreements-net (Notes VI.27)	(25,905)	(103,081)	(57,086)	(161,922)
Gains/(losses) on borrowed securities and bonds with resale agreements at fair value through profit or loss-net	(172,755)	103,036	(211,831)	87,986
Gains/(losses) on warrants issued-net (Notes VI.20)	180,739	159,407	317,943	242,640
Gains/(losses) on derivative financial product-futures-net (Notes VI.20)	171,596	(308,224)	252,045	(761,914)
Gains/(losses) on derivative financial product-GTSM-net (Notes VI.20)	349,205	312,964	219,890	283,220
Other operating revenue (Notes VI.27 and VII)	332,425	196,548	545,307	291,326
<b>Total Revenues</b>	<b>3,169,285</b>	<b>5,453,564</b>	<b>7,066,002</b>	<b>9,721,281</b>
<b>COSTS AND EXPENSES</b>				
Brokerage handling fee expenses	253,755	361,319	502,173	655,954
Dealing handling fee expenses	17,693	25,335	38,389	43,014
Refinancing handling fee expenses	206	174	419	307
Financial costs (Notes VI.27 and VII)	211,499	277,222	419,363	562,366
Losses on trading of borrowed securities	25,105	14,318	25,105	14,318
Futures commission expenses	20,858	28,204	55,863	58,753
Settlement and clearing service expenditures	65,956	61,122	129,337	106,302
Other operating costs	15,981	29,839	87,413	76,329
Employee benefits expenses (Notes IV, VI.24, VI.27 and VII)	1,544,885	2,272,622	3,179,952	4,185,703
Depreciation and amortization (Notes VI.27)	141,896	139,092	281,098	276,629
Other operating expenses (Notes VI.27 and VII)	1,069,811	1,116,908	2,533,449	2,025,766
<b>Total Costs and Expenses</b>	<b>3,367,645</b>	<b>4,326,155</b>	<b>7,252,561</b>	<b>8,005,441</b>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(198,360)</b>	<b>1,127,409</b>	<b>(186,559)</b>	<b>1,715,840</b>
<b>NON-OPERATING INCOME OR COSTS</b>				
Share of the profit or loss of associates and joint ventures accounting for using the equity method	71,353	43,626	123,882	107,100
Other income and costs (Notes VI.14, VI.27 and VII)	372,937	469,506	490,845	1,052,856
<b>Total Non-operating Income or Costs</b>	<b>444,290</b>	<b>513,132</b>	<b>614,727</b>	<b>1,159,956</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>245,930</b>	<b>1,640,541</b>	<b>428,168</b>	<b>2,875,796</b>
<b>INCOME TAX EXPENSES (Notes IV and VI.29)</b>	<b>(36,466)</b>	<b>(237,314)</b>	<b>(140,227)</b>	<b>(407,041)</b>
<b>NET INCOME</b>	<b>209,464</b>	<b>1,403,227</b>	<b>287,941</b>	<b>2,468,755</b>
<b>OTHER COMPREHENSIVE INCOME (Note VI.28)</b>				
Items that will not be reclassified subsequently to profit or loss				
Share of the other comprehensive income of associates and joint ventures accounting for using the equity method- will not be reclassified	-	(1,087)	-	(1,087)
Items that may be reclassified subsequently to profit or loss				
Exchange differences resulting from translating the financial statements of a foreign operation	(58,753)	(107,016)	(280,454)	(257,756)
Unrealized gain or loss on available-for-sale financial assets	(263,171)	998,145	(278,361)	1,391,465
Share of the other comprehensive income of associates and joint ventures accounting for using the equity method- will be reclassified	(691)	(51,078)	(5,657)	(31,975)
Income tax relating to components that will be reclassified	(267)	472	(865)	(337)
<b>Current other comprehensive income-net of tax</b>	<b>(322,882)</b>	<b>839,436</b>	<b>(565,337)</b>	<b>1,100,310</b>
<b>CURRENT COMPREHENSIVE INCOME (LOSS)</b>	<b>\$(113,418)</b>	<b>\$2,242,663</b>	<b>\$(277,396)</b>	<b>\$3,569,065</b>
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Owners of the parent company	\$192,709	\$1,386,178	\$251,649	\$2,419,687
Non-controlling interests (Note VI.26 and Note VI.32)	\$16,755	\$17,049	\$36,292	\$49,068
<b>CURRENT COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>				
Owners of the parent company	\$(129,487)	\$2,225,773	\$(312,265)	\$3,520,278
Non-controlling interests (Note VI.26 and Note VI.32)	\$16,069	\$16,890	\$34,869	\$48,787
<b>EARNINGS PER SHARE (Note VI.30)</b>				
Net income attributable to owners of the parent company	\$0.05	\$0.37	\$0.07	\$0.64

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

English Translation of Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
For the Six-Month Periods Ended June 30, 2016 and 2015  
(Expressed in New Taiwan Thousand Dollars)

Items	Equity Attributed to Owners of the Parent Company							Total	Non-controlling Interests	Total Equity
	Capital stock abstract	Retained Earnings				Other Equity				
	Common Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences Resulting from Translating the Financial Statements of a Foreign Operation	Unrealized Gain or Loss on Available-for-sale Financial Assets			
Balance, January 1, 2015	\$37,988,123	\$8,634,882	\$3,287,220	\$6,952,000	\$3,351,171	\$(102,117)	\$1,050,576	\$61,161,855	\$3,331,529	\$64,493,384
Appropriations:										
Legal reserve	-	-	323,806	-	(323,806)	-	-	-	-	-
Special reserve	-	-	-	647,614	(647,614)	-	-	-	-	-
Cash dividends	-	-	-	-	(2,379,751)	-	-	(2,379,751)	-	(2,379,751)
Net income for the six-month period ended June 30, 2015	-	-	-	-	2,419,687	-	-	2,419,687	49,068	2,468,755
Other comprehensive income for the six-month period ended June 30, 2015	-	-	-	-	(1,087)	(293,947)	1,395,625	1,100,591	(281)	1,100,310
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(78,993)	(78,993)
Shared-based payment transaction	-	2,598	-	-	-	-	-	2,598	-	2,598
Balance, June 30, 2015	\$37,988,123	\$8,637,480	\$3,611,026	\$7,599,614	\$2,418,600	\$(396,064)	\$2,446,201	\$62,304,980	\$3,301,323	\$65,606,303
Balance, January 1, 2016	\$37,988,123	\$8,639,723	\$3,611,026	\$7,599,614	\$2,323,499	\$291,607	\$829,116	\$61,282,708	\$3,309,175	\$64,591,883
Appropriations:										
Legal reserve	-	-	232,350	-	(232,350)	-	-	-	-	-
Special reserve	-	-	-	464,699	(464,699)	-	-	-	-	-
Cash dividends	-	-	-	-	(1,626,450)	-	-	(1,626,450)	-	(1,626,450)
Net income for the six-month period ended June 30, 2016	-	-	-	-	251,649	-	-	251,649	36,292	287,941
Other comprehensive income for the six-month period ended June 30, 2016	-	-	-	-	-	(282,693)	(281,221)	(563,914)	(1,423)	(565,337)
Capital reduction	(3,000,000)	-	-	-	-	-	-	(3,000,000)	-	(3,000,000)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(41,004)	(41,004)
Shared-based payment transaction	-	2,477	-	-	-	-	-	2,477	-	2,477
Balance, June 30, 2016	\$34,988,123	\$8,642,200	\$3,843,376	\$8,064,313	\$251,649	\$8,914	\$547,895	\$56,346,470	\$3,303,040	\$59,649,510

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

English Translation of Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Six-Month Periods Ended June 30, 2016 and 2015  
(Expressed in New Taiwan Thousand Dollars)

	For the Six-Month Periods Ended June 30	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income before income tax expenses	\$428,168	\$2,875,796
Adjustments to reconcile income before income tax expenses to net cash (used in)/provided by operating activities:		
Depreciation	153,435	148,728
Amortization	127,663	127,901
Reserve for bad debts	384,296	14,156
Interest expenses	419,363	562,366
Interest income	(1,655,631)	(2,188,104)
Dividend income	(280,810)	(160,929)
Share-based payment transactions	2,477	2,598
Share of the profit or loss of associates and joint ventures accounting for using the equity method	(123,882)	(107,100)
(Gains)/losses on disposal of property and equipment	300	(725)
Gain on reversal of financial assets	-	(2,900)
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets measured at fair value through profit or loss-current	(30,819,865)	15,194,210
Financial assets measured at cost-current	(285,513)	(96,911)
Available-for-sale financial assets-current	48,730	-
Bonds purchased under resale agreements	(4,004,252)	(9,308,842)
Margin loans receivable	7,015,081	(3,911,124)
Refinancing margin	6,563	2,666
Refinancing deposits receivable	5,462	2,622
Trading securities receivable	(2,095,269)	(1,150,118)
Customers' margin accounts	(6,722,729)	(5,836,915)
Futures commission merchant receivable	-	-
Stock borrowing collateral price	289,918	(68,977)
Stock borrowing margin	602,196	(1,701,041)
Notes receivable	510	(1,159)
Accounts receivable	(23,175,961)	(1,970,512)
Prepayments	(57,681)	(385)
Other financial assets-current	(1,104,697)	4,669,394
Other current assets	2,448,272	(8,670,716)
Financial assets measured at fair value through profit or loss-non-current	397	20,385
Changes in operating liabilities:		
Financial liabilities measured at fair value through profit or loss-current	6,098,050	2,986,160
Bonds sold under repurchase agreements	26,197,286	(7,855,471)
Deposits for short sales	(1,144,194)	(1,144,553)
Short sales proceeds payable	(669,333)	397,162
Securities lending refundable deposits	3,180,578	(1,805,921)
Futures customers' equity	6,733,822	6,471,238
Accounts payable	22,991,982	6,320,283
Amounts received in advance	5,381	(1,883)
Amounts collected for other parties	(2,964,907)	420,649
Other payable	(1,015,002)	(291,101)
Other financial liabilities-current	(3,946,594)	(5,063,098)
Other current liabilities	(32,189)	27,821
Liabilities reserve-non-current	83	(37,432)
Other non-current liabilities-others	(11,833)	(687,434)
Cash provided by/(used in) operating activities	(2,970,329)	(11,819,216)
Interest received	1,596,451	2,400,018
Dividend received	6,980	78,198
Interest paid	(408,442)	(581,990)
Income tax paid	(89,507)	(1,348,922)
Net cash used in operating activities	(1,864,847)	(11,271,912)

(Continue on next page)

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



(Continue from previous page)

English Translation of Financial Statements Originally Issued in Chinese

KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Six-Month Periods Ended June 30, 2016 and 2015  
(Expressed in New Taiwan Thousand Dollars)

	For the Six-Month Periods Ended June 30	
	2016	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of available-for-sale financial assets-non-current	(50,118)	-
Disposal of available-for-sale financial assets-non-current	89,503	-
Purchase of financial assets measured at cost-non-current	(63,282)	(49,500)
Disposal of financial assets measured at cost-non-current	19,092	669
Refunding of financial assets measured at cost	40,569	47,932
Disposal of held to maturity financial assets-non-current	-	150,000
Purchase of property and equipment	(104,802)	(103,452)
Disposal of property and equipment	23	1,037
Operation bond	30,341	440,336
Settlement/clearance fund	40,250	(3,671)
Guarantee deposits-out	320,802	(131,902)
Purchase of intangible assets	(41,709)	(25,976)
Other non-current assets	(4,693)	(44,862)
Acquisition of subsidiaries (deduct cash received)	-	56,236
Dividends received	324,760	271,624
Net cash provided by investing activities	600,736	608,471
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short-term borrowings	2,115,544	6,349,092
Commercial papers payable	3,874,480	5,081,300
Bonds issuance	-	7,000,000
Redemption of bonds	-	(3,100,000)
Cash dividends	(1,627,790)	(2,458,744)
Cash reduction of capital	(3,000,000)	-
Net cash provided by financing activities	1,362,234	12,871,648
<b>EFFECTS OF EXCHANGE RATE CHANGES</b>	<b>(292,782)</b>	<b>(179,672)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(194,659)</b>	<b>2,028,535</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>	<b>12,451,577</b>	<b>13,512,700</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>\$12,256,918</b>	<b>\$15,541,235</b>

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

English Translation of Financial Statements Originally Issued in Chinese  
KGI SECURITIES CO. LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
For the Six-Month Periods Ended June 30, 2016 and 2015  
(Expressed in thousands of New Taiwan dollars unless otherwise stated)

**I. Organization and Operations**

KGI Securities Co. Ltd. (the Company) was established under the Company Law of the Republic of China (“ROC”) on September 14, 1988 to operate as a securities underwriter, dealer, broker, future trading, future dealer, trust, offshore securities and commenced its operations since December 10, 1988.

The Company acquired and merged Jen-Hsin Securities Co., Ltd., Ta Ya Securities Co., Ltd. and Feng Yuan Securities Co., Ltd. on November 11, 2002. Therefore, the Company assumed all assets, liabilities, rights and obligations of Jen-Hsin Securities Co., Ltd., Ta Ya Securities Co., Ltd. and Feng Yuan Securities Co., Ltd.

The Company acquired and merged Tai-Yu Securities Co., Ltd. on October 13, 2003. Therefore, the Company assumed all assets, liabilities, rights and obligations of Tai-Yu Securities Co., Ltd.

The Company acquired and merged Taishin Securities Co., Ltd. on December 19, 2009. Therefore, the Company assumed all assets, liabilities, rights and obligations of Taishin Securities Co., Ltd.

China Development Financial Holdings Corporation (“CDFH”) announced the commencement of a tender offer for 1 share of the Company for NT 5.5 in cash and 1.2 CDFH share on May 3, 2012. CDFH had acquired 81.73% shares of the Company through the public tender offer period, from May 7 to May 28, 2012. The Board of Directors set January 18, 2013 is the record date for stock conversion on December 17, 2012. The Company converted 1 share of the Company’s common stock to 1.2 shares of CDFH’s common stock and NT 5.1 in cash, becoming 100% owned subsidiary of CDFH. Meanwhile, the Company’s stock trading via OTC will be suspended.

The Company merged Grand Cathay Securities Corporation (“GCSC”) on June 22, 2013. Therefore, the Company assumed all assets, liabilities, rights and obligations of GCSC.

The Company set up the Offshore Securities Unit (“OSU”) on April 16, 2014 which was approved by the Board of Directors and the authorities.

The Company’s registered address is 3F, No. 698 and 3F, No. 700, Mingshui Road, Taipei City. As of June 30, 2016, the Company had 83 branches including headquarter.

**II. Date and Procedures of Authorization of Financial Statements for Issue**

The consolidated financial statements of the Company and subsidiaries were authorized for issue in accordance with a resolution of the Board of Directors on August 26, 2016.

**III. Newly Issued or Revised Standards and Interpretations**

1. Standards or interpretations issued, revised or amended, which are recognized by Financial Supervisory Commission (“FSC”), but not yet adopted by the Company and subsidiaries at the date of issuance of the Company’s financial statements are listed below.

Standards or interpretations	Effective date (Note 1)
Amendments to IAS 36 Impairment of Assets	January 1, 2014
IFRIC 21 Levies	January 1, 2014
IAS 39 Financial Instruments: Recognition and Measurement Amended by Novation of Derivatives and Continuation of Hedge Accounting	January 1, 2014
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions	July 1, 2014
Annual Improvements 2010-2012 Cycle:	
IFRS 2 Share-based Payment	Note 2
IFRS 3 Business Combinations	Note 3
IFRS 8 Operating Segments	July 1, 2014
IFRS 13 Fair Value Measurement	Note 4
IAS 16 Property, Plant and Equipment	July 1, 2014
IAS 24 Related Party Disclosures	July 1, 2014
IAS 38 Intangible Assets	July 1, 2014
Annual Improvements 2011-2013 Cycle:	
IFRS 1 First-time Adoption of International Financial Reporting Standards	July 1, 2014
IFRS 3 Business Combinations	July 1, 2014
IFRS 13 Fair Value Measurement	July 1, 2014
IAS 40 Investment Property	July 1, 2014
IFRS 14 Regulatory Deferral Accounts issued	January 1, 2016
IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
IAS 16 Property, Plant and Equipment and IAS 41 Agriculture: Agriculture: Bearer Plants	January 1, 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements	January 1, 2016
Annual Improvements 2012-2014 Cycle:	
IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations	January 1, 2016
IFRS 7 Financial Instruments: Disclosures	January 1, 2016
IAS 19 Employee Benefits	January 1, 2016
IAS 34 Interim Financial Reporting	January 1, 2016
Amendments to IAS 1 Disclosure Initiative	January 1, 2016
Amendments to IFRS 10 Consolidated Financial Statements , IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception	January 1, 2016

Note:

1. Besides those dated, newly issued standards or interpretations mentioned above go into effect in the following years of each respective date.
2. Apply to share-based payment granted after 1 July, 2014.
3. Effective for business combination for which the agreement date is on or after 1 July, 2014.
4. Effective as amended.

The potential effects of the standards or interpretations on the Company and subsidiaries' consolidated financial statements are summarized as below:

### IAS 36 “Impairment of Assets”

This amendment relates to the amendment issued in May 2011 and requires entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the reporting period. The amendment also requires detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement.

### IFRIC 21 “Levies”

The interpretations provide guidance on when to recognize a liability for a levy imposed by a government for both levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain.

### Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”

This amendment permits a practical expedient if the amount of the contributions from employees or third parties is independent of the number of years of service.

### Annual Improvements 2010-2012 cycle

#### IFRS 3 “Business Combinations”

This amendment includes (1) delete “other applicable IFRSs” in the contingent consideration classification regulation of business combination. (2) delete IAS 37 and other applicable IFRSs and regulate that the contingent consideration of non-financial assets or liabilities should be measured at fair value at each reporting date and recognize the variation of fair value in profit or loss and (3) revise IFRS 9 to clarify that the contingent consideration of financial assets or liabilities could only be measured at fair value and report in comprehensive income statement.

#### IFRS 8 “Operating Segments”

Requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and shall only provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if the segment assets are reported regularly.

#### IFRS 13 “Fair Value Measurement”

The basis of the conclusion clarifies that issuing IFRS 13 and amending paragraph B5.4.12 of IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement AG79 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

#### IAS 16 “Property, Plant and Equipment”

The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

#### IAS 24 “Related Party Disclosures”

The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

### Annual Improvements 2011-2013 cycle

#### IFRS 3 “Business Combinations”

This amendment clarifies that paragraph 2(a) of IFRS 3 Business Combinations excludes the formation of all types of joint arrangements as defined in IFRS 11 Joint Arrangements from the scope of IFRS 3; and the scope exception only applies to the financial statements of the joint venture or the joint operation itself.

### IFRS 13 “Fair Value Measurement”

The amendment clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

### IAS 40 “Investment Property”

The amendment clarifies that determining whether a specific transaction meets the definition of both IFRS 3 and IAS 40 requires the separate application of both standards independently.

### IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

This amendment indicates that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

### IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortization

The amendment clarifies that a revenue-based method includes the use of the asset is not an appropriate method of depreciation or amortization. The rationale is that such a method reflects the pattern of economic benefit generated by the asset related to irrelevant factors rather than the consumption of the asset’s benefits. For instance, expected future reductions in the unit selling price of a product or service output from the asset could be an indicator of declining economic benefits from the asset’s use or of the asset’s reduced useful life. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

### Amendments to IAS 27 Equity Method in Separate Financial Statements

The IASB restored the option which was removed in 2003 to use the equity method under IAS 28 for an entity to account for investments in subsidiaries and associates in the entity’s separate financial statements.

### Annual Improvements 2012-2014 cycle

#### IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

The amendment clarifies that a change of disposal method of assets (or disposal groups) from disposal through sale or through distribution to owners (or vice versa) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. The amendment also requires identical accounting treatment for an asset (or disposal group) that ceases to be classified as held for sale or as held for distribution to owners.

#### IFRS 7 Financial Instruments: Disclosures

The amendment adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. The amendment also clarifies that the additional disclosure required by the amendments to IFRS 7 is deleted for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting.

#### IAS 19 Employee Benefits

The amendment clarifies the requirement under IAS 19.83, that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located.

#### IAS 34 Interim Financial Reporting

The amendment clarifies the meaning of “elsewhere in the interim report”; the disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to the other part of the interim financial report that is available to users of the interim financial statements on the same terms as the interim financial statements and at the same time.

### Amendments to IAS 1 Disclosure Initiative

Major amendments include: (1) emphasis on materiality: entities shall not aggregate information in a manner that obscures useful information; and when a standard requires a specific disclosure, the resulting information shall be assessed that information is warranted; (2) line items and subtotals: the presentation requirements for line items may be fulfilled by disaggregating a specific line item and the requirements for presenting subtotals; (3) structure of notes: entities have flexibility as to the systematic order for the notes, as long as the understandability and comparability of its financial statements is considered by an entity when deciding the order; (4) disclosure of accounting policies: the IASB remove guidance and examples with regard to tax and foreign currency exchange that were perceived as being potentially unhelpful; (5) presentation of equity-accounted other comprehensive income, an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.

### Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendment includes: (1) the exemption from preparing consolidated financial statements for an intermediate parent entity, applicable to IFRS 10.4, is available to a parent entity that is a subsidiary of an investment entity, if the investment entity measures all of its subsidiaries at fair value; (2) the requirement in paragraph 32 of IFRS 10 for an investment entity to consolidate a subsidiary applies only to those subsidiaries that act as an extension of the parent company's operations and does not itself qualify as investment entity; (3) an entity investor in an investment entity may retain the fair value measurement when applying the equity method to an associate or a joint venture under IAS 28.

The above mentioned standards and interpretations issued by IASB and recognized by FSC so that they are applicable for annual periods beginning on or after 1 January 2017. As the Company and subsidiaries are still currently determining the potential impact of the standards and interpretations listed above, it is not practicable to estimate their impact on the Company and subsidiaries at this point in time. All other standards and interpretations have no material impact on the Company and subsidiaries.

2. Standards or interpretations issued, revised or amended by IASB but not yet recognized by FSC at the date of issuance of the Company and subsidiaries' consolidated financial statements are listed below.

<u>Standards or interpretations</u>	<u>Effective date (Note 1)</u>
IFRS 15 Revenue from Contracts with Customers	January 1, 2018
IFRS 9 Financial Instruments	January 1, 2018
IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures	Note 2
IFRS 16 "Leases"	January 1, 2019
IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses	January 1, 2017
Disclosure Initiative - Amendment to IAS 7 "Statement of Cash Flows"	January 1, 2017
IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15	January 1, 2018
IFRS 2 "Shared-Based Payment - Amendments to IFRS 2	January 1, 2018

Note:

1. Besides those dated, newly issued standards or interpretations mentioned above go into effect in the following years of each respective date.
2. The amendment was decided to defer going into effect, but allowed to apply in advance.

The potential effects of the standards or interpretations on the Company and subsidiaries' consolidated financial statements are summarized as below.

### IFRS 15 “Revenue from Contracts with Customers”

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue according to the core principle through applying the following steps:

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contracts.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In addition, the standard includes a set of integrated regulations that requires the entity to provide users comprehensive information on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

### IFRS 9 “Financial Instruments”

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 Financial Instruments.

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is requirement that “own credit risk” adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

### Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the inconsistency between the requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors’ interests in the associate or joint venture.

### IFRS 16 Lease

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

### IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealized Losses

The amendment clarifies how to account for deferred tax assets for unrealized losses.

#### Disclosure Initiative - Amendment to IAS 7 “Statement of Cash Flows”

The amendment relates to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period.

#### IFRS 15 “Revenue from Contracts with Customers” — Clarifications to IFRS 15

The amendment clarifies how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time.

The above mentioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company and subsidiaries’ consolidated financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company and subsidiaries are still currently determining the potential impact of the standards and interpretations listed above, it is not practicable to estimate their impact on the Company and subsidiaries at this point in time. All other standards and interpretations have no material impact on the Company and subsidiaries.

#### **IV. Significant Accounting Policies**

Apart from the items mentioned below, the same accounting policies have been applied in the Company’s consolidated financial statements for the six-month periods ended June 30, 2016 and 2015 as those applied in the Company’s financial statements for the year ended December 31, 2015.

##### **1. Statement of Compliance**

The consolidated financial statements of the Company and subsidiaries have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Firms (“the Regulations”), Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 Interim Financial Reporting recognized by the FSC.

##### **2. Basis of Preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments that have been measured at fair value.

##### **3. General Description of Reporting Entities**

The consolidated entities are as follows:

<u>Investor</u>	<u>Name of subsidiaries</u>	<u>Primary business</u>	<u>Percentage of ownership</u>		
			<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
KGI Securities Co. Ltd	Richpoint Company Limited (Richpoint)	Investments holdings	100.00	100.00	100.00
”	KGI Securities Investment Advisory Co. Ltd.	Security investment consulting	100.00	100.00	100.00
”	KGI Insurance Brokers Co. Ltd.	Life/property insurance brokers	100.00	100.00	100.00
”	KGI Venture Capital Co. Ltd.	Venture Capital	100.00	100.00	100.00



Investor	Name of subsidiaries	Primary business	Percentage of ownership		
			6/30/16	12/31/15	6/30/15
KGI Securities Co. Ltd	KGI Securities Investment Trust Co. Ltd.	Nominee services, discretionary investment services	99.99	99.99	99.99
"	KGI Futures Co. Ltd. (KGI Futures)	Futures investment services	99.61	99.61	99.61
"	Global Securities Finance Corporation (GSFC) (Note)	Securities finance	21.99	21.99	21.99
KGI Futures Co. Ltd.	KGI Information Technology Co. Ltd.	Management consulting; information software service; data processing and electronic information supply service	100.00	100.00	-
Richpoint	KG Investments Holdings Limited	Investments holdings	100.00	100.00	100.00
"	KGI Investment advisory (Shanghai) Co., Ltd.	Investment consulting	100.00	100.00	100.00
KG Investments Holdings Limited	KGI International Holdings Limited	Investments holdings	100.00	100.00	100.00
"	ANEW Holdings Limited	Investments holdings	100.00	100.00	100.00
KGI International Holdings Limited	KG Investments Pacific Limited	Investment services	-	100.00	100.00
"	KG Investments Asset Management (International) Limited	Investment services	100.00	100.00	100.00
"	Pacific Glory Finance One Limited	Investment services	-	100.00	100.00
"	KGI Limited	Investments holdings	100.00	100.00	100.00
"	Supersonic Services Inc.	Investments holdings	100.00	100.00	100.00
"	KGI International Limited	Investments holdings	100.00	100.00	100.00
"	Bauhinia 88 Ltd.	Investments holdings	100.00	100.00	100.00
ANEW Holdings Limited	KGI Capital (Hong Kong) Limited	Securities investment services	100.00	100.00	100.00
KGI Limited	KGI Securities (Hong Kong) Limited	Securities investment services	100.00	100.00	100.00
"	KGI Futures (Hong Kong) Limited	Futures brokerage and settlement services	100.00	100.00	100.00
"	Global Treasure Investments Limited	Investment services	100.00	100.00	100.00
"	KGI Investments Management Limited	Insurance brokerage	100.00	100.00	100.00
"	KGI International Finance Limited	Investment and financing services	100.00	100.00	100.00
"	KGI Nominees Limited	Trust agent	-	-	100.00
"	KGI Hong Kong Limited	Management consulting services	100.00	100.00	100.00
"	KGI Asia Limited	Securities investment services	100.00	100.00	100.00

Investor	Name of subsidiaries	Primary business	Percentage of ownership		
			6/30/16	12/31/15	6/30/15
KGI Limited	KGI Capital Asia Limited	Securities investment services	100.00	100.00	100.00
"	Bauhinia 8 Fund	Fund company	-	-	100.00
"	KGI Global Asset Management Limited	Asset management	-	-	100.00
"	Grand Cathay Securities (Hong Kong) Limited	Securities investment services	100.00	100.00	100.00
"	KGI Asset Management Limited	Asset management	100.00	100.00	100.00
"	TG Holborn (HK) Limited	Insurance brokerage	100.00	100.00	100.00
"	KGI Wealth Management Limited	Securities investment services	100.00	100.00	-
"	KGI Nominees (Hong Kong) Limited	Trust agent	100.00	100.00	100.00
Supersonic Services Inc.	KGI Korea Limited	Investments holdings	100.00	100.00	100.00
KGI International Limited	KGI Asia (Holdings) Pte. Ltd.	Investments holdings	100.00	100.00	100.00
"	KGI Capital (Singapore) Pte. Ltd.	Futures investment services	100.00	100.00	100.00
"	Jubilant Dynasty Limited	Investment services	-	-	100.00
KGI Capital Asia Limited	KGI Alliance Corporation	Investment services	100.00	100.00	100.00
"	KGI International (Hong Kong) Limited	Derivative product services	100.00	100.00	100.00
"	KGI Finance Limited	Investment and financing services	100.00	100.00	100.00
Grand Cathay Securities (Hong Kong) Limited	Grand Cathay Capital (Hong Kong) Limited	Investment services	100.00	100.00	100.00
KGI Asia (Holdings) Pte. Ltd.	KGI Ong Capital Pte. Ltd.	Futures and exchange services	100.00	100.00	100.00
"	KGI Fraser Securities Pte. Ltd	Securities investment services	100.00	100.00	100.00

Note: The Company acquired over half voting rights of GSFC's Board of Directors and the chairman is assigned by the Company. According to IFRS, it can be determined that the Company have control over GSFC.

(1) Scope changes of subsidiaries in the consolidated financial statements:

A. The investee, KGI Asia (Holdings) Pte. Ltd., purchased AmFraser Securities Pte. Ltd. which had been approved by the authorities of R.O.C. and Singapore. The transaction was completed on January 1, 2015, and AmFraser changed its name to KGI Fraser Securities Pte. Ltd. which was approved by the Jin-Guan-Zheng-Quan Letter No. 1030039427. Therefore, these two companies mentioned above are included in the consolidated financial statements of the Company from 2015.

B. KGI Information Co. Ltd. was established on November 12, 2015 and included in the consolidated financial statements of the Company from 2015.

- (2) The name of each subsidiary not included in the consolidated financial statements, percentage of ownership, and the reason for its exclusion from the consolidated financial statements: Not applicable.
- (3) Significant restrictions
- A. The nature and extent of significant restrictions, for example, statutory, contractual and regulatory restrictions, on its ability to access or use the assets and settle the liabilities of the group such as those that restrict the ability of a parent or its subsidiaries to transfer cash or other assets to (or from) other entities within the group, or guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid, to (or from) other entities within the group: Not applicable.
- B. The nature and extent to which protective rights of non-controlling interests can significantly restrict the entity's ability to access or use the assets and settle the liabilities of the group (such as when a parent is obliged to settle liabilities of a subsidiary before settling its own liabilities, or approval of non-controlling interests is required either to access the assets or to settle the liabilities of a subsidiary): Not applicable.
4. Defined benefit cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted and disclosed for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events.
5. Income tax expense (income) for an interim period is calculated using estimated average annual effective income tax rate times interim pre-tax earnings.

#### V. **Significant Accounting Judgments, Estimates and Assumptions**

The same significant accounting judgments, estimates and assumptions have been applied in the Company's consolidated financial statements for the six-month periods ended June 30, 2016 and 2015 as those applied in the Company's consolidated financial statements for the year ended December 31, 2015.

#### VI. **Contents of Significant Accounts**

##### 1. **Cash and Cash Equivalents**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Cash on hand	\$203,684	\$3,556	\$3,546
Cash in banks	9,120,804	5,973,309	13,234,065
Cash equivalents			
Short-term commercial papers and bonds	1,936,219	5,236,984	1,285,013
Excess Margin	996,211	1,237,728	1,018,611
Total	<u>\$12,256,918</u>	<u>\$12,451,577</u>	<u>\$15,541,235</u>

- (1) Interest rates of the above short-term commercial papers and bonds are as follows:

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Interest rates	0.28%-0.37%	0.35%-0.41%	0.53%-0.58%

(2) As of June 30, 2016, December 31 and June 30, 2015, the certificate of deposits over three months from the original due date are classified as other financial assets-current, and the amounts are 5,671,501 thousand dollars, 4,566,804 thousand dollars and 2,884,429 thousand dollars, respectively.

(3) No pledged was made for the cash and cash equivalents mentioned above.

## 2. Financial Assets Measured at Fair Value Through Profit or Loss

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
<u>Current</u>			
Financial assets held for trading			
Lent securities	\$27,810	\$54,860	\$18,045
Open-ended funds and monetary market instruments	5,788,108	6,673,779	6,849,425
Trading securities-dealing-net	91,002,930	63,945,974	62,711,284
Trading securities-underwriting-net	1,322,643	1,540,743	2,328,061
Trading securities-hedging-net	5,811,523	3,829,090	8,672,096
Long options	124,199	64,283	105,572
Futures trading margins-proprietary funds	837,497	381,988	732,031
Derivative financial product assets	4,061,653	1,857,035	1,891,209
Others	250,702	23,092	358,272
Total	<u>\$109,227,065</u>	<u>\$78,370,844</u>	<u>\$83,665,995</u>
<u>Non-current</u>			
Financial assets held for trading	<u>\$50,046</u>	<u>\$50,443</u>	<u>\$50,760</u>

Financial assets measured at fair value through profit or loss-current are as follows:

### (1) Lent securities

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Listed/OTC company stock	\$27,637	\$62,728	\$25,169
Valuation adjustments	173	(7,868)	(7,124)
Market value	<u>\$27,810</u>	<u>\$54,860</u>	<u>\$18,045</u>

### (2) Open-ended funds and monetary market instruments

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Funds	\$27,800	\$247,299	\$334,815
Others	5,759,907	6,424,867	6,512,120
Subtotal	5,787,707	6,672,166	6,846,935
Valuation adjustments	401	1,613	2,490
Market value	<u>\$5,788,108</u>	<u>\$6,673,779</u>	<u>\$6,849,425</u>

### (3) Trading securities-dealing-net

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Listed/OTC/ESM company stock	\$6,788,695	\$6,192,569	\$6,982,223
Listed/OTC company warrants	26,751	28,765	33,100
Listed/OTC company corporate bonds and government bonds	52,388,133	39,499,081	32,474,044

	6/30/16	12/31/15	6/30/15
Foreign securities	30,429,519	16,888,071	21,277,281
Others	53	46	47
Subtotal	89,633,151	62,608,532	60,766,695
Valuation adjustments	1,369,779	1,337,442	1,944,589
Market value	<u>\$91,002,930</u>	<u>\$63,945,974</u>	<u>\$62,711,284</u>
 (4) <u>Trading securities-underwriting-net</u>			
	6/30/16	12/31/15	6/30/15
Listed/OTC company stock	\$426,317	\$454,657	\$563,218
Listed/OTC company corporate bonds	478,228	672,247	1,277,048
Subtotal	904,545	1,126,904	1,840,266
Valuation adjustments	418,098	413,839	487,795
Market value	<u>\$1,322,643</u>	<u>\$1,540,743</u>	<u>\$2,328,061</u>
 (5) <u>Trading securities-hedging-net</u>			
	6/30/16	12/31/15	6/30/15
Listed/OTC company stock	\$4,892,972	\$2,771,899	\$7,921,865
Listed/OTC company warrants	54,417	64,000	141,692
Foreign securities	797,664	1,085,737	674,367
Subtotal	5,745,053	3,921,636	8,737,924
Valuation adjustments	66,470	(92,546)	(65,828)
Market value	<u>\$5,811,523</u>	<u>\$3,829,090</u>	<u>\$8,672,096</u>
 (6) <u>Long options</u>			
	6/30/16	12/31/15	6/30/15
Index options	\$132,646	\$64,955	\$101,397
Stock options	15,874	4,627	1,759
Subtotal	148,520	69,582	103,156
Open interest	(24,321)	(5,299)	2,416
Market value	<u>\$124,199</u>	<u>\$64,283</u>	<u>\$105,572</u>
 (7) <u>Futures trading margins-proprietary funds</u>			
	6/30/16	12/31/15	6/30/15
Account balance	\$840,085	\$367,701	\$801,612
Open interest	(2,588)	14,287	(69,581)
Account value	<u>\$837,497</u>	<u>\$381,988</u>	<u>\$732,031</u>
 (8) Please refer to Note VI.20 for detail of derivative financial product assets.			
 (9) <u>Others</u>			
	6/30/16	12/31/15	6/30/15
Other financial assets	\$240,515	\$23,452	\$352,776
Valuation adjustments	10,187	(360)	5,496
Market value	<u>\$250,702</u>	<u>\$23,092</u>	<u>\$358,272</u>

Financial assets measured at fair value through profit or loss-non-current are as follows:

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Government bonds	\$51,241	\$51,241	\$51,241
Valuation adjustments	(1,195)	(798)	(481)
Market value	<u>\$50,046</u>	<u>\$50,443</u>	<u>\$50,760</u>

Please refer to Note VIII for financial assets measured at fair value through profit or loss pledged as collaterals.

### 3. Financial Assets Measured at Cost

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
<u>Current</u>			
<u>Stock</u>			
ESM company stock	<u>\$1,140,897</u>	<u>\$891,740</u>	<u>\$406,890</u>
<u>Non-current</u>			
<u>Stock</u>			
Taiwan Depository & Clearing Corp.	\$74,932	\$74,932	\$74,932
Taiwan Futures Exchange Corp.	151,125	151,125	151,125
Taiwan Stock Exchange Corp.	369,199	369,199	369,199
Dragon Investment Fund I Co., Ltd.	10,537	18,697	45,832
Shin Sheng Venture Capital Investment Corporation	-	-	11,917
He Ding Venture Capital Investment Corporation	16,945	35,224	33,097
Lien Ding Venture Capital Investment Corporation	11,715	21,134	19,858
Zuen Ping Venture Capital Investment Corporation	260	267	7,559
WK Technology Fund VIII	21,675	25,500	30,000
Centillion III Venture Capital Corporation	6,300	6,300	6,300
Proudence Venture Investment Corporation	15,108	17,120	17,120
TSC Venture Capital Corporation	2,700	2,700	2,700
Honpang Venture Capital Corporation	415	415	415
SAN-BYTE Co., LTD.	29,908	49,000	49,000
General Energy Solutions INC.	22,500	22,500	22,500
WinWay Tech. Co., Ltd.	47,580	45,000	45,000
Quang Viet Enterprise Co., Ltd.	38,243	38,243	38,243
Nien Made Enterprise Co., Ltd.	-	-	55,047
Chang Wah Technology Co., Ltd.	10,000	10,000	25,000
JMC Electronics Co., Ltd.	30,000	30,000	45,000
EirGenix Inc.	16,450	-	-
ASLAN Pharmaceuticals Pte. Ltd.	32,252	-	-
RiTdisplay Co., Ltd.	9,000	-	-
Fund Rich Securities Co., Ltd.	3,000	-	-
Victor Taichung Machinery Works Co., Ltd.	743	743	743

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Taiwan High Speed Rail Corporation	-	-	25,000
CCM Global Limited	-	-	2,719
Total	<u>\$920,587</u>	<u>\$918,099</u>	<u>\$1,078,306</u>

- (1) Shin Sheng Venture Capital Investment Corporation discharged the liquidator and acquired approval for all records relating to its liquidation from special shareholders' meeting held on December 23, 2015. Residual assets were distributed on December 25, 2015.
- (2) Zuen Ping Venture Capital Investment Corporation obtained consent for its liquidation and dissolution at the annual meeting of shareholders held on May 17, 2015.
- (3) As of June 30, 2016, the invested companies mentioned above were assessed their recoverable amounts. Among them, Dragon Investment Fund I Co., Ltd and Zuen Ping Venture Capital Investment Corporation were recognized impairment loss of 29,026 thousand dollars and 7,505 thousand dollars respectively.
- (4) No pledged was made for financial assets measured at cost mentioned above.

#### **4. Available-for-Sale Financial Assets**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
<u>Current</u>			
Listed/OTC company stock	\$7,096,698	\$7,302,593	\$9,015,287
Foreign securities	12,281	58,849	58,186
Total	<u>\$7,108,979</u>	<u>\$7,361,442</u>	<u>\$9,073,473</u>
<u>Non-current</u>			
Listed/OTC company stock	\$27,517	\$162,177	\$15,863
Bank Debentures	-	30,403	31,692
Foreign securities	143,818	89,224	86,158
Total	<u>\$171,335</u>	<u>\$281,804</u>	<u>\$133,713</u>

- (1) Please refer to Note XII.9 for reclassification.
- (2) Please refer to Note VIII for available-for-sale financial assets pledged as collaterals.

#### **5. Held to Maturity Financial Assets**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
<u>Non-current</u>			
Corporate bonds	\$-	\$-	\$40,000
Bank Debentures	300,000	300,000	-
Total	<u>\$300,000</u>	<u>\$300,000</u>	<u>\$40,000</u>

- (1) The subsidiary held Taiwan Power Company corporate bond on June 30, 2015 with the face value 40,000 thousand dollars and the coupon rate 1.39%.
- (2) The subsidiary held subordinated debentures of Sunny Bank and Hwatai Bank on June 30, 2016 and December 31, 2015 with the face value 200,000 thousand dollars and 100,000 thousand dollars respectively; both of the coupon rate are 2.50%.
- (3) No pledged was made for held to maturity financial assets mentioned above.

**6. Bonds Purchased under Resale Agreements**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Government bonds	\$8,307,758	\$9,882,731	\$7,969,791
Corporate bonds	6,815,010	2,813,252	4,360,535
Bank Debentures	<u>5,326,913</u>	<u>3,749,446</u>	<u>6,435,717</u>
Total	<u>\$20,449,681</u>	<u>\$16,445,429</u>	<u>\$18,766,043</u>
Resold amount as specified in respective agreements plus accrued interest	<u>\$20,453,034</u>	<u>\$16,432,569</u>	<u>\$18,713,405</u>
Resold date as specified in respective agreements	105.7.1- 105.7.29	105.1.4- 105.1.29	104.7.2- 104.7.29

**7. Margin Loans Receivable, Deposits for Short Sales and Short Sales Proceeds Payable**

Stocks that clients purchased by loans were pledged as collaterals for margin loans receivable. Annual interest rate on the loans is 6.30%-6.45% on June 30, 2016, 2015 and December 31, 2015.

According to the Securities and Futures Bureau, the Company and subsidiaries render the service of securities lending shall charge deposits for short sales or equivalent collaterals by proportion. Annual interest rate on the payables and collaterals is 0.1%-0.2% on June 30, 2016, 2015 and December 31, 2015.

**8. Trading securities receivable**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Trading securities receivable- securities held by the clients as collateral	<u>\$4,821,853</u>	<u>\$2,726,584</u>	<u>\$1,164,050</u>

The Company and subsidiaries lend money to the clients and took the securities held by them as collateral. According to the related regulations, the collateral coverage ratio should not be lower than 130%.

**9. Customers' Margin Accounts**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Cash in banks	\$14,935,099	\$12,707,590	\$11,754,236
Marking to market from the clearing house	1,616,047	1,428,080	1,984,750
Marking to market from the other futures brokers	1,809,361	610,207	531,565
Securities	68	109	94
Foreign customers' margin accounts	<u>20,046,263</u>	<u>16,938,123</u>	<u>16,876,290</u>
Total	<u>\$38,406,838</u>	<u>\$31,684,109</u>	<u>\$31,146,935</u>

**10. Futures Commission Merchant Receivable**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Futures commission merchant receivable	\$108,003	\$108,003	\$105,484
Less: Allowance for bad debt	<u>(108,003)</u>	<u>(108,003)</u>	<u>(105,484)</u>
Net	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>



Domestic future market fluctuated tremendously due to the worry over the repaying of the U.S. Treasury Bond in August, 2011; resulting in the Company's subsidiary, KGI Futures, client, Mr. Tu, was forced to clear the transaction because of insufficient futures commission 107,376 thousand dollars, and notified the authorities of the default transaction. The subsidiary had collected 21,619 thousand dollars as of June 30, 2016 and still in the process of claiming the recovery actively. For the remaining 85,757 thousand dollars loss, the subsidiary positively executed the repayment procedures and had recognized sufficient amounts of allowance.

### **11. Accounts Receivable**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Exchange clearing receivable	\$4,325,882	\$3,026,676	\$3,530,406
Accounts receivable for settlement- brokerage	11,742,546	7,633,473	12,269,578
Accounts receivable for settlement- non-brokerage	23,190,756	5,630,808	8,616,731
Others	<u>1,414,778</u>	<u>1,379,623</u>	<u>2,037,828</u>
Total	<u>\$40,673,962</u>	<u>\$17,670,580</u>	<u>\$26,454,543</u>

The client of foreign subsidiary broke the contract in April, 2015. Since the accounts receivable for settlement can not be recovered, it is recognized as other non-current assets. As of June 30, 2016, the subsidiary positively executed the repayment procedures and recognized SGD \$19,109 for the allowance.

### **12. Investments Accounted for Using The Equity Method**

Investee	<u>6/30/16</u>		<u>12/31/15</u>	
	Amount	Ratio	Amount	Ratio
<u>Investments in associates</u>				
KGI Securities (Thailand) Public Company Limited	\$1,995,755	34.97	\$2,058,308	34.97
Trinitus Asset Management Limited	29,600	40.00	41,041	40.00
CDIB BioScience Ventures Management	<u>3,522</u>	1.20	<u>3,642</u>	1.20
Total	<u>\$2,028,877</u>		<u>\$2,102,991</u>	

  

Investee	<u>6/30/15</u>	
	Amount	Ratio
<u>Investments in associates</u>		
KGI Securities (Thailand) Public Company Limited	\$1,942,161	34.97
Trinitus Asset Management Limited	60,193	40.00
CDIB BioScience Ventures Management	<u>6,010</u>	1.20
Total	<u>\$2,008,364</u>	

The amounts of investment accounted for using the equity method were recognized based on the audited financial statements, except for Trinitus Asset Management Limited and CDIB BioScience Ventures I, Inc.; however, the management of the Company considered these unaudited financial statements immaterial to the whole statements.

(1) Information on associate significant to the Company

Name of associate: KGI Securities (Thailand) Public Company Limited

Nature of activities: the associate engages in securities related businesses

Principal place of business: Thailand

Fair value from quoted market price: KGI Securities (Thailand) Public Company Limited is listed on the Stock Exchange of Thailand. The fair values of the Company's investment measured under the equity method are 2,084,517 thousand dollars, 2,182,797 thousand dollars, and 2,217,577 thousand dollars as of June 30, 2016, December 31 and June 30, 2015, respectively.

Financial information on associate significant to the Company is as follows:

	6/30/16	12/31/15	6/30/15
Current assets	\$10,740,447	\$5,606,432	\$13,193,414
Non-current assets	1,690,951	2,148,516	2,481,896
Current liabilities	(7,830,582)	(2,996,711)	(11,198,704)
Non-current liabilities	(126,680)	(134,916)	(109,119)
Non-controlling interests	(2,357)	(2,510)	(2,440)
Attributed to controlling interests	\$4,471,779	\$4,620,811	\$4,365,047
Ownership ratio	34.97%	34.97%	34.97%
Proportion of ownership	\$1,563,781	\$1,615,898	\$1,526,457
Goodwill	431,974	442,410	415,704
Book value	\$1,995,755	\$2,058,308	\$1,942,161

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Revenue	\$708,417	\$483,481	\$1,325,743	\$1,136,901
Profit or loss from continuing operations	\$225,463	\$100,117	\$384,854	\$282,363
Other comprehensive income	(1,876)	13,810	(15,914)	15,054
Total comprehensive income	\$223,587	\$113,927	\$368,940	\$297,417
Dividends received from associate	\$164,598	\$239,881	\$164,598	\$239,881

(2) The Company's investments in Trinitus Asset Management Limited and CDIB BioScience Ventures Management are not material. The carrying amounts of the investment are 33,122 thousand dollars, 44,683 thousand dollars, and 66,203 thousand dollars as of June 30, 2016, December 31 and June 30, 2015, respectively, and the proportionate aggregate financial information of investments is as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Profit or loss from continuing operations	\$(7,490)	\$8,614	\$(10,700)	\$8,357
Other comprehensive income	(32)	(123)	(91)	(146)
Total comprehensive income	\$(7,522)	\$8,491	\$(10,791)	\$8,211

(3) Since the Company and affiliate company, China Development Industrial Bank, jointly hold 21.20% shares of CDIB BioScience Ventures I, Inc., the investment is measured under the equity method.

(4) The investments accounted for using the equity method mentioned above are not pledged as collaterals.

### **13. Property and Equipment**

(1) Changes in property and equipment are as follows:

	Land	Buildings	Equipment	Leasehold improvement	Total
<u>Cost:</u>					
January 1, 2016	\$4,120,492	\$2,185,427	\$2,848,169	\$494,940	\$9,649,028
Additions	-	-	90,170	14,632	104,802
Disposals	-	-	(221,626)	(80,162)	(301,788)
Transfers	3,477	9,760	33,511	269	47,017
Exchange differences	-	-	(13,897)	(5,846)	(19,743)
June 30, 2016	<u>\$4,123,969</u>	<u>\$2,195,187</u>	<u>\$2,736,327</u>	<u>\$423,833</u>	<u>\$9,479,316</u>
January 1, 2015	\$4,119,154	\$2,184,572	\$3,005,145	\$383,228	\$9,692,099
Additions	-	-	88,158	15,294	103,452
Business merging	-	-	38,589	-	38,589
Disposals	-	-	(27,847)	(331)	(28,178)
Transfers	1,338	855	619	3,429	6,241
Exchange differences	-	-	87,371	8,502	95,873
June 30, 2015	<u>\$4,120,492</u>	<u>\$2,185,427</u>	<u>\$3,192,035</u>	<u>\$410,122</u>	<u>\$9,908,076</u>
<u>Depreciation and Impairment:</u>					
January 1, 2016	\$-	\$732,637	\$2,266,860	\$354,309	\$3,353,806
Depreciations	-	20,361	104,425	27,621	152,407
Disposals	-	-	(221,602)	(80,162)	(301,764)
Transfers	-	2,309	(741)	(3,591)	(2,023)
Exchange differences	-	-	(14,010)	(4,525)	(18,535)
June 30, 2016	<u>\$-</u>	<u>\$755,307</u>	<u>\$2,134,932</u>	<u>\$293,652</u>	<u>\$3,183,891</u>
January 1, 2015	\$-	\$691,735	\$2,542,881	\$288,447	\$3,523,063
Depreciations	-	20,298	100,219	27,121	147,638
Disposals	-	-	(27,539)	(327)	(27,866)
Transfers	-	303	(229)	-	74
Exchange differences	-	-	91,171	8,830	100,001
June 30, 2015	<u>\$-</u>	<u>\$712,336</u>	<u>\$2,706,503</u>	<u>\$324,071</u>	<u>\$3,742,910</u>
<u>Book value</u>					
June 30, 2016	<u>\$4,123,969</u>	<u>\$1,439,880</u>	<u>\$601,395</u>	<u>\$130,181</u>	<u>\$6,295,425</u>
December 31, 2015	<u>\$4,120,492</u>	<u>\$1,452,790</u>	<u>\$581,309</u>	<u>\$140,631</u>	<u>\$6,295,222</u>
June 30, 2015	<u>\$4,120,492</u>	<u>\$1,473,091</u>	<u>\$485,532</u>	<u>\$86,051</u>	<u>\$6,165,166</u>

(2) Please refer to Note VIII for property and equipment pledged as collaterals.

#### 14. Investment Property

(1) Changes in investment property are as follows:

	Land	Buildings	Total
<u>Cost:</u>			
January 1, 2016	\$212,049	\$108,465	\$320,514
Transfers	(3,477)	(9,760)	(13,237)
June 30, 2016	<u>\$208,572</u>	<u>\$98,705</u>	<u>\$307,277</u>
January 1, 2015	\$213,387	\$109,320	\$322,707
Transfers	(1,338)	(855)	(2,193)
June 30, 2015	<u>\$212,049</u>	<u>\$108,465</u>	<u>\$320,514</u>
<u>Depreciation and Impairment:</u>			
January 1, 2016	\$-	\$34,644	\$34,644
Depreciations	-	1,028	1,028
Transfers	-	(2,309)	(2,309)
June 30, 2016	<u>\$-</u>	<u>\$33,363</u>	<u>\$33,363</u>
January 1, 2015	\$-	\$32,770	\$32,770
Depreciations	-	1,090	1,090
Transfers	-	(303)	(303)
June 30, 2015	<u>\$-</u>	<u>\$33,557</u>	<u>\$33,557</u>
<u>Book value:</u>			
June 30, 2016	<u>\$208,572</u>	<u>\$65,342</u>	<u>\$273,914</u>
December 31, 2015	<u>\$212,049</u>	<u>\$73,821</u>	<u>\$285,870</u>
June 30, 2015	<u>\$212,049</u>	<u>\$74,908</u>	<u>\$286,957</u>

Investee	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Rental income from the lease of the investment property	<u>\$4,132</u>	<u>\$4,112</u>	<u>\$8,427</u>	<u>\$8,512</u>

(2) The Company and subsidiaries choose cost module to measure investment property and the fair values are 591,103 thousand dollars, 636,842 thousand dollars and 636,842 thousand dollars on June 30, 2016, December 31 and June 30, 2015, respectively. The management refers outside appraisal report and adopts the market evaluated model to evaluate the fair value.

(3) Please refer to Note VIII for investment property pledged as collaterals.

#### 15. Intangible Assets

(1) Changes in intangible assets are as follows:

	Goodwill	Other intangible assets	Software	Total
January 1, 2016	\$6,997,437	\$1,639,972	\$139,939	\$8,777,348
Additions	-	-	41,709	41,709
Exchange differences	6,082	-	-	6,082
Amortizations	-	(96,923)	(30,624)	(127,547)
June 30, 2016	<u>\$7,003,519</u>	<u>\$1,543,049</u>	<u>\$151,024</u>	<u>\$8,697,592</u>
January 1, 2015	\$6,613,935	\$1,833,818	\$139,488	\$8,587,241
Additions	372,878	-	25,976	398,854
Transfers	-	-	7,107	7,107
Exchange differences	(41,105)	-	-	(41,105)
Amortizations	-	(96,923)	(30,911)	(127,834)
June 30, 2015	<u>\$6,945,708</u>	<u>\$1,736,895</u>	<u>\$141,660</u>	<u>\$8,824,263</u>

(2) The amortized lives for other intangible assets and software of the Company and subsidiaries are between 3 to 15 years.

### **16. Other Non-Current Assets**

	6/30/16	12/31/15	6/30/15
Operation bond	\$1,417,399	\$1,447,740	\$1,458,079
Settlement/clearance fund	520,474	560,724	562,406
Guarantee deposits-out	1,054,149	1,374,951	1,587,595
Collaterals assumed	34,201	34,201	34,201
Others	301,533	444,396	302,543
Total	<u>\$3,327,756</u>	<u>\$3,862,012</u>	<u>\$3,944,824</u>

Please refer to Note VIII for other non-current assets pledged as collaterals.

### **17. Short-Term Borrowings**

	6/30/16	12/31/15	6/30/15
Interbank loans	\$484,290	\$462,924	\$279,630
Credit loans	12,397,012	9,672,213	20,138,052
Secured loans	5,034,568	5,482,556	12,414,829
Bank overdraft	-	182,633	-
Total	<u>\$17,915,870</u>	<u>\$15,800,326</u>	<u>\$32,832,511</u>
Interest rate	0.65%-3.63%	0.50%-6.64%	0.50%-4.63%

Please refer to Note VIII of collaterals for short-term borrowings.

### **18. Commercial Papers Payable-Net**

	6/30/16	12/31/15	6/30/15
Commercial papers payable	\$8,983,353	\$5,108,834	\$14,348,856
Less: Discount	(6,520)	(6,481)	(8,582)
Net	<u>\$8,976,833</u>	<u>\$5,102,353</u>	<u>\$14,340,274</u>
Interest rate	0.32%-1.10%	0.45%-1.30%	0.40%-1.60%

## 19. Financial Liabilities Measured at Fair Value Through Profit or Loss

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
<u>Current</u>			
Financial liabilities held for trading			
Bonds sold under repurchase agreements	\$871,974	\$652,471	\$1,113,831
-short sale			
Liabilities for warrants issued	8,717,731	10,351,789	10,342,906
Repurchase warrants	(8,276,983)	(9,957,608)	(9,552,377)
Short options	136,605	56,265	93,585
Liabilities for securities and bonds	11,667,410	6,167,626	7,986,119
borrowed			
Derivative financial product liabilities	5,022,327	4,284,302	2,938,427
Financial liabilities designated initially at	1,680,208	2,166,377	1,826,574
fair value through profit or loss			
Total	<u>\$19,819,272</u>	<u>\$13,721,222</u>	<u>\$14,749,065</u>

### (1) Bonds sold under repurchase agreements-short sale

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Government bonds	\$862,007	\$655,132	\$958,031
Corporate bonds	-	-	154,702
Subtotal	862,007	655,132	1,112,733
Valuation adjustments	9,967	(2,661)	1,098
Market value	<u>\$871,974</u>	<u>\$652,471</u>	<u>\$1,113,831</u>

### (2) Liabilities for warrants issued and repurchase warrants

A. Liabilities for warrants issued and repurchase warrants are as follows:

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Warrants issued	\$12,123,545	\$14,351,344	\$12,814,857
Gains/(losses) on value change	(3,405,814)	(3,999,555)	(2,471,951)
Market value	8,717,731	10,351,789	10,342,906
Repurchased warrants	10,371,535	12,535,149	11,087,220
Gains/(losses) on value change	(2,094,552)	(2,577,541)	(1,534,843)
Market value	8,276,983	9,957,608	9,552,377
Net value	<u>\$440,748</u>	<u>\$394,181</u>	<u>\$790,529</u>

B. All warrants issued by the Company are American and European style options. The Company can settle the warrants with either cash or the underlying stock.

### (3) Short options

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Index options	\$149,677	\$60,620	\$108,193
Stock options	19,778	6,715	1,087
Subtotal	169,455	67,335	109,280
Open interest	(32,850)	(11,070)	(15,695)
Market value	<u>\$136,605</u>	<u>\$56,265</u>	<u>\$93,585</u>

(4) Liabilities for securities and bonds borrowed

	6/30/16	12/31/15	6/30/15
Listed/OTC company stock	\$5,332,081	\$2,917,183	\$4,597,654
Foreign securities	6,213,084	3,327,286	3,388,897
Subtotal	11,545,165	6,244,469	7,986,551
Valuation adjustments	122,245	(76,843)	(432)
Market value	<u>\$11,667,410</u>	<u>\$6,167,626</u>	<u>\$7,986,119</u>

(5) Please refer to Note VI.20 for more details on derivative product liabilities and financial liabilities designated initially at fair value through profit or loss.

**20. Derivative Instruments**

(1) Nominal amount

Financial Instruments	6/30/16	12/31/15	6/30/15
Options and futures contract	\$24,001,215	\$14,079,629	\$29,957,239
Foreign futures and options	36,927,572	85,001,408	87,251,954
Interest rate swap (IRS)	166,216,939	222,947,270	213,268,661
Convertible bond asset swap (CBAS)-interest	11,028,700	11,781,300	10,963,300
CBAS-long option	10,534,800	11,345,800	10,477,400
CBAS-short option	13,971,500	15,699,900	14,735,500
Structured notes	11,317,732	16,194,507	10,289,188
Equity derivative instruments	197,739	292,546	3,180,269
Credit derivative instruments	5,163,417	4,014,286	460,315
Exchange rate derivative instruments	128,682,824	88,856,191	16,616,804
Others	25,867	-	-
Total	<u>\$408,068,305</u>	<u>\$470,212,837</u>	<u>\$397,200,630</u>

(2) Financial assets/liabilities held for trading-derivative financial instruments

Financial Instruments	6/30/16	12/31/15	6/30/15
Derivative instrument assets			
Contract value			
IRS	\$1,058,080	\$571,140	\$279,432
CBAS-interest	28,603	26,165	30,679
Long options			
CBAS	523,507	447,128	546,105
Structured notes	53,833	46,340	1,995
Equity derivative instruments	-	1,427	-
Credit derivative instruments	22,305	29,516	2,515
Exchange rate derivative instruments	2,166,950	247,711	145,644
Foreign futures and options	208,153	487,608	884,839
Others	222	-	-
Total	<u>\$4,061,653</u>	<u>\$1,857,035</u>	<u>\$1,891,209</u>
Derivative instrument liabilities			
Contract value			
IRS	\$1,065,431	\$579,395	\$301,215
CBAS-interest	233,452	263,541	286,992
Short options			
CBAS	754,502	716,602	829,095

Financial Instruments	6/30/16	12/31/15	6/30/15
Structured notes	439,916	2,192,369	120,668
Equity derivative instruments	65,997	28,487	451,826
Credit derivative instruments	11,979	64,960	610
Exchange rate derivative instruments	2,099,149	104,172	16,708
Foreign futures and options	351,679	334,776	931,313
Others	222	-	-
Total	<u>\$5,022,327</u>	<u>\$4,284,302</u>	<u>\$2,938,427</u>
Financial liabilities designated initially at fair value through profit or loss			
Structured notes	<u>\$1,680,208</u>	<u>\$2,166,377</u>	<u>\$1,826,574</u>
Other financial liabilities- current			
Structured notes-delivery value	<u>\$8,128,314</u>	<u>\$12,074,908</u>	<u>\$8,415,529</u>

Please refer to Note VI.2 and Note VI.19 for more details on financial assets or liabilities of option and futures contracts.

(3) Presentation of derivative financial instruments on the financial statements

A. The details of net gains/(losses) on liabilities for warrants issued are as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Liabilities for warrants issued:				
Gains on value change	\$6,524,885	\$7,079,373	\$13,436,015	\$10,632,592
Gains on exercising warrants before maturity	433	8,481	434	8,848
Repurchase of issued warrants:				
Losses on resale of warrants	(1,326,350)	(903,962)	(2,528,228)	(1,354,361)
Losses on value change	(4,997,938)	(5,992,175)	(10,548,030)	(8,984,844)
Expense for warrant	(20,291)	(32,310)	(42,248)	(59,595)
Gains/(losses) on warrants issued	<u>\$180,739</u>	<u>\$159,407</u>	<u>\$317,943</u>	<u>\$242,640</u>

B. The details of net gains/(losses) on derivative instruments-futures are as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Futures contracts	\$187,080	\$(403,760)	\$258,216	\$(904,153)
Options	(15,484)	95,536	(6,171)	142,239
Total	<u>\$171,596</u>	<u>\$(308,224)</u>	<u>\$252,045</u>	<u>\$(761,914)</u>

C. The details of net gains/(losses) on derivative instruments-OTC are as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
IRS	\$(7,465)	\$(19,344)	\$(6,495)	\$(38,079)
CBAS	64,383	125,997	141,742	29,939
Options	21,230	70,025	59,386	89,040
Structured notes	(40,631)	4,896	(164,821)	(12,689)



	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
	Equity derivative instruments	115,157	(34,356)	114,503
Credit derivative instruments	35,998	170,801	17,243	267,971
Exchange rate derivative instruments	160,533	(5,055)	58,332	12,278
Total	\$349,205	\$312,964	\$219,890	\$283,220

D. The details of futures and option transaction contract of the Company and subsidiaries are as follows:

6/30/16

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	GreTai Futures	Long	1	\$506	\$512	
Futures Contracts	GreTai Futures	Short	1	507	513	
Futures Contracts	Elec-Sector Index Futures	Long	686	934,949	949,698	
Futures Contracts	Finance Sector Index Futures	Long	134	124,219	124,432	
Futures Contracts	Finance Sector Index Futures	Short	108	99,404	99,673	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	118	122,073	122,773	
Futures Contracts	TaiEx NT Dollar Gold Futures	Short	11	5,691	5,669	
Futures Contracts	TaiEx Futures	Long	2,291	3,816,406	3,859,259	
Futures Contracts	TaiEx Futures	Short	1,126	1,871,158	1,893,874	
Futures Contracts	Mini-TaiEx Futures	Long	6,452	2,700,082	2,746,190	
Futures Contracts	Mini-TaiEx Futures	Short	8,406	3,514,633	3,566,983	
Futures Contracts	Weekly-Mature Mini-TaiEx Futures	Long	16	6,892	6,891	
Futures Contracts	Stock Futures	Long	5,032	834,676	846,979	
Futures Contracts	Stock Futures	Short	11,247	1,496,837	1,514,599	
Futures Contracts	Foreign Futures	Long	1,240	637,034	643,380	
Futures Contracts	Foreign Futures	Short	6,696	3,513,145	3,547,680	
Futures Contracts	USD/CNH FX Futures	Long	360	1,157,548	1,167,198	
Futures Contracts	USD/CNH FX Futures	Short	85	277,305	278,973	
Futures Contracts	USD/CNT FX Futures	Long	133	86,121	86,949	
Futures Contracts	USD/CNT FX Futures	Short	503	327,335	327,159	
Futures Contracts	TOPIX Futures	Short	103	126,432	128,244	
Futures Contracts	Mini-TOPIX Futures	Short	14	5,411	5,475	
Futures Contracts	MSCI Taiwan Index Futures	Long	2	2,028	2,025	
Futures Contracts	MSCI Taiwan Index Futures	Short	1,815	1,853,596	1,860,752	
Futures Contracts	Hong Kong H-shares Index Futures	Long	45	78,681	81,686	
Futures Contracts	Mini-Hang Seng Index Futures	Short	16	13,851	13,946	
Futures Contracts	China A50 Index Futures	Short	261	76,720	77,830	
Options Contracts	Index Options-Call	Long	12,266	50,440	55,898	
Options Contracts	Index Options-Put	Long	10,734	82,206	53,731	
Options Contracts	Index Options-Call	Short	16,351	(58,648)	76,334	
Options Contracts	Index Options-Put	Short	26,491	(91,029)	46,001	
Options Contracts	Stock Options-Call	Long	2,194	9,813	10,828	
Options Contracts	Stock Options-Put	Long	1,690	6,061	3,742	
Options Contracts	Stock Options-Call	Short	1,476	(6,952)	6,008	
Options Contracts	Stock Options-Put	Short	1,977	(12,826)	8,262	

12/31/15

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	GreTai Futures	Short	4	\$1,706	\$2,036	
Futures Contracts	Elec-Sector Index Futures	Long	604	787,288	787,858	
Futures Contracts	Elec-Sector Index Futures	Short	8	10,543	10,413	
Futures Contracts	Finance Sector Index Futures	Long	215	212,356	210,309	
Futures Contracts	Finance Sector Index Futures	Short	27	26,379	26,412	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	467	479,781	481,196	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Short	2	1,960	2,063	
Futures Contracts	TaiEx NT Dollar Gold Futures	Short	5	2,122	2,120	
Futures Contracts	TaiEx Futures	Long	1,325	2,190,900	2,191,849	
Futures Contracts	TaiEx Futures	Short	359	587,928	593,366	
Futures Contracts	Mini-TaiEx Futures	Long	1,066	436,712	440,433	
Futures Contracts	Mini-TaiEx Futures	Short	7,197	2,984,716	2,977,727	
Futures Contracts	Weekly-Mature Mini-TaiEx Futures	Short	6	2,487	2,486	
Futures Contracts	Stock Futures	Long	5,989	755,327	754,322	
Futures Contracts	Stock Futures	Short	16,233	1,606,936	1,606,207	
Futures Contracts	Foreign Futures	Long	212	890,018	890,117	
Futures Contracts	Foreign Futures	Short	721	511,869	509,395	
Futures Contracts	USD/CNH FX Futures	Long	258	864,255	875,723	
Futures Contracts	USD/CNH FX Futures	Short	186	614,628	618,680	
Futures Contracts	USD/CNT FX Futures	Long	353	239,576	239,772	
Futures Contracts	USD/CNT FX Futures	Short	528	351,466	352,497	
Futures Contracts	TOPIX Futures	Long	23	7,036	7,057	
Futures Contracts	TOPIX Futures	Short	35	10,771	10,740	
Futures Contracts	MSCI Taiwan Index Futures	Short	364	365,952	366,421	
Options Contracts	Index Options-Call	Long	4,015	17,311	17,920	
Options Contracts	Index Options-Put	Long	4,923	47,644	42,489	
Options Contracts	Index Options-Call	Short	7,200	(25,746)	23,825	
Options Contracts	Index Options-Put	Short	10,087	(34,874)	25,716	
Options Contracts	Stock Options-Call	Long	864	3,317	2,708	
Options Contracts	Stock Options-Put	Long	412	1,310	1,166	
Options Contracts	Stock Options-Call	Short	1,195	(3,079)	2,830	
Options Contracts	Stock Options-Put	Short	990	(3,636)	3,894	

6/30/15

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	GreTai Futures	Short	1	\$533	\$537	
Futures Contracts	Elec-Sector Index Futures	Long	62	89,041	87,990	
Futures Contracts	Elec-Sector Index Futures	Short	554	796,631	797,266	
Futures Contracts	Finance Sector Index Futures	Long	289	341,109	340,426	

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	Finance Sector Index Futures	Short	63	74,115	73,327	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	1	1,092	1,103	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Short	146	162,323	163,783	
Futures Contracts	TaiEx NT Dollar Gold Futures	Long	1	440	440	
Futures Contracts	TaiEx NT Dollar Gold Futures	Short	21	9,256	9,242	
Futures Contracts	TaiEx Futures	Long	1,946	3,568,435	3,566,262	
Futures Contracts	TaiEx Futures	Short	1,147	2,090,508	2,099,448	
Futures Contracts	Mini-TaiEx Futures	Long	4,160	1,912,599	1,909,637	
Futures Contracts	Mini-TaiEx Futures	Short	4,937	2,267,619	2,271,022	
Futures Contracts	Stock Futures	Long	4,721	652,972	661,356	
Futures Contracts	Stock Futures	Short	24,186	3,217,190	3,200,280	
Futures Contracts	Foreign Futures	Long	340	589,958	589,610	
Futures Contracts	Foreign Futures	Short	5,508	13,330,593	13,408,432	
Futures Contracts	MSCI Taiwan Index Futures	Long	314	329,493	331,797	
Futures Contracts	MSCI Taiwan Index Futures	Short	1	1,047	1,045	
Futures Contracts	Hong Kong H-shares Index Futures	Long	4	10,337	10,394	
Futures Contracts	Hong Kong Hang Seng Index Futures	Short	2	2,107	2,108	
Futures Contracts	China A50 Index Futures	Long	408	153,103	156,209	
Futures Contracts	China A50 Index Futures	Short	381	144,302	145,960	
Options Contracts	Index Options-Call	Long	9,783	27,438	22,724	
Options Contracts	Index Options-Put	Long	11,209	73,959	81,397	
Options Contracts	Index Options-Call	Short	27,674	(57,575)	40,235	
Options Contracts	Index Options-Put	Short	19,711	(50,618)	52,617	
Options Contracts	Stock Options-Call	Long	555	950	659	
Options Contracts	Stock Options-Put	Long	504	809	792	
Options Contracts	Stock Options-Call	Short	279	(336)	266	
Options Contracts	Stock Options-Put	Short	329	(751)	467	

#### E. Credit risk valuation adjustment

The Company and subsidiaries' credit risk valuation adjustments could be mainly divided into two parts: Credit Value Adjustments, "CVA", and Debit Value Adjustments, "DVA", which are adjustments on credit risk valuation of derivative instruments traded at OTC. The purpose for the adjustments is to reflect the possibility of an opponent (CVA) or the Company's (DVA) delay in payment and failure of receiving full amount of transactions' market value.

The Company and subsidiaries take an opponent's Probability of Default, "PD" (given the Company and subsidiaries do not default) and Loss Given Default, "LGD" into account, then calculate CVA with the opponent's Exposure at Default, "EAD". Contrarily, the Company and subsidiaries take their PD (given the opponent do not default) and LGD into account, calculate DVA with their EAD.

To take credit risk valuation adjustment into consideration for fair value of financial instruments and to reflect separately credit risk of the opponent and of the Company and subsidiaries, the Company and subsidiaries refer to Standard & Poor's, "S&P", historical probability of default for PD; base LGD on past experiences, scholars' suggestions, and foreign financial institutions' experiences; and adopt evaluated market price of derivative instruments as EAD.

## **21. Bonds Sold under Repurchase Agreements**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Government bonds	\$39,180,339	\$28,745,045	\$18,647,207
Bank Debentures	20,069,785	11,346,585	11,298,673
Convertible bonds	688,234	731,091	200,055
Corporate bonds	24,860,766	17,779,117	25,996,756
Total	<u>\$84,799,124</u>	<u>\$58,601,838</u>	<u>\$56,142,691</u>
Repurchased amount as specified in respective agreements plus accrued interest	<u>\$85,006,187</u>	<u>\$58,659,345</u>	<u>\$56,497,229</u>
Repurchased date as specified in respective agreements	105.7.1- 105.8.23	105.1.4- 105.3.17	104.7.1- 104.9.17

## **22. Accounts Payable**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Exchange clearing payable	\$3,171,217	\$1,863,332	\$2,791,503
Accounts payable for settlement- brokerage	27,943,910	25,146,805	31,106,133
Accounts payable for settlement- non-brokerage	23,123,802	4,251,463	6,769,446
Others	378,713	334,274	524,222
Total	<u>\$54,617,642</u>	<u>\$31,595,874</u>	<u>\$41,191,304</u>

## **23. Bonds Payable**

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
103-1 Unsecured Corporation Bonds Payable denominated in CNY	\$969,660	\$1,006,520	\$1,001,400
104-1 Unsecured Corporation Bonds Payable	7,000,000	7,000,000	7,000,000
Subtotal	7,969,660	8,006,520	8,001,400
Less: Due within in one year	(969,660)	(1,006,520)	-
Net amount	<u>\$7,000,000</u>	<u>\$7,000,000</u>	<u>\$8,001,400</u>

(1) The Company had issued 103-1 unsecured corporate bonds denominated in CNY (hereinafter called "the Bonds denominated in CNY") amounted to CNY 200,000 thousand dollars at par value of CNY 1,000 thousand dollars per bond on November 11, 2014. Other terms are listed below:

- A. Term to Maturity: The Bonds denominated in CNY were issued on November 11, 2014 and will be redeemed on November 11, 2016.
- B. Coupon rate: The coupon rate of the Bonds denominated in CNY is 3.50% annually.
- C. Repayment of principal: The principal of the Bonds denominated in CNY will be repaid at maturity.
- D. The bonds were issued without collaterals.
- E. Interest payment method: The interest are paid annually and calculated on coupon rate by using simple interest method.

(2) The Company had issued 104-1 unsecured corporate bonds (hereinafter called "the Bonds-104-1") amounted to 7,000,000 thousand dollars on June 8, 2015. The Bonds-104-1 were issued in two types:

Bonds A were issued with three years maturities, amounted to 2,200,000 thousand dollars; Bonds B were issued with five years maturities, amounted to 4,800,000 thousand dollars, both at par value of 10,000 thousand dollars per bond. Other terms are listed below:

- A. Term to Maturity: Bonds A were issued on June 8, 2015 and will be redeemed on June 8, 2018; Bonds B were issued on June 8, 2015 and will be redeemed on June 8, 2020.
- B. Coupon rate: the coupon rate of Bonds A is 1.20% annually; of Bonds B is 1.42% annually.
- C. Repayment of principal: The principal of the Bonds will be repaid at maturity.
- D. The Bonds-104-1 were issued without collaterals.
- E. Interest payment method: The interest are paid annually and calculated on coupon rate by using simple interest method.

## **24. Post-Employment Benefits**

- (1) Description of labor pension:

### Defined contribution plan

The Company and its domestic subsidiaries established the employee retirement method that is defined contribution plan in accordance with The Labor Pension Act of the R.O.C. and the percentage of contribution burden by the Company and its domestic subsidiaries are not less than 6% of employee's monthly wages and Salaries. The Company and its domestic subsidiaries contributes monthly an amount equal to 6% of employee's wages and salaries to the employee's individual pension fund accounts at the Bureau of Labor Insurance.

Foreign subsidiaries make contribution to the business related to pension management in compliance with local regulation.

### Defined benefit plan

The Company and its domestic subsidiaries adopt a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Company and its domestic subsidiaries contribute an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. In addition, the Company and subsidiaries will assess the balance in pension fund at the end of the year; if the balance is not enough to pay the pension in the following year, the difference will be contributed before March in the next year.

Pension fund deposited in the Bank of Taiwan is utilized by Ministry of Labor in accordance with Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The investment strategy of the fund is to be managed by the Ministry itself or outsourcing, actively or passively in the medium or long term. Considering market, credit, liquidity risk, the Ministry of Labor set controlling plan and the limit for fund risk, allowing it to achieve its expected return without taking too much risk. Every year, the minimum return resolved to be allocated should not be lower than the return resulting from the interest of certificate deposits for two years. If it is not enough, it should be made up by National Treasury with the approval of authority.

- (2) The total expense recognized in the comprehensive income statement according to proportion stipulated in the plan are as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Pension incurred on defined contribution	\$59,213	\$53,792	\$118,192	\$108,096
Pension incurred on defined benefit	5,587	4,589	11,274	9,186
Total	<u>\$64,800</u>	<u>\$58,381</u>	<u>\$129,466</u>	<u>\$117,282</u>

## 25. Provisions

<u>Non-current</u>	<u>Litigation provision</u>	<u>Decommissioning liabilities</u>	<u>Total</u>
January 1, 2016	\$131,105	\$24,469	\$155,574
Additions	63	20	83
June 30, 2016	<u>\$131,168</u>	<u>\$24,489</u>	<u>\$155,657</u>
January 1, 2015	\$173,845	\$23,768	\$197,613
Additions	151	701	852
Current payment/reversal	(38,284)	-	(38,284)
June 30, 2015	<u>\$135,712</u>	<u>\$24,469</u>	<u>\$160,181</u>

## 26. Equity

### (1) Common stock

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Authorized shares (thousand shares)	<u>4,600,000</u>	<u>4,600,000</u>	<u>4,600,000</u>
Authorized capital	<u>\$46,000,000</u>	<u>\$46,000,000</u>	<u>\$46,000,000</u>

The Company's authorized and issued capital was NT\$34,988,123 thousand dollars, NT\$37,988,123 thousand dollars, and NT\$37,988,123 thousand dollars as at June 30, 2016, December 31, 2015 and June 30, 2015, respectively, each at a par value of NT\$10.

The Company has issued 3,498,812 thousand, 3,798,812 thousand, and 3,798,812 thousand common shares as at June 30, 2016, December 31, 2015 and June 30, 2015, respectively.

In order to increase the Company's capital utilization effectiveness and coordinate with parent company's future development plan and overall capital allocation plan, the Company's Board of Directors (acting on behalf of shareholders) decided the case of capital reduction 3,000,000 thousand dollars. The case of capital reduction was approved by the authorities on June 7, 2016 and the record date was June 17, 2016.

### (2) Capital reserve

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Additional paid-in capital	\$2,603,148	\$2,603,148	\$2,603,148
Treasury share transactions	364,435	364,435	364,435
Surplus from business combination	5,665,969	5,665,969	5,665,969
Employee share options	8,648	6,171	3,928
Total	<u>\$8,642,200</u>	<u>\$8,639,723</u>	<u>\$8,637,480</u>

Capital reserve should be used to make up its deficiencies in the first priority, if any. Under the circumstances without deficiencies, the Company can distribute all the capital reserve or partial of it to shareholders by common stocks or cash, based on percentage of ownership. The mentioned capital reserve is including additional paid-in capital and donations received.

(3) Distribution of earnings and dividend policy

A. The Articles of Incorporation of earnings distribution are as following:

For the purpose of the Company's need of operation and benefits of shareholders, also in compliance with relevant regulations, the Company adopted surplus dividend policy.

Distribution conditions, timing, and amounts: When distributing the annual net income, the Company should use the earnings to offset accumulated deficiencies and pay applicable income tax, set aside legal reserve, and appropriate or reverse special reserve under relevant regulations. Then, appropriate at least 0.1% as employees' bonus. Appropriation of the remainder and the beginning balance of undistributed earnings shall be proposed by the Board of Directors and resolved by the shareholders.

Type of Dividend: In principle, the Company distributes cash dividends, and these cash dividends should not less than 10% of all dividends.

In accordance with the Company Act 235.1 amended on May 20, 2015, the Company revised the Article in the extraordinary shareholders' meeting on December 28, 2015 as following:

If the Company has net income in the current year, it should appropriate at least 0.1% as employees' bonus. However, if the company still has accumulated losses, it should reserve same portion of income to offset it. The net income mentioned above is income before tax and before distributing earnings to employees.

For operation and benefits of shareholders, the Company adopted surplus dividend policy in compliance with related regulations. The Company distributes cash dividends, and these cash dividends should not less than 10% of all dividends.

The Company should pay applicable income tax, offset accumulated losses, set aside legal reserve, and appropriate or reverse special reserve under relevant regulations before distribution of current net income. Appropriation of the remains along with the beginning balance of undistributed earnings shall be proposed by the Board of Directors and resolved by the shareholders.

B. The Company held the annual meeting of shareholders (represented by the board of directors) on May 10, 2016 and May 29, 2015 respectively and resolved the distribution of annual net income for 2015 and 2014 as follows:

	Distribution of earnings		Dividend per share (dollar)	
	2015	2014	2015	2014
Legal reserve	\$232,350	\$323,806	-	-
Special reserve	464,699	647,614	-	-
Cash dividends	1,626,450	2,379,751	0.428	0.626
Total	<u>\$2,323,499</u>	<u>\$3,351,171</u>		

Please refer to Note VI.27 for the basis of recognition of employee compensation (bonus).

C. According to the Rule No. 1010028514 issued by FSC on June 29, 2012, when the Company distributes earnings, it must set aside (from current profit or loss and undistributed earnings from the preceding period) special reserves equal in amounts to other net deductions from shareholders equity arising during that same year. Any other net deductions from shareholders equity items accumulated from the preceding year must not be distributed; instead, an equivalent amount must be set aside from undistributed earnings to special reserves. Thereafter, when other shareholders equity deductions are shifted back, the company may distribute earnings in an amount equal to the amount shifted back.

D. As required by the Company Act, 10% of the current year's earnings, after paying all taxes and offsetting prior years' operating losses, if any, shall be set aside as legal reserve until the cumulative balance equals the issued share capital. Except for covering accumulated deficit, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the balance of the reserve exceeds 25% of the Company's paid-in capital.

(4) Non-controlling interests

	For the six-month periods ended June 30	
	2016	2015
Beginning balance	\$3,309,175	\$3,331,529
Profit attributable to non-controlling interests	36,292	49,068
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Unrealized gains (losses) from available-for-sale	(1,423)	(281)
Cash dividend issued from subsidiaries	(41,004)	(78,993)
Ending balance	<u>\$3,303,040</u>	<u>\$3,301,323</u>

**27. The Detail of Comprehensive Net Income**

(1) Brokerage handling fee revenues

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Brokerage handling fee revenues	\$1,029,754	\$1,280,370	\$2,191,829	\$2,374,557
Foreign brokerage fee	584,883	1,518,210	1,315,539	2,326,627
Handling revenue of short sale	18,150	27,809	35,761	48,447
Handling fee revenue of securities borrowed	5,211	3,999	11,724	6,708
Foreign sub-brokerage revenues	33,109	37,399	57,130	64,515
Total	<u>\$1,671,107</u>	<u>\$2,867,787</u>	<u>\$3,611,983</u>	<u>\$4,820,854</u>

(2) Revenue from underwriting business

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Return from underwriting of securities	\$85,885	\$24,743	\$168,527	\$61,616
Revenue from underwriting proceeding fee	3,459	2,242	22,043	36,623
Revenue from underwriting and counseling	18,022	12,209	27,727	22,065
Others	31,925	84,573	50,686	138,743
Total	<u>\$139,291</u>	<u>\$123,767</u>	<u>\$268,983</u>	<u>\$259,047</u>



(3) Gains/(losses) on disposal of trading securities-net

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
<u>Dealing</u>				
Revenue	\$244,568,188	\$237,801,572	\$489,340,718	\$498,450,582
Cost	(244,589,881)	(236,932,765)	(489,055,736)	(496,973,742)
Subtotal	(21,693)	868,807	284,982	1,476,840
<u>Underwriting</u>				
Revenue	527,763	387,271	871,433	2,552,054
Cost	(519,292)	(361,826)	(837,281)	(2,446,610)
Subtotal	8,471	25,445	34,152	105,444
<u>Hedging</u>				
Revenue	17,902,512	31,122,889	39,430,523	56,280,433
Cost	(18,075,597)	(30,788,966)	(39,829,011)	(55,615,038)
Subtotal	(173,085)	333,923	(398,488)	665,395
Total	\$(186,307)	\$1,228,175	\$(79,354)	\$2,247,679

(4) Interest income

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Margin loans	\$458,976	\$799,762	\$945,819	\$1,503,947
Bonds	215,589	161,084	399,155	368,501
Others	24,234	3,207	44,415	3,979
Total	\$698,799	\$964,053	\$1,389,389	\$1,876,427

(5) Gain/(loss) on trading securities at fair value through profit and loss

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Dealing-net	\$(235,068)	\$(42,719)	\$135,518	\$384,096
Underwriting-net	10,824	65,388	4,259	82,331
Hedging-net	29,187	(315,246)	345,727	(250,920)
Total	\$(195,057)	\$(292,577)	\$485,504	\$215,507

(6) Gains/(losses) on covering of borrowed securities and bonds with resale agreements-net

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Gains	\$95,025	\$52,473	\$220,082	\$91,049
Losses	(120,930)	(155,554)	(277,168)	(252,971)
Total	\$(25,905)	\$(103,081)	\$(57,086)	\$(161,922)

(7) Please refer to Note VI.20 for detail of derivative instruments' profit and loss.

(8) Other operating income

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Exercising warrants before maturity- purchased from others	\$(882)	\$11,658	\$(8,150)	\$22,503
Other service fee income	2,382	7,330	8,023	15,306
Investment advisory income	50,257	9,001	87,861	16,237
Commission income	139,188	69,176	192,749	111,939
Investment trust and fund management income	25,864	26,139	53,463	52,526
Others	119,787	75,953	217,325	77,092
Error accounts	(4,171)	(2,709)	(5,964)	(4,277)
Total	<u>\$332,425</u>	<u>\$196,548</u>	<u>\$545,307</u>	<u>\$291,326</u>

(9) Financial costs

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Bills and bonds payable under repurchase agreements	\$96,571	\$72,822	\$167,557	\$167,127
Bank borrowing	58,341	124,205	138,811	240,471
Short-term notes and bills	5,168	30,215	8,877	53,931
Bonds	31,911	14,649	64,334	30,485
Others	19,508	35,331	39,784	70,352
Total	<u>\$211,499</u>	<u>\$277,222</u>	<u>\$419,363</u>	<u>\$562,366</u>

(10) Employee benefits expenses, depreciation and amortization

Item	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Employee benefit expenses				
Salary expenses	\$1,374,685	\$2,103,029	\$2,812,412	\$3,813,112
Insurance expenses	78,423	81,305	173,482	178,549
Pension expenses	64,800	58,381	129,466	117,282
Others	26,977	29,907	64,592	76,760
Total	<u>\$1,544,885</u>	<u>\$2,272,622</u>	<u>\$3,179,952</u>	<u>\$4,185,703</u>
Depreciations and amortizations				
Depreciations	\$76,266	\$73,455	\$153,435	\$148,728
Amortizations	65,630	65,637	127,663	127,901
Total	<u>\$141,896</u>	<u>\$139,092</u>	<u>\$281,098</u>	<u>\$276,629</u>

A. Due to the specialty of industry of the Company and subsidiaries, the employee benefit expenses and the depreciation and amortization expenses are classified as operating expenses.

B. For the three-month periods ended June 30, 2016 and 2015, and the six-month periods ended June 30, 2016 and 2015, the company recognized 91 thousand dollars, 9,212 thousand dollars, 311

thousand dollars, and 15,585 thousand dollars respectively for employee compensation as operating expense according to the earning condition. If the amount resolved by the board of directors differs significantly from the one recognized in the subsequent period, the difference would be adjusted in current net income.

C. The board of directors (on behalf of shareholders' meeting) resolved to distribute 18,000 thousand dollars and 27,000 thousand dollars for 2015 and 2014 employee compensation respectively on May 10, 2016 and May 29, 2015. The employee bonus that board of directors (on behalf of shareholders' meeting) resolved has no difference from the amount recognized in 2015 and 2014 financial statements.

D. The related information about employees' bonus from the earnings distribution plan decided by the Company's Board of Directors (acting on behalf of shareholders) can be inquired at Market Observation Post System.

(11) Other operating expenses

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Postage and telephone expenses	\$58,994	\$69,804	\$117,319	\$135,578
Tax	216,757	280,998	436,252	476,375
Rental expenses	180,693	169,538	365,232	334,521
Repairs and maintenance	47,498	53,774	94,839	100,495
Computer information expenses	136,685	113,300	256,632	201,083
Bad Debt Expense	25,875	22,206	394,460	23,957
Professional expenses	68,761	74,569	151,691	161,292
Securities borrowed expenses	80,914	44,925	127,073	85,065
Handling fee	41,992	91,514	214,652	154,552
Others	211,642	196,280	375,299	352,848
Total	<u>\$1,069,811</u>	<u>\$1,116,908</u>	<u>\$2,533,449</u>	<u>\$2,025,766</u>

(12) Other income and costs

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Interest income	\$133,351	\$144,550	\$266,242	\$311,677
Rental income	4,190	4,398	8,544	8,859
Disposal of property and equipment	(214)	(65)	(300)	725
Disposal of investment	5,856	22,533	15,874	13,551
Non-operating financial product at fair value through profit and loss	(61,433)	104,381	(396,855)	323,208
Exchange gain or loss	(34,336)	37,665	74,142	92,151
Dividend income	207,555	64,882	219,014	82,731
Management service income	91,608	98,890	179,125	194,757
Others	26,360	(7,728)	125,059	25,197
Total	<u>\$372,937</u>	<u>\$469,506</u>	<u>\$490,845</u>	<u>\$1,052,856</u>

## 28. Components of Other Comprehensive Income

For the three-month periods ended June 30, 2016

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	\$(58,753)	\$-	\$(58,753)	\$-	\$(58,753)
Unrealized gains (losses) from available-for-sale financial assets	(263,171)	-	(263,171)	(267)	(263,438)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(691)	-	(691)	-	(691)
Total	\$(322,615)	\$-	\$(322,615)	\$(267)	\$(322,882)

For the three-month periods ended June 30, 2015

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	\$(1,087)	\$-	\$(1,087)	\$-	\$(1,087)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	(107,016)	-	(107,016)	-	(107,016)
Unrealized gains (losses) from available-for-sale financial assets	998,145	-	998,145	472	998,617
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(51,078)	-	(51,078)	-	(51,078)
Total	\$838,964	\$-	\$838,964	\$472	\$839,436

For the six-month periods ended June 30, 2016

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a	\$(280,454)	\$-	\$(280,454)	\$-	\$(280,454)
Unrealized gains (losses) from available-for-sale	(278,361)	-	(278,361)	(865)	(279,226)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(5,657)	-	(5,657)	-	(5,657)
<b>Total</b>	<b>\$(564,472)</b>	<b>\$-</b>	<b>\$(564,472)</b>	<b>\$(865)</b>	<b>\$(565,337)</b>

For the six-month periods ended June 30, 2015

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Items that will not be reclassified subsequently to profit or loss:					
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	\$(1,087)	\$-	\$(1,087)	\$-	\$(1,087)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences resulting from translating the financial statements of a foreign operation	(257,756)	-	(257,756)	-	(257,756)
Unrealized gains (losses) from available-for-sale financial assets	1,391,465	-	1,391,465	(337)	1,391,128
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(31,975)	-	(31,975)	-	(31,975)
<b>Total</b>	<b>\$1,100,647</b>	<b>\$-</b>	<b>\$1,100,647</b>	<b>\$(337)</b>	<b>\$1,100,310</b>

## 29. Income Tax

(1) The major components of income tax expense (income) are as follows:

### Income tax expense (income) recognized in profit or loss

	For the three-month periods ended June 30	
	2016	2015
Current income tax expense (income)		
Current period	\$86,577	\$210,234
Adjustments of prior periods	(43,410)	34,276
Deferred tax expense (income)		
Current period	(6,701)	(7,196)
Income tax expense	<u>\$36,466</u>	<u>\$237,314</u>
	For the six-month periods ended June 30	
	2016	2015
Current income tax expense (income)		
Current period	\$114,840	\$316,359
Adjustments of prior periods	(45,518)	35,146
Deferred tax expense (income)		
Current period	70,905	55,536
Income tax expense	<u>\$140,227</u>	<u>\$407,041</u>

### Income tax relating to components of other comprehensive income

	For the three-month periods ended June 30	
	2016	2015
Deferred tax expense (income)		
Unrealized gains (losses) from available-for-sale financial assets	<u>\$267</u>	<u>\$(472)</u>
	For the six-month periods ended June 30	
	2016	2015
Deferred tax expense (income)		
Unrealized gains (losses) from available-for-sale financial assets	<u>\$865</u>	<u>\$337</u>

(2) The information of integrated Income Tax System

A. Balance of imputation income tax credit amounts:

	6/30/16	12/31/15	6/30/15
The Company	\$517,277	\$964,804	\$824,280
KGI Securities Investment Advisory Co. Ltd.	2,067	2,948	1,748
KGI Insurance Brokers Co. Ltd.	10,486	3,518	598
KGI Venture Capital Co. Ltd.	195	974	1
KGI Securities Investment Trust Co. Ltd.	888	888	888
KGI Futures	834	14,203	35,938
GSFC	57,196	70,838	70,337
KGI Information Technology Co. Ltd.	-	-	(Note)

B. Creditable ratio for earning distribution to ROC resident shareholders:

	<u>2015(Actual)</u>	<u>2014(Actual)</u>
The Company	20.95%	20.81%
KGI Securities Investment Advisory Co. Ltd.	20.48%	20.48%
KGI Insurance Brokers Co. Ltd.	5.37%	20.48%
KGI Venture Capital Co. Ltd.	20.48%	14.67%
KGI Securities Investment Trust Co. Ltd.	-	-
KGI Futures	2.86%	13.81%
GSFC	20.48%	20.48%
KGI Information Technology Co. Ltd.	-	(Note)

Note: KGI Information is established in the end of 2015.

(3) Information for unappropriated retained earnings:

There are no unappropriated retained earnings for the Company and domestic subsidiaries on the book of prior to 1997.

(4) Income tax return assessed

	<u>Assessment information</u>
The Company	Except for 2012, 2014 and 2015, the Company's income tax returns have been assessed by the Tax Bureau. The income tax returns of GCSC has been assessed through 2010.
KGI Securities Investment Advisory Co. Ltd.	Assessed through 2014.
KGI Insurance Brokers Co. Ltd.	Assessed through 2014.
KGI Venture Capital Co. Ltd.	Assessed through 2014.
KGI Securities Investment Trust Co. Ltd.	Assessed through 2014.
KGI Futures	Assessed through 2013.
GSFC	Assessed through 2014.

(5) Administrative remedy

For the years from 2006 through 2011, and 2013, the Company was assessed for additional income tax of 1,568,611 thousand dollars by the Tax Bureau. GCSC was assessed for additional income tax of 2,533 thousand dollars for 2008. The Company does not agree with such assessments and is in the process of appealing. The Company has already recognized the estimated amount of assessed additional tax liabilities.

### **30. Earnings Per Share**

Basic earnings per share ("EPS") amounts are calculated by dividing net income for the year attributable to common stock holders of the Company by the weighted average number of shares outstanding during the year.

	<u>For the three-month periods ended June 30</u>		<u>For the six-month periods ended June 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Basic EPS				
Attributable to the Company	<u>\$192,709</u>	<u>\$1,386,178</u>	<u>\$251,649</u>	<u>\$2,419,687</u>
Weighted average number of shares outstanding	<u>3,752,658,474 shares</u>	<u>3,798,812,320 shares</u>	<u>3,775,735,397 shares</u>	<u>3,798,812,320 shares</u>
Basic EPS (NT\$)	<u>\$0.05</u>	<u>\$0.37</u>	<u>\$0.07</u>	<u>\$0.64</u>

### **31. Business Combination**

Acquisition of KGI Fraser Securities Pte. Ltd.

For the purpose of expanding foreign business, the Company's investee, KGI Asia (Holdings) Pte. Ltd., acquired KGI Fraser Securities Pte. Ltd. ("KGI Fraser") 100% voting shares on January 30, 2015. KGI Fraser is a non-listed company located in Singapore specialized in the securities related business.

A. The fair value of KGI Fraser's identifiable assets and liabilities on the acquisition date are as follows:

	<u>Fair value on acquisition date</u>
Assets	
Current assets (include cash and cash equivalent NT \$1,040,544)	\$3,227,104
Non-current assets	38,986
Assets subtotal	<u>3,266,090</u>
Liabilities	
Current liabilities	(1,946,282)
Non-current liabilities	(701,326)
Liabilities subtotal	<u>(2,647,608)</u>
Identifiable net assets	<u>\$618,482</u>

B. Goodwill and acquisition consideration of KGI Fraser:

Goodwill 372,878 thousand dollars of KGI Fraser raised from the acquisition consideration (cash transaction cost of acquisition) 991,360 thousand dollars minus the fair value of identifiable net assets 618,482 thousand dollars.

The amounts of net assets and goodwill recognized on the June, 30, 2015 were based on estimated amounts. The Company has finished the fair value valuation of the net assets and determined the acquisition consideration in the end of 2015. According to IFRS 3, the Company should decrease other current assets and increase goodwill for 2,855 thousand dollars respectively. The comparative information of June 30, 2015 has been restated to reflect the adjustments mentioned above.

C. From the acquisition date to June 30, 2015, KGI Fraser's revenue are 80,665 thousand dollars; net losses before income tax is 97,552 thousand dollars. Should the acquisition occurred on the beginning of this year, the revenue of the Company and subsidiaries' continuing operating units would be 9,736,226 thousand dollars and net income would be 2,450,015 thousand dollars.

### **32. Subsidiaries with significant non-controlling interests**

The non-controlling interests of the Company are 3,303,040 thousand dollars, 3,309,175 thousand dollars, and 3,301,323 thousand dollars as of June 30, 2016, December 31 and June 30, 2015, respectively. Proportions held by non-controlling interests are as follows:

<u>Subsidiary Company</u>	<u>Country</u>	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
KGI Futures	Taiwan	0.39%	0.39%	0.39%
KGI Securities Investment Trust Co. Ltd.	Taiwan	0.01%	0.01%	0.01%
GSFC	Taiwan	78.01%	78.01%	78.01%

Information of subsidiaries that has material non-controlling interests is provided below:

<u>Subsidiary Company</u>	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
GSFC	\$3,293,164	\$3,298,914	\$3,292,139



Financial information of subsidiaries that have material non-controlling interests are provided below:

(1) Summarized information of comprehensive income for GSFC

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Revenue	\$64,625	\$61,132	\$114,021	\$127,828
Net profit from continuing operations	\$20,979	\$21,126	\$45,319	\$61,819
Other comprehensive income	(884)	(193)	(1,845)	(369)
Comprehensive income	\$20,095	\$20,933	\$43,474	\$61,450
Net profit allocated to non-controlling interests	\$16,366	\$16,480	\$35,354	\$48,225
Dividends paid to non-controlling interests	\$39,664	\$78,214	\$39,664	\$78,214

(2) Summarized information of financial position for GSFC

	6/30/16	12/31/15	6/30/15
Current assets	\$7,542,488	\$5,283,962	\$6,042,553
Non-current assets	1,404,853	1,361,282	1,122,170
Current liabilities	4,724,999	2,415,531	2,943,695
Non-current liabilities	900	900	900

(3) Summarized cash flow information for GSFC

	For the six-month periods ended June 30	
	2016	2015
Operating activities	\$(2,046,896)	\$(1,041,169)
Investing activities	(57,955)	86,603
Financing activities	2,299,273	961,529
Net increase (decrease) in cash and cash equivalents	194,422	6,963

The above summarized financial information is based on amounts before offsetting transactions between companies.

**VII. Significant Related-Party Transaction**

1. Operating revenue and cost:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
<u>(1) Brokerage handling fee revenue</u>				
Parent company	\$-	\$-	\$440	\$373
Associates	-	-	1	-
Other related parties	4,621	8,025	9,285	13,590
Total	\$4,621	\$8,025	\$9,726	\$13,963

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
(2) <u>Revenue from underwriting business</u>				
Parent company	\$-	\$-	\$-	\$6,000
Other related parties	7,121	-	7,121	3,327
Total	<u>\$7,121</u>	<u>\$-</u>	<u>\$7,121</u>	<u>\$9,327</u>
(3) <u>Revenue from providing agency service for stock affairs</u>				
Parent company	\$5,765	\$5,572	\$9,118	\$8,997
Other related parties	78	85	149	147
Total	<u>\$5,843</u>	<u>\$5,657</u>	<u>\$9,267</u>	<u>\$9,144</u>
(4) <u>Other operating revenue</u>				
Parent company	\$2,286	\$-	\$4,572	\$-
Associates	220	11,376	403	12,542
Other related parties	4,038	178	4,610	363
Total	<u>\$6,544</u>	<u>\$11,554</u>	<u>\$9,585</u>	<u>\$12,905</u>
(5) <u>Interest expense</u>				
Other related parties	<u>\$2,168</u>	<u>\$4,061</u>	<u>\$4,000</u>	<u>\$4,548</u>

The above transactions process under ordinary trading condition.

2. Due from banks (recognized as cash and cash equivalents, other current assets and non-current assets-guarantee deposits-out)

	6/30/16	12/31/15	6/30/15
Other related parties	<u>\$1,213,872</u>	<u>\$2,090,621</u>	<u>\$1,283,913</u>

3. Financial assets/liabilities measured at fair value through profit or loss-current:

	6/30/16	12/31/15	6/30/15
(1) <u>Open-ended funds and monetary market instruments</u>			
Other related parties	<u>\$18,334</u>	<u>\$26,574</u>	<u>\$36,279</u>
	6/30/16	12/31/15	6/30/15
	Notional	Notional	Notional
	Amount	Amount	Amount
(2) <u>Outstanding derivative financial instruments</u>			
A. IRS			
Other related parties	<u>\$-</u>	<u>\$-</u>	<u>\$300,000</u>
B. FX SWAP			
Other related parties	<u>\$76,312</u>	<u>\$-</u>	<u>\$-</u>
C. CBAS-interest			
Other related parties	<u>\$152,500</u>	<u>\$47,000</u>	<u>\$57,000</u>
D. CBAS -long option			
Other related parties	<u>\$152,500</u>	<u>\$47,000</u>	<u>\$57,000</u>
E. Equity options contracts			
Other related parties	<u>\$-</u>	<u>\$-</u>	<u>\$3,100,000</u>

4. Available-for-sale financial assets- current

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
<u>Stocks</u>			
Parent company	<u>\$2,351,092</u>	<u>\$2,490,281</u>	<u>\$3,540,254</u>

5. Margin loans receivable

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Other related parties	<u>\$10,185</u>	<u>\$15,503</u>	<u>\$11,970</u>

6. Customers' margin accounts

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Other related parties	<u>\$818,787</u>	<u>\$177,650</u>	<u>\$79,478</u>

7. Account receivables

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Parent company	\$4,522	\$1,916	\$2,446
Associates	1,728	1,525	11,944
Other related parties	276	247	172
Total	<u>\$6,526</u>	<u>\$3,688</u>	<u>\$14,562</u>

8. Other receivables (recognized as other current assets)

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Associates	\$4,679	\$5,534	\$1,291
Other related parties	6,277	3,115	1,053
Total	<u>\$10,956</u>	<u>\$8,649</u>	<u>\$2,344</u>

9. Other restricted assets (recognized as other current assets)

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Other related parties	<u>\$1,319,291</u>	<u>\$837,301</u>	<u>\$799,902</u>

10. Short-term borrowings

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Other related parties	<u>\$258,288</u>	<u>\$198,396</u>	<u>\$248,560</u>

11. Deposits for short sales

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Other related parties	<u>\$20,840</u>	<u>\$45,987</u>	<u>\$21,511</u>

12. Short sales proceeds payable

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Other related parties	<u>\$21,984</u>	<u>\$45,825</u>	<u>\$23,306</u>

13. Futures customers' equity

	6/30/16	12/31/15	6/30/15
Other related parties	\$65,025	\$75,969	\$79,478

14. Accounts payable

	6/30/16	12/31/15	6/30/15
Associates	\$2,968	\$-	\$-
Other related parties	45,405	38,457	23,998
Total	\$48,373	\$38,457	\$23,998

15. Current income tax assets and liabilities

Detail of income tax refundable/payable resulting from the consolidated income tax return:

	6/30/16	12/31/15	6/30/15
Due from the parent company	\$126,307	\$122,581	\$122,581
Due to the parent company	\$477,706	\$506,024	\$503,353

16. Bonds transactions with related parties as follows:

(1) Repurchase or resale agreement- Bold sold under repurchase agreement

	6/30/16	
	Face amount	Maturity amount
Other related parties	\$255,093	\$255,164

	12/31/15	
	Face amount	Maturity amount
Other related parties	\$50,000	\$50,008

6/30/15: None

(2) Purchase and sale of bonds

	For the six-month period ended June 30, 2016	
	Purchase of bonds	Sale of bonds
Other related parties	\$1,307,904	\$4,162,223

	For the six-month period ended June 30, 2015	
	Purchase of bonds	Sale of bonds
Other related parties	\$4,597,931	\$5,557,429

17. Other operating expenses

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Associates	\$329	\$395	\$565	\$2,193
Other related parties	1,799	2,420	4,047	3,674
Total	\$2,128	\$2,815	\$4,612	\$5,867

18. Other income and costs

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Associates	\$1,351	\$1,054	\$6,676	\$2,946
Other related parties	15,650	5,323	23,884	12,826
Total	<u>\$17,001</u>	<u>\$6,377</u>	<u>\$30,560</u>	<u>\$15,772</u>

19. Information about key management personnel compensation as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Short-term employee benefit	\$30,162	\$30,799	\$63,154	\$63,540
Post-employment benefits	744	655	1,536	1,349
Share-based payment transaction	612	606	1,248	1,279
Total	<u>\$31,518</u>	<u>\$32,060</u>	<u>\$65,938</u>	<u>\$66,168</u>

20. For the need of securities borrowing margin, the Company requested the bank guarantees from other related parties for the amount as following:

	6/30/16	12/31/15	6/30/15
Other related parties	<u>\$500,000</u>	<u>\$370,000</u>	<u>\$600,000</u>

21. The following assets serve as guarantee for short-term loan to other related parties:

	6/30/16	12/31/15	6/30/15
Property and equipment and investment property	<u>\$276,223</u>	<u>\$277,257</u>	<u>\$278,378</u>

**VIII. Assets Pledged**

The following assets have been pledged to financial institutions to serve as guarantees for loans or financial instruments:

Description of the Assets	6/30/16	12/31/15	6/30/15
Financial assets measured at fair value through profit or loss-current-trading securities-dealing	\$508,802	\$-	\$-
Available-for-sale financial assets- current	2,203,650	2,234,625	2,796,600
Other current assets- restricted	2,022,051	1,586,377	2,569,308
Investments accounted for using the equity method	-	-	1,672,800
Financial assets measured at fair value through profit or loss-non-current	50,046	50,443	50,760
Property and equipment	4,742,227	4,759,486	4,776,745
Investment property	125,564	126,081	126,683
Non-current assets-guarantee deposits-out	539,450	855,483	943,483
Total	<u>\$10,191,790</u>	<u>\$9,612,495</u>	<u>\$12,936,379</u>

## **IX. Commitments and Contingent Liabilities**

1. The Company has appealed for its income tax returns. Please refer to Note VI.29 for detail.
2. One of the executive vice president of the merged entities, Jen-Hsin Securities Co., Ltd., claimed the ownership of stocks of Jen-Hsin Securities Co., Ltd. while certain clients of Jen-Hsin Securities Co., Ltd. also claimed ownership of the same lot of securities. The executive vice president declined to surrender the shares; hence, Jen-Hsin Securities Co., Ltd. petitioned a motion with the Taipei District Court on November 6, 2002 in order to repossess such shares. Because Jen-Hsin Securities Co., Ltd. has been merged into the Company, such case is taken over by the Company as a result. Also, in July, 2004, the certain clients has requested to the Court for the repossession of such shares from the Company, the Company can pay cash of 90,379 thousand dollars and assumed interest in lieu. During the process of litigation, the certain client change his claim to require the Company as first class debtor to pay 90,379 thousand dollars and assumed interest and executive vice president as secondary debtor to pay 2,000 thousand stocks of Jen-Hsin Securities Co., Ltd. and 73,946 thousand dollars and assumed interest because the confirm of original judgment and the Company is unable to retrieve the stocks. On June 26, 2014, Taiwan High Court judged that while certain clients conveyed the ownership of stocks of Jen-Hsin Securities Co., Ltd. to the Company, the Company should pay 90,379 thousand dollars to certain clients, and other appeals were rejected. The Company and certain clients appealed to the Supreme Court. On October 16, 2014, the Supreme Court rejected the fourth trial judgment and returned it to the Taiwan High Court. This case is currently processed by the Taiwan High Court.
3. Securities and Futures Investors Protection Center sued the Company and claimed that due to the fact that the Company was the lead underwriter of Taiwan Kolin Co., Ltd. 2nd convertible bonds, the Company must have but not performed sufficient audits on the contents disclosed in the prospectus of Taiwan Kolin Co., Ltd. 2nd convertible corporate bonds. Against the article 20 and 32 of Securities and Exchange Act and the article 184 and 185 of Civil Code. The plaintiffs sued the Company and Taiwan Kolin Co., Ltd. with jointly liability amounted to 133,308 thousand dollars plus 5% interest. The lawsuit is currently proceeded by the Taipei District Court. However, Taiwan Kolin Co., Ltd. is under the procedure of reorganization, this lawsuit is withdrawn now.
4. The subsidiary, KGI Futures followed the article 56 of Regulations Governing Futures Commission Merchants. In the event that a futures commission merchant experiences bankruptcy, dissolution, suspension of business operations or circumstances under which acts or regulations require suspension of the acceptance of orders from futures traders, the Financial Supervisory Commission may order it to transfer all the accounts related to its futures traders to another futures commission merchant which has entered into a succession contract with it. The subsidiary had signed the succession contracts with Cathay Futures Corporation, Jihsun Futures Corporation, and CTBC Securities Co., Ltd..
5. For the need of securities borrowing margin, the Company requested the bank guarantees for 1,360,000 thousand dollars.
6. The case of loan recovery between Global Treasure Investments Limited and Minda Consultancy Limited:

According to the loan contract signed on May 9, 2000, Global Treasure Investments Limited (GT) lent Minda Consultancy Limited (Minda) HKD 10,000 thousand dollars. However, Minda reneged on the contract and GT appealed to the Court against Minda for returning HKD 9,192 thousand dollars and additional interests. This case is currently in the process of Hong Kong court.

7. The contention about pledged stocks between Digital Imaging Solution Global Ltd., Minda Consultancy Limited, KGI Limited, and Global Treasure Investments Limited:

The plaintiffs, Digital Imaging Solution Global Ltd. (Digital) and Minda Consultancy Limited (“Minda”) claimed that Global Treasure Investments Limited (GT) broke the pledged contract since GT and its fund manager including KGI Limited disposed 2,000 thousand shares of eCyberChina without the agreement of Digital and Minda based on the pledged stock derived from the loan, HKD

10,000 thousand dollars, between Minda and indirectly obtained the pledged stock 35,000 thousand shares of eCyberChina. Digital and Minda appealed to the Court and claimed HKD 119,130 thousand dollars and relevant expenses and interests against GT in November 2007. In February 2008, the plaintiffs also sued KGI Limited but the Hong Kong Court rejected the case on July 21, 2008. The plaintiffs appealed to the Court of Appeal and the Court of Appeal rejected Digital's appeal in December 2008. This case of Minda's part is currently proceeded by Court of Appeal.

#### X. **Significant Disaster Losses**

Not applicable.

#### XI. **Significant Subsequent Events**

Not applicable.

#### XII. **Others**

##### 1. Financial risk management objectives and policies

###### (1) Financial risk management objectives

The Board of Director and senior management attach great importance to risk management, and continuously to raise risk management mechanism and aimed to strengthen the competitiveness of the Company and subsidiaries. To reach the goal of risk management, controlling the expected or unexpected loss in operating is a passive way and in a positive way is to raise Risk Adjusted Return on Capital. In order to use the capital more efficiently, the Company uses risk appetite as a base according to venture capital allocation. While setting risk appetite, the Company takes the amount of circulating capital, finance and operational goal into consideration.

###### (2) Risk management organization

The organization structure of risk management includes the Board of Directors, risk management department, business departments and other related departments in charge, which is built to monitor, plan and execute risk management. The Company's business departments and back offices should comply with risk management regulations and report all anomalies and effects to Risk Management Committee ("RMC") and Investment Review Committee ("IRC") in time. The function and responsibility of risk management organizations are as follows :

The Board of Directors is the principal decision making unit for risk management. It undertakes ultimate responsibility for risk management and monitors the overall execution of the risk management system.

The primary function and responsibility of committees are as follows : RMC carries out decisions made by the Board of Directors; examines the Company and each department's risk budgets, risk-based limits, and related management mechanism; considers risk management policies; and reviews risk reports submitted by each department to determine or adjust strategies accordingly. IRC examines securities underwriting, underwriting counseling cases, and general long-term investment cases. Merchandise Review Committee ("MRC") establishes merchandise evaluation mechanism and reviews financial instruments before the Company makes transactions.

The Company's business departments engage in formulating risk management mechanism, perform daily risk management and submit reports, and conduct internal control procedures in compliance with legal and risk management regulations.

Risk management department ensures risk management policies approved by the Board of Directors are executed; develops various risk management standards and guidelines, and measures and monitors daily risks in compliance with them; produces and submits risk management reports periodically (by day, week, or month) to key management; and constructs or assists in constructing risk management information system.

Legal affair department is responsible for providing legal consultations, drafting contracts, reviewing and preserving major contracts and monitoring litigation cases.

Legal compliance department is responsible for conveying laws, providing legal consultation, negotiating and facilitating communications. It is also responsible for making sure that all operations and management guidelines are up-to-date as related regulations are amended. It also supervises as all units conduct an overview of the feasibility of legal compliance.

Fund dispatching department handles all the requests and needs for funds from all departments and maintains loan commitments with financial institutions to lower capital cost and to manage capital liquidity risk.

Internal audit department inspects periodically how risk management guidelines are implemented in the Company and how business departments are operating and provide suggestions when necessary. It reports deficiencies or anomalies to the Board of Directors and follow up improvements.

Financial department, settlement department, information department, and other related departments should comply with risk management regulations, understand the risks originated from their activities, and take necessary risk management mechanism into account when establishing operation guidelines, and manage their delegated field, evaluation, price affirmation, profit or loss statement preparation, transaction process and confirmation, settlement activity, account affirmation, asset management, information security, and information maintenance.

### (3) Risk management system

The content of the Company's structure of risk management system covers major risks faced by the Company which includes market risk, credit risk, liquidity risk, operating risk and legal risk.

The risk management policies, various risk management standards and operation of merchandise guidelines are established by competent unit. The competent unit makes a draft and asks the related department for the advice, constructs policies according to the parent company's regulations, then submits the proposal to RMC for approval.

### (4) Risk management mechanism

The process of various risk managements include risk identification, risk measurement, risk monitoring and control and risk reports. And the evaluation and the measurement of important risk are as follows:

#### A. Market Risk

The Company restricts the risk level to which it is exposed to an acceptable level through structuring risk management system, enacting market risk management policies, and formulating merchandise operation guidelines. It also restraints risk through allocating venture capital, subject to management strategies and risk appetite, setting various risk-based limits, and conducting risk monitoring on a daily basis.



The Company implemented the MSCI Risk Manager in June, 2013, a market risk management system, as a quantitative management instrument. The system integrates all holding positions and provides in a daily basis various analyzing metrics and comprehensive computation results, including equity risk, interest rate risk, exchange rate risk, etc., as well as adjustment and application of diverse derivatives models. Also, the risk management department controls risk-based limits by business units on a daily basis to enforce venture capital allocation.

To establish reliability of value at risk (VaR) model, risk management department conducts back testing periodically. Additionally, it builds various scenarios for stress testing and scenario analysis, to understand the risk tolerance level of the Company.

#### B. Credit Risk

The risk management department applies for credit risk capital toward Board of Directors annually. Establish proper credit risk expected loss limitation amount relating to the firms, single credit valuation level. Also, set different risk limitation amount including countries, industries, groups, high-risk industries/groups, etc. Routinely examine the Company's credit risk exposure and the use of various credit risk limitation amount.

The Company sets proper credit limits by considering capital risk, the Company's net value, risk measurement and concentration of risk, and by taking into account the credit rating of issuers or counterparties, the traits of transactions, and the characters of instruments, etc. The Company would periodically inspect the credit records of counterparties, holding positions, and collaterals, then report the use of various credit risk limits to key management as well as related departments.

#### C. Liquidity risk

The liquidity risk could be divided into two categories: market liquidity risk and fund liquidity risk. The measurement of market liquidity risk is the trading volume of holding position of the Company and serves as the basis of information disclosure. The fund liquidity risk management has established independent fund transfer unit, considering the timing and net cash flow of need by various departments, to effectively control the fund liquidity risk.

The fund transfer unit routinely examines relative financial ratio to ensure the liquidity of assets and liabilities. Also, according to the anticipation of the future cash need as well as the fund transferring ability of the Company to establish the fund-flow simulation analysis mechanism. The unit would also set proper fund safety inventory and emergency response measure to fulfill the future probable fund need.

#### D. Operating risk and other risks

All units conduct operation risk management respectively by their own business. This management contains authorization related to operation risk, process, operation content, plan following the division of front and back desk operation and principle of segregation of duties. Operation risk controls include information security and maintenance, clearing, trade confirmation, statements preparation, segregation of duties, relating party trade control as well as the internal control, etc.

The operation risk of each unit's business is examined and controlled by relative back desk unit such as clearing unit and the information department. In addition to the compliance of law and

regulation, the internal audit department would implement control by the regulation and procedure of internal control system to ensure the effectiveness of risk management.

#### (5) Risk hedge and mitigation strategy

The Company has set up hedge instruments and hedge operating mechanisms in all operations based on the Company's capital scale and risk tolerance. Such measures include: risk acceptance, risk averse, risk transfer and risk control. Reasonable risk avoidance mechanisms effectively limit the company's risk as approval. The actual execution of hedge, depending on the market dynamics, business strategies, product characteristics and risk management regulations, utilizes approved financial instruments to adjust the risk structure and risk level of the total exposure to an acceptable level.

## 2. Analysis of Credit Risk

### (1) Source of credit risk

The credit risks that the Company and subsidiaries are exposed to during financial transactions include issuer's credit risk and counterparties' credit risk, etc.

A. Issuer's credit risk refers to the risk of financial loss that the Company and subsidiaries face while possessing financial debt instruments or deposits in banks when an issuer (or guarantor) or a bank defaults, files for bankruptcy or liquidates assets and in turn cannot honor the stipulations and fulfill the obligation of paying back (or fulfilling a guarantee).

B. Counterparties' credit risk refers to the risk of financial loss that the Company and subsidiaries face when counterparty in derivative financial instrument transaction does not complete a transaction or fulfill a payment obligation on the appointed date.

### (2) Internal Risk Rating

The Company and subsidiaries classify the credit risk of financial assets into four levels; the definition of each level is listed as follows :

A. Low Risk: a debt issuer who has a stronger capability to fulfill its financial commitment and is mostly able to repay the principal and interest on the appointed dates. This debt issuer /counterparty is capable of creating cash flow and is ranked as low risk to the Company.

B. Medium-low risk: a debt issuer who has a good capability to fulfill its financial commitment related to the debt with a sound financial structure but its ability to repay on time might be affected by poor economic conditions or changes in the environment. A debt issuer/counterparty like this is ranked as medium-low risk to the Company.

C. Medium Risk: a debt issuer who has an acceptable capability to fulfill its financial commitment related to the debt but its ability to repay might be affected by poor business operations, financial or economic conditions. A debt issuer/counterparty like this is ranked as medium risk to the Company.

D. High risk: a debt issuer/counterparty who has a poor capability to fulfill its financial commitment related to the debt and its ability to do so solely depends on its business operation and the stability of the economic environment. A debt issuer/counterparty like this is ranked as high risk to the Company.

The internal credit risk ratings used inside the Company and subsidiaries is not related to external credit ratings. The chart below shows the similarities of the credit quality in the Company's internal rating system and external rating system.

Interior Risk Rating of the Company and subsidiaries	Taiwan Ratings
Low Risk	twAAA ~ twAA
Medium-Low Risk	twAA- ~ twA
Medium Risk	twA- ~ twBBB-
High Risk	twBB+ ~ below twC

6/30/16

Financial assets	Positions that are neither past due nor impaired				Past due but unimpaired	Impaired	Impaired reserve	Total
	Low	Medium-Low	Medium	High				
Cash and cash equivalents	\$12,057,589	\$23,200	\$176,129	\$-	\$-	\$-	\$-	\$12,256,918
Financial assets measured at fair value through profit or loss-current	84,121,340	136,295	3,194,689	-	-	-	-	87,452,324
Available-for-sale financial assets-current	12,281	-	-	-	-	-	-	12,281
Bonds purchased under resale agreements	19,898,413	551,268	-	-	-	-	-	20,449,681
Receivables	64,229,947	10,078,590	593,742	5,714	-	-	-	74,907,993
Customers' margin accounts	38,406,838	-	-	-	-	-	-	38,406,838
Stock borrowing collateral price and stock borrowing margin	4,837,619	1,279,973	-	-	-	-	-	6,117,592
Other financial assets-current	5,647,701	23,800	-	-	-	-	-	5,671,501
Other current assets	32,325,091	-	-	-	-	-	-	32,325,091
Financial assets measured at fair value through profit or loss-non-current	50,046	-	-	-	-	-	-	50,046
Held to maturity financial assets-non-current	-	-	300,000	-	-	-	-	300,000
Other non-current assets	3,154,936	-	90,841	-	-	-	-	3,245,777
<b>Total</b>	<b>\$264,741,801</b>	<b>\$12,093,126</b>	<b>\$4,355,401</b>	<b>\$5,714</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$281,196,042</b>
Percentage	94.15%	4.30%	1.55%	0.00%	-	-	-	100.00%

12/31/15

Financial assets	Positions that are neither past due nor impaired				Past due but unimpaired	Impaired	Impaired reserve	Total
	Low	Medium-Low	Medium	High				
Cash and cash equivalents	\$12,352,511	\$92,000	\$7,066	\$-	\$-	\$-	\$-	\$12,451,577
Financial assets measured at fair value through profit or loss-current	58,964,090	335,963	4,344,217	-	-	-	-	63,644,270
Available-for-sale financial assets-current	58,849	-	-	-	-	-	-	58,849
Bonds purchased under resale agreements	15,144,686	1,300,743	-	-	-	-	-	16,445,429
Receivables	45,570,769	10,540,052	720,553	5,584	-	-	-	56,836,958
Customers' margin accounts	31,684,109	-	-	-	-	-	-	31,684,109
Stock borrowing collateral price and stock borrowing margin	4,706,715	2,302,991	-	-	-	-	-	7,009,706
Other financial assets-current	4,503,104	63,700	-	-	-	-	-	4,566,804
Other current assets	34,706,980	-	-	-	-	-	-	34,706,980
Financial assets measured at fair value through profit or loss-non-current	50,443	-	-	-	-	-	-	50,443
Available-for-sale financial assets-non-current	-	-	30,403	-	-	-	-	30,403

Financial assets	Positions that are neither past due nor impaired				Past due but unimpaired	Impaired	Impaired reserve	Total
	Low	Medium-Low	Medium	High				
Held to maturity financial assets-non-current	-	-	300,000	-	-	-	-	300,000
Other non-current assets	3,549,546	-	200,169	-	-	-	-	3,749,715
Total	\$211,291,802	\$14,635,449	\$5,602,408	\$5,584	\$-	\$-	\$-	\$231,535,243
Percentage	91.26%	6.32%	2.42%	0.00%	-	-	-	100.00%

6/30/15

Financial assets	Positions that are neither past due nor impaired				Past due but unimpaired	Impaired	Impaired reserve	Total
	Low	Medium-Low	Medium	High				
Cash and cash equivalents	\$15,380,777	\$35,400	\$125,058	\$-	\$-	\$-	\$-	\$15,541,235
Financial assets measured at fair value through profit or loss-current	55,450,284	477,111	5,503,765	-	-	-	-	61,431,160
Available-for-sale financial assets-current	58,186	-	-	-	-	-	-	58,186
Bonds purchased under resale agreements	18,465,821	300,222	-	-	-	-	-	18,766,043
Receivables	58,610,583	14,596,875	3,707,925	864,686	-	-	-	77,780,069
Customers' margin accounts	31,146,935	-	-	-	-	-	-	31,146,935
Stock borrowing collateral price and stock borrowing margin	3,288,981	827,812	-	-	-	-	-	4,116,793
Other financial assets-current	2,839,529	44,900	-	-	-	-	-	2,884,429
Other current assets	35,322,533	26,100	-	-	-	-	-	35,348,633
Financial assets measured at fair value through profit or loss-non-current	50,760	-	-	-	-	-	-	50,760
Available-for-sale financial assets-non-current	-	-	31,692	-	-	-	-	31,692
Held to maturity financial assets-non-current	40,000	-	-	-	-	-	-	40,000
Other non-current assets	3,786,782	-	50,000	-	-	-	-	3,836,782
Total	\$224,441,171	\$16,308,420	\$9,418,440	\$864,686	\$-	\$-	\$-	\$251,032,717
Percentage	89.41%	6.50%	3.75%	0.34%	-	-	-	100.00%

Financial assets for the Company and subsidiaries are divided into the following three categories based on their credit quality: positions that are neither past due nor impaired, past due but unimpaired, and impaired. Explanations are as follows :

A. Cash and cash equivalent

Cash and cash equivalents are primarily customers' margin deposited in accounts, designated by futures trading companies, for conducting futures transactions. Related departments of the Company evaluate periodically the future trading companies' financial, operational, and credit risk conditions, and manage credit risk based on the results. The Company finds only a partial of mentioned companies are evaluated as medium risk, which are little in proportion, therefore, the credit risk is effectively under control.

B. Financial assets measured at fair value through profit or loss-current

Medium risk financial assets refer to the unsecured corporate bonds, convertible (exchangeable) corporate bonds and CB asset swap that the Company possesses. Issuers of unsecured corporate bonds are listed/ OTC companies or financial institutions. Issuers of convertible (exchangeable) corporate bonds are listed/OTC companies in Taiwan and partial of them are secured by bank; the other unsecured, most of the issuers' risk is medium. The Company

conducts CB asset swap and issues credit linked note to transfer risk and lower the credit risk exposure of it. The Company also reviews the risk exposure of the position periodically and therefore the credit risk is effectively under control.

### C. Receivables

Receivables are the amount of margin loan receivables and trading securities receivable that the Company and subsidiaries shall collect from clients in credit transactions. If clients' risk ranked as medium (the collateral maintenance ratio from 140% to 130%) or high (the collateral maintenance ratio below 130%) collateral main risk, the Company and subsidiaries will closely monitor market fluctuations and counterparties credit history, and also enforce related control measures to minimize the credit risk it faces.

### D. Available-for-sale financial assets-non-current and Held-to-maturity financial assets- non-current

It refers to the principal and discounted value of coupon rate listed in unsecured subordinated debentures issued by Sunny Bank and Hwatai Bank that the Company's subsidiary, GSFC, holds. This issuer is ranked as medium risk.

### E. Other assets-non-current

The medium risk financial assets under this category include the Company's guarantee deposits-out. The Company evaluates all counterparties based on the amounted materiality. The result shows that only certain counterparties are ranked as medium risk. As for the rest of the counterparties, they have low withdrawal amount and credit risk is diversified and therefore, the risk is low.

## 3. Analysis of Capital liquidation risk

### (1) Cash flow analysis

Statement of cash flow analysis for financial assets

6/30/16

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	\$8,565,556	\$3,691,362	\$-	\$-	\$-	\$12,256,918
Financial assets measured at fair value through profit or loss-current	88,420,745	7,020,398	13,179,582	514,159	230,083	109,364,967
Financial assets measured at cost-current	1,140,897	-	-	-	-	1,140,897
Available-for-sale financial assets-current	7,108,979	-	-	-	-	7,108,979
Bonds purchased under resale agreements	-	20,453,034	-	-	-	20,453,034
Receivables	51,597,346	4,226,165	14,922,287	4,162,195	-	74,907,993
Customers' margin accounts	38,406,838	-	-	-	-	38,406,838
Stock borrowing collateral price and stock borrowing margin	3,292,457	928,920	1,896,215	-	-	6,117,592
Other financial assets-current	-	-	5,671,501	-	-	5,671,501
Income tax assets	-	-	11,117	159	562,161	573,437
Other current assets	31,579,012	436,216	309,863	-	-	32,325,091
Financial assets measured at fair value through profit or loss-non-current	-	51,000	-	-	-	51,000
Financial assets measured at cost-non-current	-	-	-	415	920,172	920,587
Available-for-sale financial assets-non-current	-	-	-	-	171,335	171,335

Statement of cash flow analysis for financial assets

6/30/16

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Held to maturity financial assets-non-current	-	-	-	-	300,000	300,000
Investments accounted for using the equity method	-	-	-	-	2,028,877	2,028,877
Others non-current assets	-	-	-	112,261	3,133,626	3,245,887
<b>Total</b>	<b>\$230,111,830</b>	<b>\$36,807,095</b>	<b>\$35,990,565</b>	<b>\$4,789,189</b>	<b>\$7,346,254</b>	<b>\$315,044,933</b>
Percentage	73.04%	11.68%	11.43%	1.52%	2.33%	100.00%

Statement of cash flow analysis for financial liabilities

6/30/16

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	\$-	\$17,915,870	\$-	\$-	\$-	\$17,915,870
Commercial papers payable-net	-	8,976,833	-	-	-	8,976,833
Financial liabilities measured at fair value through profit or loss-current	6,345,721	4,303,030	7,708,446	1,395,072	230,083	19,982,352
Bonds sold under repurchase agreements	-	85,006,187	-	-	-	85,006,187
Payables	65,154,548	115,322	4,526,009	165,869	-	69,961,748
Securities lending refundable deposits	-	1,699,991	8,144,099	-	-	9,844,090
Futures customers' equity	37,450,325	-	-	-	-	37,450,325
Other current liabilities	722,242	805,610	1,985,707	86	-	3,513,645
Other financial liabilities-current	-	8,087,947	43,323	-	-	8,131,270
Income tax liabilities	-	7,848	99,497	922,136	-	1,029,481
Current portion of long-term borrowings	-	-	969,660	-	-	969,660
Bonds payable	-	-	-	7,000,000	-	7,000,000
Liabilities reserve-non-current	-	-	-	23,248	132,409	155,657
Other non-current liabilities	-	-	1,100	613,159	69,232	683,491
<b>Total</b>	<b>\$109,672,836</b>	<b>\$126,918,638</b>	<b>\$23,477,841</b>	<b>\$10,119,570</b>	<b>\$431,724</b>	<b>\$270,620,609</b>
Percentage	40.53%	46.90%	8.67%	3.74%	0.16%	100.00%

Statement of capital liquidation gap

6/30/16

	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	\$230,111,830	\$36,807,095	\$35,990,565	\$4,789,189	\$7,346,254	\$315,044,933
Cash outflow	109,672,836	126,918,638	23,477,841	10,119,570	431,723	270,620,609
Amount of cash flow gap	\$120,438,994	\$(90,111,543)	\$12,512,724	\$(5,330,381)	\$6,914,531	\$44,424,324

Statement of cash flow analysis for financial assets

12/31/15

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	\$5,839,696	\$6,611,881	\$-	\$-	\$-	\$12,451,577
Financial assets measured at fair value through profit or loss-current	62,155,405	9,365,078	6,510,869	416,553	212,593	78,660,498
Financial assets measured at cost-current	891,740	-	-	-	-	891,740
Available-for-sale financial assets-current	7,361,442	-	-	-	-	7,361,442

Statement of cash flow analysis for financial assets

12/31/15

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Bonds purchased under resale agreements	-	16,432,569	-	-	-	16,432,569
Receivables	33,383,882	3,647,879	16,383,520	3,421,677	-	56,836,958
Customers' margin accounts	31,684,109	-	-	-	-	31,684,109
Stock borrowing collateral price and stock borrowing margin	5,349,578	608,916	1,051,212	-	-	7,009,706
Other financial assets-current	-	-	4,566,804	-	-	4,566,804
Income tax assets	-	-	11,114	6	562,305	573,425
Other current assets	33,972,455	375,795	358,730	-	-	34,706,980
Financial assets measured at fair value through profit or loss-non-current	-	-	51,000	-	-	51,000
Financial assets measured at cost-non-current	-	-	-	415	917,684	918,099
Available-for-sale financial assets-non-current	-	30,403	-	-	251,401	281,804
Held to maturity financial assets-non-current	-	-	-	-	300,000	300,000
Investments accounted for using the equity method	-	-	-	-	2,102,991	2,102,991
Others non-current assets	-	-	-	231,589	3,555,338	3,786,927
<b>Total</b>	<b>\$180,638,307</b>	<b>\$37,072,521</b>	<b>\$28,933,249</b>	<b>\$4,070,240</b>	<b>\$7,902,312</b>	<b>\$258,616,629</b>
Percentage	69.85%	14.33%	11.19%	1.57%	3.06%	100.00%

Statement of cash flow analysis for financial liabilities

12/31/15

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	\$-	\$15,800,326	\$-	\$-	\$-	\$15,800,326
Commercial papers payable-net	-	5,102,353	-	-	-	5,102,353
Financial liabilities measured at fair value through profit or loss-current	3,613,207	3,456,835	5,013,474	1,744,111	211,648	14,039,275
Bonds sold under repurchase agreements	-	58,659,345	-	-	-	58,659,345
Payables	41,587,463	1,560,608	5,265,050	340,386	-	48,753,507
Securities lending refundable deposits	-	1,757,169	4,906,343	-	-	6,663,512
Futures customers' equity	30,716,503	-	-	-	-	30,716,503
Other current liabilities	4,014,203	1,317,802	2,172,534	106	-	7,504,645
Other financial liabilities-current	-	12,079,347	2,609	-	-	12,081,956
Income tax liabilities	-	-	197,482	852,172	-	1,049,654
Current portion of long-term borrowings	-	-	1,006,520	-	-	1,006,520
Bonds payable	-	-	-	7,000,000	-	7,000,000
Liabilities reserve-non-current	-	-	-	23,248	132,326	155,574
Other non-current liabilities	-	-	-	616,578	78,746	695,324
<b>Total</b>	<b>\$79,931,376</b>	<b>\$99,733,785</b>	<b>\$18,564,012</b>	<b>\$10,576,601</b>	<b>\$422,720</b>	<b>\$209,228,494</b>
Percentage	38.20%	47.67%	8.87%	5.06%	0.20%	100.00%

Statement of capital liquidation gap

12/31/15

	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	\$180,638,307	\$37,072,521	\$28,933,249	\$4,070,240	\$7,902,312	\$258,616,629
Cash outflow	79,931,376	99,733,785	18,564,012	10,576,601	422,720	209,228,494
Amount of cash flow gap	\$100,706,931	\$(62,661,264)	\$10,369,237	\$(6,506,361)	\$7,479,592	\$49,388,135

Statement of cash flow analysis for financial assets

6/30/15

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	\$9,627,431	\$5,913,804	\$-	\$-	\$-	\$15,541,235
Financial assets measured at fair value through profit or loss-current	63,722,936	9,319,058	10,438,829	312,110	253,401	84,046,334
Financial assets measured at cost-current	406,890	-	-	-	-	406,890
Available-for-sale financial assets-current	9,073,473	-	-	-	-	9,073,473
Bonds purchased under resale agreements	-	18,713,405	-	-	-	18,713,405
Receivables	47,816,974	6,210,361	20,372,421	3,380,313	-	77,780,069
Customers' margin accounts	31,146,935	-	-	-	-	31,146,935
Stock borrowing collateral price and stock borrowing margin	3,366,206	64,207	686,380	-	-	4,116,793
Other financial assets-current	-	100,000	2,784,429	-	-	2,884,429
Income tax assets	-	-	11,078	4	446,163	457,245
Other current assets	34,213,055	596,024	539,554	-	-	35,348,633
Financial assets measured at fair value through profit or loss-non-current	-	1,000	-	51,000	-	52,000
Financial assets measured at cost-non-current	-	-	-	415	1,077,891	1,078,306
Available-for-sale financial assets-non-current	-	-	31,692	-	102,021	133,713
Held to maturity financial assets-non-current	-	40,000	-	-	-	40,000
Investments accounted for using the equity method	-	-	-	-	2,008,364	2,008,364
Others non-current assets	80,000	-	100,332	438,490	3,255,172	3,873,994
Total	\$199,453,900	\$40,957,859	\$34,964,715	\$4,182,332	\$7,143,012	\$286,701,818
Percentage	69.57%	14.29%	12.19%	1.46%	2.49%	100.00%

Statement of cash flow analysis for financial liabilities

6/30/15

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	\$23,264,418	\$9,568,093	\$-	\$-	\$-	\$32,832,511
Commercial papers payable-net	-	14,340,274	-	-	-	14,340,274
Financial liabilities measured at fair value through profit or loss-current	5,519,902	2,481,902	5,452,453	1,448,918	259,258	15,162,433



Statement of cash flow analysis for financial liabilities

6/30/15

Financial Liabilities	Payment period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Bonds sold under repurchase agreements	-	56,497,229	-	-	-	56,497,229
Payables	50,881,742	130,895	4,977,958	297,039	-	56,287,634
Securities lending refundable deposits	-	1,439,103	6,860,617	-	-	8,299,720
Futures customers' equity	30,261,318	-	-	-	-	30,261,318
Other current liabilities	429,395	3,318,871	1,011,309	108	-	4,759,683
Other financial liabilities-current	-	8,413,857	2,596	-	-	8,416,453
Income tax liabilities	-	10,157	262,405	920,239	20,164	1,212,965
Bonds payable	-	-	-	8,001,400	-	8,001,400
Liabilities reserve-non-current	-	-	-	-	160,181	160,181
Other non-current liabilities	-	-	-	361,028	50,434	411,462
Total	\$110,356,775	\$96,200,381	\$18,567,338	\$11,028,732	\$490,037	\$236,643,263
Percentage	46.63%	40.65%	7.85%	4.66%	0.21%	100.00%

Statement of capital liquidation gap

6/30/15

	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	\$199,453,900	\$40,957,859	\$34,964,715	\$4,182,332	\$7,143,012	\$286,701,818
Cash outflow	\$110,356,775	\$96,200,381	\$18,567,338	\$11,028,732	\$490,037	\$236,643,263
Amount of cash flow gap	\$89,097,125	\$(55,242,522)	\$16,397,377	\$(6,846,400)	\$6,652,975	\$50,058,555

The Company has established statement of capital liquidation gap to estimate the financial assets and liabilities in future cash flows which can affect the Company and subsidiaries when it comes to fund dispatching. The cash flow gap statement on June 30, 2016, December 31 and June 30, 2015, shows that the sums from deducting cash outflow from cash inflow are 44,424,324 thousand dollars, 49,388,135 thousand dollars and 50,058,555 thousand dollars, respectively, all indicating sufficient fund liquidity.

Due to operational characteristics of securities firms, an observation of fund inflow and outflow in different periods of time shows that current receivable items contribute to the most of the financial assets of the Company and subsidiaries, taking up to nearly 73.04% of the entire financial assets. This shows that most of these financial assets can be liquidated immediately and therefore have high liquidity. As for financial liabilities, there is no particular period with a high number of due payments which will put stress on fund dispatching.

Although an analysis of funds gap shows that the cash outflow exceeded cash inflow within 3 months period and 1 to 5 years period, the main differentiating factor is that the financial assets of the Company and subsidiaries have high liquidity, which causes financial assets and liabilities to have different impacts during different cash flow periods. On June 30, 2016, December 31 and June 30, 2015, net cash inflow calculated from net spot financial assets are respectively 120,438,994 thousand dollars, 100,706,931 thousand dollars and 89,097,125 thousand dollars, which are sufficient to cover the net cash outflows of 95,441,924 thousand dollars, 69,167,625 thousand dollars and 62,088,922 thousand dollars from the 3 months and 1-5 years period, an indicator of sufficient fund liquidity.

## (2) Control mechanism of capital liquidity Risk

The independent fund-dispatching department established by the Company takes into consideration the needs of net cash flow and their timings from various departments and predicts future cash flows based on the requests submitted by departments with a need for funds. The department has also established a simulation analysis mechanism for capital flows after considering short-term capital dispatching in Taiwan as well as international or cross-market transactions in order to better predict futures needs of funds and set up contingency measures.

The Company also offers suggestions over a secure amount of reserve fund and reports it to the RMC. The department reviews the standard amount of reserve capital and will take the following action if available capitals (including cash, short-term investment and available financing credit) are below 120% of the safe reserve amount :

- A. Except all due payments and those whose use of capital cannot be restricted due to the nature of their business, all the requests for capitals from all business departments need to be approved by the fund-dispatching department in order to maintain a safe amount of reserve capital.
- B. Fund-dispatching department will propose contingency measures to the RMC, which includes disposal of low yield or unnecessary assets, expanding repurchase agreements with the Central Bank of Taiwan, financing from securities finance corporations or exploring other fund-raising methods that will increase available funds to the Company.

## 4. Market risk analysis

Market risk is the risk of potential loss (or value fluctuations) for securities or financial contracts that the Company and subsidiaries hold due to the fluctuations of the market risk factors. Such factors include interest rates (including credit spread) and risk of equity securities, exchange rates and commodity risk.

The Company utilizes risk factor sensitivity and value at risk to measure and contain market risks. The Company also holds regular stress test to help the management understand the extent to which the Company can handle stress in this dire economic environment.

### (1) Risk factor sensitivity

Using product identification and analysis procedure held by the Company, the corresponding market risk factor can be determined. Individual risk factor's entire exposure can be measured by observing how the value of a financial instrument changes as each risk factor changes. The Company and subsidiaries monitor the following risk factor sensitivities:

- A. Interest rate risk sensitivity: measured by the change of present value of future cash flows of the measured holding with each yield curve or credit spread moved 0.01% horizontally.
- B. Equity securities risk sensitivity: measured by the change of the value of investment portfolio with the price of the underlying assets linked to the equity securities (As the potential loss amount given that the TAIEX and stock of respective companies drop 1%).
- C. Exchange rate risk sensitivity: measured by the change of present values of corresponding holdings of currencies with exchange rate for each currency (As the potential loss amount given that the foreign currencies depreciate 1% against NTD).
- D. Commodity risk sensitivity: measured by the change of the fair value of related commodities with the fair value of other kinds of commodities (As the potential loss amount given that the fair value decrease 1%).

The risk sensitivities in the portfolio held by the Company and subsidiaries are as follows:

Comparisons of risk sensitive factors

Risk sensitivity	6/30/16	12/31/15	6/30/15
Interest rate risk	\$16,924	\$12,186	\$9,709
Equity securities risk	14,845,001	15,566,569	18,004,428
Exchange rate risk	2,305,982	589,868	1,842,044
Commodity risk sensitivity	(16,923)	4,465	-

(2) Risk value

Risk value (“VAR”) is a statistical measurement used to measure the maximum potential loss of a portfolio in a certain future time horizon and confidence level. The Company and subsidiaries estimate a value at risk at 99% of confidence interval at duration of 1 day. This means that among 100 trading days, 1 trading days might see the loss of the positions exceeding the value at risk estimated the day before. The Company and subsidiaries continue to conduct back testing daily to measure the reliability of the estimations made by the risk value model.

The comparison of risk value in the portfolio held by the Company and subsidiaries for trading purpose are as follows:

Risk type	For the six-month period ended June 30, 2016			6/30/16
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	\$383,786	\$249,427	\$569,996	\$397,536
Interest Rate	84,210	39,998	155,840	48,267
Exchange Rate	24,423	3,932	92,958	16,605
Commodity	5,246	58	18,399	3,341
Risk type	For the six-month period ended June 30, 2015			6/30/15
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	\$366,916	\$173,167	\$693,508	\$614,583
Interest Rate	80,907	45,744	131,062	94,557
Exchange Rate	7,582	1,264	16,892	8,889

(3) Stress test

Stress test is one of the risk management tools. It mainly measures the effects on profit/loss of extreme changes in market risk factors in an investment portfolio, helping a company’s board of directors and management understand how potential extreme incidents can affect the market risk sensitivity and the profit/loss of an investment portfolio.

The main methods of stress test are historic and hypothetical scenario analysis. The test results are reported to Risk Management Committee and board of directors periodically.

5. Fair value of financial instruments

(1) Fair value of financial assets and liabilities

Financial instruments	6/30/16	12/31/15	6/30/15
<u>Financial assets</u>			
Financial assets measured at fair value through profit or loss:			

Financial instruments	6/30/16	12/31/15	6/30/15
Financial assets measured at fair value through profit or loss-current			
Financial assets held for trading			
Non-derivative financial instruments			
Lent securities	\$27,810	\$54,860	\$18,045
Open-ended funds and monetary market instruments	5,788,108	6,673,779	6,849,425
Trading securities	98,137,096	69,315,807	73,711,441
Others	250,702	23,092	358,272
Derivative financial instruments			
Long options	124,199	64,283	105,572
Futures trading margins-proprietary funds	837,497	381,988	732,031
Derivative instrument assets	4,061,653	1,857,035	1,891,209
Financial assets measured at fair value through profit or loss-non-current	50,046	50,443	50,760
Available-for-sale financial assets:			
Available-for-sale financial assets-current	7,108,979	7,361,442	9,073,473
Available-for-sale financial assets-non-current	171,335	281,804	133,713
Financial assets measured at cost:			
Financial assets measured at cost-current	1,140,897	891,740	406,890
Financial assets measured at cost-non-current	920,587	918,099	1,078,306
Held to maturity financial assets:			
Held to maturity financial assets-non-current	300,000	300,000	40,000
Loans and receivables:			
Cash and cash equivalents (Cash on hand excluded)	12,053,234	12,448,021	15,537,689
Bonds purchased under resale agreements	20,449,681	16,445,429	18,766,043
Receivables-net	74,907,993	56,836,958	77,780,069
Customers' margin accounts	38,406,838	31,684,109	31,146,935
Stock borrowing collateral price and stock borrowing margin	6,117,592	7,009,706	4,116,793
Other financial assets-current	5,671,501	4,566,804	2,884,429
Other current assets	32,325,091	34,706,980	35,348,633
Other non-current assets			
Operating bond	1,417,399	1,447,740	1,458,079
Settlement/clearance fund	520,474	560,724	562,406
Guarantee deposits-out	1,054,149	1,374,951	1,587,595
Collaterals assumed	34,201	34,201	34,201
Other non-current assets- others	40,841	150,169	-
<u>Financial liabilities</u>			
Financial liabilities measured at fair value through profit or loss:			
Financial liabilities measured at fair value through profit or loss-current			
Financial liabilities held for trading			
Non-derivative financial instruments			
Bonds purchased under resale agreements-short sale	871,974	652,471	1,113,831
Liabilities for securities and bonds borrowed	11,667,410	6,167,626	7,986,119
Derivative financial instruments			
Liabilities for warrants issued	8,717,731	10,351,789	10,342,906
Repurchase warrants	(8,276,983)	(9,957,608)	(9,552,377)
Short options	136,605	56,265	93,585
Derivative instruments liabilities	5,022,327	4,284,302	2,938,427

Financial instruments	6/30/16	12/31/15	6/30/15
Other financial liabilities- current	8,128,314	12,074,908	8,415,529
Financial liabilities are designated initially at fair value through profit or loss	1,680,208	2,166,377	1,826,574
Financial liabilities at amortized cost:			
Short-term borrowings	17,915,870	15,800,326	32,832,511
Commercial papers payable-net	8,976,833	5,102,353	14,340,274
Bonds sold under repurchase agreements	84,799,124	58,601,838	56,142,691
Payables	69,961,748	48,753,507	56,287,634
Securities lending refundable deposits	9,844,090	6,663,512	8,299,720
Futures customers' equity	37,450,325	30,716,503	30,261,318
Current portion of long-term borrowings	969,660	1,006,520	-
Bonds payable	7,000,000	7,000,000	8,001,400
Other financial liabilities-non-current			
Guarantee deposits-in	16,277	16,954	15,653

(2) Valuation techniques and assumptions in estimating fair value

The Company and subsidiaries adopt the following methods and assumptions in estimating the fair value of financial instruments:

- A. Fair value of a short-term financial instrument is measured by its book value on the balance sheet. Short-term financial instruments usually expire soon and therefore it is reasonable to use their book value to estimate their fair value. This method can be applied to cash and cash equivalents, bonds purchased under resale agreements, accounts receivables, customers' margin accounts, Stock borrowing collateral price and stock borrowing margin, other financial assets-current, other assets-current, short-term borrowings, commercial paper payable, bonds sold under repurchase agreements, accounts payables, securities lending refundable deposits, futures customers' equity and current portion of long-term borrowings.
- B. Financial assets measured at cost: Due to the lack of a public quote in an active market, the fact that the interval in the estimated fair value is significant or it is not possible to fairly evaluate the possibilities of all estimated fair values in an interval. Therefore, it is not possible to measure the fair value dependably. And it is reasonable to use the book value to estimate the fair value
- C. Held to maturity financial assets: If an active market has public quote, then the market price will be the fair value; when the market price is not available, the fair value can be estimated based on evaluation methods or counterparty's quote.
- D. For financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets, their market prices should be their fair values when there are standard conditions and open quotes available in an active market; if there is no open quote available from an active market, then the fair value can be determined through self-evaluation, using evaluation methods, model assumption and metrics similar to the ones used by market participants towards the said financial instruments. Discounted cash flow method is used to evaluate financial liability products when there is no quote available from an active market. The discount rate equals the return rate of the financial liability products with identical terms and characteristics in the market, including the debtor's credit record, interest frequency and the contract's remaining duration, etc.
- E. Transactions of derivatives are evaluated using evaluation models while non-option derivatives are evaluated using discounted cash flow method. Options are evaluated using Black-Scholes

Model. The market metrics used in such evaluations come from market price information in the centralized market and independent and trustworthy financial information institutions such as stock exchange, futures exchange, GreTai Securities Market, Reuters and Bloomberg. Prices are based on the market average price calculated from closing price, final settlement price and the market medium price that is collected regularly.

- F. Due to the uncertain duration, fair values of the guaranteed deposits of other non-current assets and liabilities are measured by its book value.
- G. Fair value of bonds payable is measured by the discounted predicted cash flows. The discounted rate is based on the similar terms (similar due date).

### (3) Hierarchy of financial instruments at fair value

#### A. Definitions of fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date. An active market is a market in which the instruments traded bears similar nature, and in which participants willing to enter into a transaction can be found at all times and price information can be accessed.

Level 2: inputs other than quoted prices included within level 1 that are observable, either directly or indirectly, from an active market. For example:

- (a) quoted price for similar financial instruments in active markets, that is, the fair value of the instrument is deduced from the recent trading price of similar financial instruments. Similar financial instruments are identified by their nature and specific terms. The fair value should be adjusted by considering factors include: time lag between latest transaction of similar financial instrument and the present transaction, difference in dealing terms, prices involving related-party transactions, relevancy between observable price for similar financial instrument and price of the financial instrument in question.
- (b) quoted prices for identical or similar financial instruments in inactive markets.
- (c) fair value measured with pricing model, using factors based on information are accessible from an active market.
- (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: inputs that are not based on observable inputs from an active market.

For assets and liabilities measured at fair value on a recurring basis, the Company re-evaluates their classification at every end of the reporting period to determine the amount of any transfer between different levels of the fair value hierarchy.

#### B. Hierarchy of financial instruments measured at fair value

The Company and subsidiaries do not have any financial assets measured at fair value on a non-recurring basis. Assets and liabilities measured at fair value on a recurring basis, presented by fair value hierarchy are as follows:

6/30/16

Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
<u>Non-derivative instruments</u>				
Assets				
Financial assets measured at fair value through profit or loss				
Stocks	\$18,022,817	\$18,022,817	\$-	\$-
Bonds	77,069,115	25,415,579	51,653,536	-
Others	9,161,830	117,507	9,044,323	-
Available-for-sale financial assets				
Stocks	7,268,033	7,218,529	-	49,504
Bonds	12,281	12,281	-	-
Liabilities				
Financial liabilities measured at fair value through profit or loss				
	12,539,384	6,326,573	6,212,811	-
<u>Derivative instruments</u>				
Assets				
Financial assets measured at fair value through profit or loss				
	5,023,349	975,874	4,035,145	12,330
Liabilities				
Financial liabilities measured at fair value through profit or loss				
	7,279,888	620,729	6,590,022	69,137

12/31/15

Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
<u>Non-derivative instruments</u>				
Assets				
Financial assets measured at fair value through profit or loss				
Stocks	\$13,709,714	\$13,709,714	\$-	\$-
Bonds	53,967,357	16,708,020	37,259,337	-
Others	8,440,910	290,177	8,150,733	-
Available-for-sale financial assets				
Stocks	7,553,994	7,553,994	-	-
Bonds	89,252	58,849	30,403	-
Liabilities				
Financial liabilities measured at fair value through profit or loss				
	6,820,097	3,493,208	3,326,889	-
<u>Derivative instruments</u>				
Assets				
Financial assets measured at fair value through profit or loss				
	2,303,306	447,096	1,841,178	15,032
Liabilities				
Financial liabilities measured at fair value through profit or loss				
	6,901,125	456,154	6,409,830	35,141

6/30/15

Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
<u>Non-derivative instruments</u>				
Assets				
Financial assets measured at fair value through profit or loss				
Stocks	\$21,060,841	\$21,060,841	\$-	\$-
Bonds	51,664,232	18,629,333	33,034,899	-
Others	8,262,870	500,900	7,761,970	-
Available-for-sale financial assets				
Stocks	9,117,308	9,117,308	-	-
Bonds	89,878	58,186	31,692	-
Liabilities				
Financial liabilities measured at fair value through profit or loss	9,099,950	5,961,411	3,138,539	-
<u>Derivative instruments</u>				
Assets				
Financial assets measured at fair value through profit or loss	2,728,812	948,223	1,778,593	1,996
Liabilities				
Financial liabilities measured at fair value through profit or loss	5,649,115	894,586	2,475,919	2,278,610

Note 1: The classification of the chart above is consistent with the one of the balanced sheet.

Note 2: While using valuation model to measure the fair value, if the inputs include observable market data and unobservable parameters, the Company and subsidiaries should determine if the inputs will have material effect on the measurement of fair value. If the unobservable inputs have material effect on the measurement, the fair value should be classified as level 3.

(A) Transfers between Level 1 and Level 2 during the period

Financial instruments measured at fair value	1/1/16-6/30/16		1/1/15-6/30/15	
	Transferred from level 1 to level 2	Transferred from level 2 to level 1	Transferred from level 1 to level 2	Transferred from level 2 to level 1
Financial assets measured at fair value through profit or loss				
Bonds	\$51,427	\$-	\$405,030	\$-
Financial liabilities measured at fair value through profit or loss				
Bonds	\$-	\$-	\$-	\$-

The transfers between Level 1 and Level 2 mentioned above are due to the change of benchmark index declared by Taipei Exchange (GreTai Securities Market).

(B) Reconciliation for level 3 fair value measured at recurring basis

The beginning balances and ending balances of financial assets and liabilities measured on a recurring basis at level 3 of fair value hierarchy are reconciled as follows



a. Reconciliation for fair value assets measurements in Level 3 of the fair value hierarchy changes.

For the six-month period ended June 30, 2016

Financial instruments measured at fair value	Beginning balances (A)	Amounts recognized in profit or loss or recognized in OCI (B)		Increase (C)		Decrease (D)		Ending Balances (E)=(A)+(B)+(C)-(D)
		Recognized in profit or loss	Recognized in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial assets measured at fair value through profit or loss-current	\$15,032	\$10,394	\$-	\$29,945	\$-	\$43,041	\$-	\$12,330
Available-for-sale financial assets-non-current	-	-	-	49,504	-	-	-	49,504

For the six-month period ended June 30, 2015

Financial instruments measured at fair value	Beginning balances (A)	Amounts recognized in profit or loss or recognized in OCI (B)		Increase (C)		Decrease (D)		Ending Balances (E)=(A)+(B)+(C)-(D)
		Recognized in profit or loss	Recognized in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial assets measured at fair value through profit or loss-current	\$3,161	\$7,346	\$-	\$30,161	\$-	\$38,672	\$-	\$1,996

b. Reconciliation for fair value liabilities measurements in Level 3 of the fair value hierarchy changes.

For the six-month period ended June 30, 2016

Financial instruments measured at fair value	Beginning balances (A)	Amounts recognized in profit or loss or recognized in OCI (B)		Increase (C)		Decrease (D)		Ending Balances (E)=(A)+(B)+(C)-(D)
		Recognized in profit or loss	Recognized in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial liabilities measured at fair value through profit or loss-current	\$35,141	\$179,547	\$-	\$434,562	\$-	\$580,113	\$-	\$69,137

For the six-month period ended June 30, 2015

Financial instruments measured at fair value	Beginning balances (A)	Amounts recognized in profit or loss or recognized in OCI (B)		Increase (C)		Decrease (D)		Ending Balances (E)=(A)+(B)+(C)-(D)
		Recognized in profit or loss	Recognized in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial liabilities measured at fair value through profit or loss-current	\$2,987,109	\$(210,858)	\$-	\$707,629	\$-	\$1,205,270	\$-	\$2,278,610

- c. The total gain or loss from financial assets and liabilities still held by the Company as of June 30, 2016 and 2015 are as follows:

	For six-month periods ended June 30	
	2016	2015
Total gain or loss		
Recognized in profit or loss	\$(22,663)	\$81,042

- d. There are no significant changes in the Company and subsidiaries' valuation models or in levels of the fair value hierarchy between current and prior periods as of June 30, 2016 and 2015.

(C) Significant unobservable input information of level 3 fair value measured on recurring basis

The following table presents the Company and subsidiaries' primary level 3 financial instruments measured on a recurring basis, the quantitative information of significant unobservable inputs, used to measure fair value, and the sensitivity analysis for variation of those inputs.

6/30/16

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
<u>Financial assets:</u>				
Non-derivatives				
Available-for-sale financial assets	The latest dealing price	-	-	-
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	16.73%-74.60%	Depending on contract terms.
<u>Financial liabilities:</u>				
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	11.28%-42.21%	Depending on contract terms.
Equity derivative instruments — short option	Martingale Pricing Technique	History Volatility	15.30%-32.14%	Depending on contract terms.

12/31/15

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
<u>Financial assets:</u>				
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	16.11%~62.20%	Depending on contract terms.
<u>Financial liabilities:</u>				
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	10.53%~66.72%	Depending on contract terms.
Equity derivative instruments — short option	Martingale Pricing Technique	History Volatility	28.09%~71.56%	Depending on contract terms.

6/30/15

	Valuation technique	Significant unobservable inputs	Qualitative information	Relationship between input and fair value
<u>Financial assets:</u>				
Derivative instruments				
Structured notes— Options	Martingale Pricing Technique	History Volatility	10.11%~39.13%	Depending on contract terms
Equity derivative instruments— long option	Martingale Pricing Technique	History Volatility	39.60%~39.60%	Depending on contract terms
<u>Financial liabilities:</u>				
Derivative instruments				
Structured notes— Options	Martingale Pricing Technique	History Volatility	7.27%~26.6%	Depending on contract terms
Equity derivative instruments— short option	Martingale Pricing Technique	History Volatility	14.79%~28.07%	Depending on contract terms
Financial liabilities designated initially at fair value— Structured notes	Reduced Form Pricing Technique	Credit Spread	37bps~402bps	The wider (narrower) the credit spread is, the lower (higher) fair value the liability has.

The Company adopts equally weighted moving average historical volatility when applying Martingale Pricing Technique. Original contract is taken into account while determining reasonable days to sample: with expiration period less than 6 months, the sampled days will be 20~180 days; with expiration period between 6 months to 12 months, the sampled days will be 20~360 days; with expiration period longer than 12 months, the sampled days will be 20 days unto original expiration days.

Except for credit-linked structured notes whose valuation skills were modified in 2015 Q3, The Company and subsidiaries applied the same valuation technique and significant unobservable inputs as of June 30, 2016 and 2015. According to IFRS 13, the Company and subsidiaries postponed related requirements beginning from January 1, 2015, and do not need to disclose comparative information on qualitative information and relationship between input and fair value for periods before initial application.

The Company and subsidiaries adopt the latest dealing prices to evaluate the available-for-sale financial assets. If the price has the change of (+1%) or (-1%), the other comprehensive income in the current period will increase 495 thousand dollars and decrease 495 thousand dollars respectively.

The Company and subsidiaries adopt in discreet the valuation models and inputs, the fair value measurements should be reasonable. The effect of possible changes of valuation inputs on the current profit or loss is shown below:

6/30/16

	Sensitivity of relationship between input and fair value		Recognized in profit or loss	
	Inputs	Favored /disfavored change	Favored effect	Disfavored effect
<u>Financial assets:</u>				
Derivative instruments				
Structured notes— Option	History Volatility	+ 25% / -25%	\$1,160	\$1,268

6/30/16

	Sensitivity of relationship between input and fair value		Recognized in profit or loss	
	Inputs	Favored /disfavored change	Favored effect	Disfavored effect
<b>Financial liabilities:</b>				
Derivative instruments				
Structured notes— Option	History Volatility	-25% / +25%	\$8	\$32
Equity derivative instruments — short option	History Volatility	-25% / +25%	-	-
Total			<u>\$8</u>	<u>\$32</u>

12/31/15

	Sensitivity of relationship between input and fair value		Recognized in profit or loss	
	Inputs	Favored /disfavored change	Favored effect	Disfavored effect
<b>Financial assets:</b>				
Derivative instruments				
Structured notes— Option	History Volatility	+ 25% / -25%	\$249	\$170
Equity derivative instruments — long option	History Volatility	+ 25% / -25%	-	-
Total			<u>\$249</u>	<u>\$170</u>
<b>Financial liabilities:</b>				
Derivative instruments				
Structured notes— Option	History Volatility	-25% / +25%	\$19	\$44
Equity derivative instruments — short option	History Volatility	-25% / +25%	674	763
Total			<u>\$693</u>	<u>\$807</u>

6/30/15

	Sensitivity of the input to fair value		Recognized in profit or loss	
	Inputs	Favored /disfavored change	Favored effect	Disfavored effect
<b>Financial assets:</b>				
Derivative instruments				
Structured notes— Option	History Volatility	+ 25% / -25%	\$354	\$320
Equity derivative instruments — long option	History Volatility	+ 25% / -25%	44	13
Total			<u>\$398</u>	<u>\$333</u>
<b>Financial liabilities:</b>				
Derivative instruments				
Structured notes— Option	History Volatility	-25% / +25%	\$-	\$-
Equity derivative instruments — short option	History Volatility	-25% / +25%	1,110	1,116
Financial liabilities designated initially at fair value— Structured notes	Credit Spread	50bps / -50bps	12,299	11,695
Total			<u>\$13,409</u>	<u>\$12,811</u>

### Evaluation process for level 3 fair value measurements

When fair value for a derivative instrument is not accessible or does not have any active market, the Company follows its “Asset valuation operation procedures”. The risk management department evaluates whether the fair value is reasonable, and the accounting department recognizes the instrument according to their conclusion.

#### (4) The fair value hierarchy of assets not measured in, but required to disclose fair value

6/30/16

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments accounted for using the equity method	\$2,084,517	\$-	\$-	\$2,084,517
Investment properties	-	-	591,103	591,103

12/31/15

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments accounted for using the equity method	\$2,182,797	\$-	\$-	\$2,182,797
Investment properties	-	-	636,842	636,842

6/30/15

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments accounted for using the equity method	\$2,217,577	\$-	\$-	\$2,217,577
Investment properties	-	-	636,842	636,842

Please refer to Note VI.12 and VI.14 for the fair value hierarchy of investments accounted for using the equity method and investment properties mentioned above.

#### 6. Transfer of financial assets

##### (1) Transferred financial assets that are not derecognized in their entirety

In the Company and subsidiaries’ daily operational transactions, most transferred financial assets that are not derecognized in their entirety are either bonds sold under repurchase agreements to serve as pledge for opposing party, or lent securities based on securities lending agreements. Such transactions are pledged margin loans in their nature, securities are transferred to opponents when transactions occur. Therefore, cash flows from the securities are also transferred, the Company and subsidiaries recognize only the liabilities arising from the responsibilities of repurchasing those bonds at fixed or market price in the future. In the effective period of mentioned transactions, the Company and subsidiaries are not allowed to use, sell, or pledge those transferred financial assets, but still retain their interest rate risk, credit risk, and market risk, so they are not derecognized in their entirety.

Information on financial assets and related financial liabilities that are not derecognized in their entirety:

6/30/16					
Financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Fair value of net position
Financial assets measured at fair value through profit or loss					
Collateralized transactions	\$84,793,162	\$84,799,124	\$84,793,162	\$84,799,124	\$ (5,962)
Securities borrowing transactions	27,810	38,934	27,810	38,934	(11,124)

12/31/15					
Financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Fair value of net position
Financial assets measured at fair value through profit or loss					
Collateralized transactions	\$58,663,263	\$58,601,838	\$58,663,263	\$58,601,838	\$61,425
Securities borrowing transactions	54,860	76,804	54,860	76,804	(21,944)

6/30/15					
Financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Fair value of net position
Financial assets measured at fair value through profit or loss					
Collateralized transactions	\$56,274,495	\$56,142,691	\$56,274,495	\$56,142,691	\$131,804
Securities borrowing transactions	18,045	25,263	18,045	25,263	(7,218)

(2) Transferred financial assets that are derecognized in their entirety

The Company engages in asset swap transactions through trading convertible bonds, acquired through underwriting or dealing, sells them to opponent, and receives consideration. Within contract period, the Company swaps with opponent agreed interest return for interest and interest premium derived from the convertible bond. Also, the Company has the right to repurchase the convertible bond at any time before maturity date. The Company does not retain control on transferred asset because the transaction opponent can sell the financial asset to a third party, and there is no need to impose any restriction on the third party when such transfer occurs. The Company only retains the option to buy the trade object. The maximum exposure to loss is the book value of the asset. The following table analyzes information of transferred financial assets that are derecognized in their entirety and related financial liabilities:

	Type of continuing involvement	Cash outflow of repurchasing transferred (derecognized) financial assets	Carrying amount of continuing involvement in statement of financial position	Fair value of continuing involvement		Maximum exposure to loss
			Financial asset measured at fair value through profit or loss	Asset	Liability	
6/30/16	Long call option	\$10,534,800	\$523,507	\$523,507	\$-	\$523,507
12/31/15	Long call option	\$11,345,800	\$447,128	\$447,128	\$-	\$447,128
6/30/15	Long call option	\$10,477,400	\$546,105	\$546,105	\$-	\$546,105

The following table discloses a maturity analysis of the undiscounted cash outflows of repurchasing transferred (derecognized) financial assets. Information on cash flow is based on circumstances of each financial reporting date.

	Type of continuing involvement	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	Total
6/30/16	Long call option	\$-	\$331,600	\$3,309,000	\$6,894,200	\$-	\$10,534,800
12/31/15	Long call option	\$-	\$835,600	\$3,293,700	\$7,216,500	\$-	\$11,345,800
6/30/15	Long call option	\$-	\$389,700	\$3,043,300	\$7,044,400	\$-	\$10,477,400

For the type of continuing involvement “long call option”, the following table discloses the gain or loss recognized at the date of transfer of the assets, and income and expenses recognized, both in the reporting period and cumulatively, from the Company’s continuing involvement in the derecognized financial assets.

	Type of continuing involvement	Gain or loss recognized at the date of transfer	Income and expenses recognized in the reporting period	Income and expenses recognized cumulatively
6/30/16	Long call option	\$(256,315)	\$(2,260)	\$(258,575)
12/31/15	Long call option	\$(176,259)	\$(257,532)	\$(433,791)
6/30/15	Long call option	\$(127,184)	\$(144,026)	\$(271,210)

## 7. Offsetting financial assets and financial liabilities

The disclosure requirements in IFRS 7 for offsetting financial assets and financial liabilities do not apply to the Company and subsidiaries’ transactions on derivative instrument assets and derivative instrument liabilities. The Company and subsidiaries are allowed to offset the mentioned instruments only in the event of default and insolvency or bankruptcy.

The Company and subsidiaries enter with opponent into collateralized bonds sold under repurchase agreements, in which the Company and subsidiaries provide securities as collaterals. The Company and subsidiaries also enter with opponent into collateralized bonds purchased under resell agreements, in which the Company and subsidiaries receive securities as collaterals (that are not recognized in statement of financial position). Only in the event of default and insolvency or bankruptcy are these transactions allowed to set off, they do not meet the offsetting criterion in international accounting standards. Hence, the related bonds sold under repurchase agreements and bonds purchased under resell agreements are reported separately in the statement of financial position.

The following tables disclose information on offsetting of financial assets and financial liabilities mentioned above:

6/30/16						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreements						
Description	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities set off in the statement of financial position (b)	Net amounts of financial assets presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative	\$4,061,653	\$-	\$4,061,653	\$-	\$87,198	\$3,974,455
Resell agreement	20,449,681	-	20,449,681	20,449,681	-	-
Total	\$24,511,334	\$-	\$24,511,334	\$20,449,681	\$87,198	\$3,974,455

6/30/16						
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreements						
Description	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets set off in the statement of financial position (b)	Net amounts of financial liabilities presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral in pledge	
Derivative	\$5,022,327	\$-	\$5,022,327	\$-	\$722,231	\$4,300,096
Repurchase agreement	84,799,124	-	84,799,124	84,799,124	-	-
Total	\$89,821,451	\$-	\$89,821,451	\$84,799,124	\$722,231	\$4,300,096

12/31/15						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreements						
Description	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities set off in the statement of financial position (b)	Net amounts of financial assets presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative	\$1,857,035	\$-	\$1,857,035	\$-	\$76,126	\$1,780,909
Resell agreement	16,445,429	-	16,445,429	16,445,429	-	-
Total	\$18,302,464	\$-	\$18,302,464	\$16,445,429	\$76,126	\$1,780,909

12/31/15						
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreements						
Description	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets set off in the statement of financial position (b)	Net amounts of financial liabilities presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral in pledge	
Derivative	\$4,284,302	\$-	\$4,284,302	\$-	\$656,140	\$3,628,162
Repurchase agreement	58,601,838	-	58,601,838	58,601,838	-	-
Total	\$62,886,140	\$-	\$62,886,140	\$58,601,838	\$656,140	\$3,628,162



6/30/15						
Financial assets subject to offsetting, enforceable master netting arrangement or similar agreements						
Description	Gross amount of recognized financial assets (a)	Gross amount of recognized financial liabilities set off in the statement of financial position (b)	Net amounts of financial assets presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative	\$1,891,209	\$-	\$1,891,209	\$-	\$96,123	\$1,795,086
Resell agreement	18,766,043	-	18,766,043	18,766,043	-	-
Total	\$20,657,252	\$-	\$20,657,252	\$18,766,043	\$96,123	\$1,795,086

6/30/15						
Financial liabilities subject to offsetting, enforceable master netting arrangement or similar agreements						
Description	Gross amount of recognized financial liabilities (a)	Gross amount of recognized financial assets set off in the statement of financial position (b)	Net amounts of financial liabilities presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral in pledge	
Derivative	\$2,938,427	\$-	\$2,938,427	\$-	\$1,532,888	\$1,405,539
Repurchase agreement	56,142,691	-	56,142,691	56,142,691	-	-
Total	\$59,081,118	\$-	\$59,081,118	\$56,142,691	\$1,532,888	\$1,405,539

## 8. Capital management

The main objective of the Company and subsidiaries in capital management is to maintain a healthy credit rating and capital ratio to support the corporation's operation and maximize shareholders' interests. The Company and subsidiaries will manage and adjust the capital structure based on the economic situation, possibly by adjusting dividends, returning capital or issuing new shares.

## 9. Others

### (1) Information for financial instruments

#### A. The amounts and reasons for reclassifications of financial assets:

According to the amendments to ROC SFAS No. 34 "Financial Instruments: Recognition and Measurement" in October 2008, the Company and subsidiary, GSFC, assessed part of their financial instruments are no longer held for trading purpose in the near term and not met the definition of loans and receivables. The Company and its subsidiary, GSFC, reclassified it to available-for-sale financial assets for 3,831,236 thousand dollars.

#### B. The book value and fair value of financial assets reclassified:

	6/30/16	
	Book value	Fair value
Available-for-sale financial assets-current	\$4,250,255	\$4,250,255

C. Changes in fair value of financial assets reclassified are recognized in profit or loss or other equity: None.

D. Disclosure of financial assets before and after reclassification recognized in profit or loss or other equity:

	<u>Financial assets originally classified as held for trading</u>	
	<u>Amounts recognized in profit or loss before reclassification</u>	<u>Amounts recognized in profit or loss after reclassification (Note)</u>
Before 2016	\$1,702,503	\$532,263
For the six-month period of 2016	(108,615)	-
Total	<u>\$1,593,888</u>	<u>\$532,263</u>

Note: The amounts recognized in profits/losses after reclassification include the impairment losses and realized gains or losses.

E. The effective interest rate for the financial assets reclassified on the reclassification date and the expected recoverable cash flow: Not applicable.

(2) The specific risk for futures dealer business

The futures dealer needs to maintain adequate liquidity in case its clients fail to fulfill the contracts in the futures transactions with the features of low financial leverage nature and unpredictable market fluctuation. If the dealing business fails to maintain the amount of margin, the open contracts may be closed. Thus, the margin may be lost entirely and may require further payment on deficiency.

(3) Restrictions and enforcement of the Company and subsidiaries' various financial ratios under ROC Futures Commission Merchant Laws.

Futures department of the Company

Article #	Calculation Formula	6/30/16		12/31/15		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	<u>Stock holders' equity</u> ( Total liabilities – Futures customers' equity )	<u>1,854,405</u> 627,480	2.96	<u>1,965,939</u> 407,338	4.83	≥ 1	Satisfied
17	<u>Current assets</u> Current liabilities	<u>2,437,056</u> 490,408	4.97	<u>2,320,730</u> 238,942	9.71	≥ 1	"
22	<u>Stockholders' equity</u> Minimum paid-in capital	<u>1,854,405</u> 400,000	463.60%	<u>1,965,939</u> 400,000	491.48%	≥ 60% ≥ 40%	"
22	<u>Net capital amount after adjustment</u> The total amount of customer's margin required by the non-offset position for the futures dealer	<u>1,176,717</u> 339,581	346.52%	<u>1,417,650</u> 215,941	656.50%	≥ 20% ≥ 15%	"

Article #	Calculation Formula	6/30/15		Standard	Execution
		Calculation	Ratio		
17	<u>Stock holders' equity</u> ( Total liabilities – Futures customers' equity )	<u>1,808,942</u> 777,798	2.33	≥ 1	Satisfied

Article #	Calculation Formula	6/30/15		Standard	Execution
		Calculation	Ratio		
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{2,536,285}{353,327}$	7.18	$\geq 1$	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{1,808,942}{400,000}$	452.24%	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Net capital amount after adjustment}}{\text{The total amount of customer's margin required by the non-offset position for the futures dealer}}$	$\frac{1,235,281}{464,277}$	266.07%	$\geq 20\%$ $\geq 15\%$	"

### KGI Futures

Article #	Calculation Formula	6/30/16		12/31/15		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	$\frac{\text{Stock holders' equity}}{\text{(Total liabilities – Futures customers' equity)}}$	$\frac{2,525,962}{350,778}$	7.20	$\frac{2,624,668}{372,168}$	7.05	$\geq 1$	Satisfied
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{23,699,305}{21,765,989}$	1.09	$\frac{20,589,705}{18,589,073}$	1.11	$\geq 1$	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{2,525,962}{760,000}$	332.36%	$\frac{2,624,668}{760,000}$	345.35%	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Net capital amount after adjustment}}{\text{The total amount of customer's margin required by the non-offset position for the futures dealer}}$	$\frac{1,999,956}{4,585,071}$	43.62%	$\frac{2,221,296}{3,662,040}$	60.66%	$\geq 20\%$ $\geq 15\%$	"

Article #	Calculation Formula	6/30/15		Standard	Execution
		Calculation	Ratio		
17	$\frac{\text{Stock holders' equity}}{\text{(Total liabilities – Futures customers' equity)}}$	$\frac{2,348,768}{471,768}$	4.98	$\geq 1$	Satisfied
17	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{17,466,793}{15,707,592}$	1.11	$\geq 1$	"
22	$\frac{\text{Stockholders' equity}}{\text{Minimum paid-in capital}}$	$\frac{2,348,768}{760,000}$	309.05%	$\geq 60\%$ $\geq 40\%$	"
22	$\frac{\text{Net capital amount after adjustment}}{\text{The total amount of customer's margin required by the non-offset position for the futures dealer}}$	$\frac{1,966,151}{3,022,610}$	65.05%	$\geq 20\%$ $\geq 15\%$	"

(4) According to Article 17 of Enforcement Rules of the Trust Enterprise Act, the balance sheet and the statement of income of trust business and trust property catalog of the Company are disclosed as follows:

As approved by the Jin-Guan-Zheng-Quan Letter No.0990066178, the Company engages in new business of wealth management by trust, which is to conduct trust business concerning specific and separate money management. In addition, with the approval of Jin-Guan-Zeng-Quan Letter No. 1000039836, the Company was permitted to engage in trust business concerning specific and separate securities management and separately managed securities trust (securities lending business) specified in the operating range or methods as designated by the clients.

A. Balance sheet of trust business

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Cash in bank	\$1,412,517	\$876,118	\$963,387
Financial assets	20,161,027	22,837,422	17,540,643
Receivables	294,754	99,904	104,333
Total trusted assets	<u>\$21,868,298</u>	<u>\$23,813,444</u>	<u>\$18,608,363</u>
	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Payables	\$56,583	\$30,124	\$47,745
Trust capital	21,581,717	23,578,392	17,477,863
Reserves and retained earnings	229,998	204,928	1,082,755
Total trusted liabilities	<u>\$21,868,298</u>	<u>\$23,813,444</u>	<u>\$18,608,363</u>

B. Income statement of trust business

	<u>For the three-month period ended June 30</u>		<u>For the six-month period ended June 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues	\$177,375	\$6,200	\$1,518,692	\$1,797,200
Expenses	172,581	(308,125)	(2,139,216)	(1,236,967)
Income before tax	349,956	(301,925)	(620,524)	560,233
Income tax	-	-	-	-
Net income	<u>\$349,956</u>	<u>\$(301,925)</u>	<u>\$(620,524)</u>	<u>\$560,233</u>

C. Trust Property catalog

	<u>6/30/16</u>	<u>12/31/15</u>	<u>6/30/15</u>
Cash in bank	\$1,412,517	\$876,118	\$963,387
Stocks	13,381,809	15,470,397	10,482,082
Funds	6,729,065	7,320,525	6,940,828
Structured notes	50,153	46,500	117,733
Total	<u>\$21,573,544</u>	<u>\$23,713,540</u>	<u>\$18,504,030</u>

D. The trust capital consigned to the Company is set up as an independent account and prepared its own financial statements. The consigned assets and gains or losses of consigned assets are not included in the Company's financial statements.

(5) According to Zheng-Gre-Fu Letter NO.1030026386, disclose the information as following:

Offshore Securities Unit of the Company engaged in custody and investment of funds affairs on behalf of customers. Related bank deposits under such affairs on June 30, 2016 and December 31, 2015 are USD 2,678 thousand dollars and USD 1,245 thousand dollars respectively.

(6) Foreign currencies having significant effect on the Company and subsidiaries' financial assets and liabilities are as follows:

Financial instruments	6/30/16			12/31/15		
	Foreign currency (thousand dollars)	Exchange rate	NTD	Foreign currency (thousand dollars)	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary Items</u>						
USD	\$2,777,946	32.28	89,685,545	\$1,986,796	33.07	\$65,631,077
HKD	146,492	4.16	609,521	42,428	4.26	180,852
GBP	5,104	43.46	221,808	455	48.78	22,173
JPY	11,527,306	0.31	3,622,353	3,174,913	0.27	867,667
EUR	25,278	35.88	906,990	4,387	35.89	157,479
CNY	899,820	4.85	4,362,598	142,098	5.03	715,099
AUD	25,319	23.98	607,071	162	24.16	3,908
SGD	23,150	23.93	553,953	-	-	-
THB	211,402	0.92	194,067	98	0.92	90
<u>Non-monetary Items</u>						
USD	1,114,194	32.29	35,972,870	678,354	33.07	22,430,463
HKD	138,759	4.16	577,403	21,956	4.27	93,673
CNY	662,890	4.85	3,213,891	569,182	5.03	2,864,465
AUD	12,948	23.98	310,462	3,468	24.16	83,799
JPY	300,672	0.31	94,471	73,782	0.27	20,268
NZD	3,281	22.90	75,145	2,924	22.69	66,340
<u>Investments accounted for using the equity method</u>						
USD	62,732	32.29	2,025,355	63,490	33.07	2,099,349
<u>Financial liabilities</u>						
<u>Monetary Items</u>						
USD	4,247,789	32.29	137,140,910	3,019,284	33.07	99,771,345
HKD	49,859	4.16	207,412	10,695	4.25	45,470
GBP	3,957	43.46	171,959	316	48.67	15,374
JPY	11,198,177	0.31	3,518,941	3,084,976	0.27	842,970
EUR	22,802	36.00	820,813	4,159	35.88	149,214
CNY	1,255,315	4.85	6,086,140	239,563	5.03	1,205,603
AUD	27,383	23.98	656,553	0	24.16	4
SGD	23,074	23.93	552,139	-	-	-
THB	211,910	0.92	194,533	-	-	-
<u>Non-monetary Items</u>						
USD	317,394	32.29	10,247,391	208,276	33.07	6,886,852
JPY	300,672	0.31	94,471	73,782	0.27	20,268
CNY	38,991	4.85	189,039	468,906	5.03	2,359,815
AUD	10,450	23.98	250,562	3,468	24.16	83,799
NZD	3,281	22.90	75,145	2,924	22.69	66,340

Financial instruments	6/30/15		
	Foreign currency (thousand dollars)	Exchange rate	NTD
<u>Financial assets</u>			
<u>Monetary Items</u>			
USD	\$2,454,996	31.07	\$76,240,835
HKD	173,292	4.01	694,183
GBP	1,033	48.68	50,290
JPY	1,071,018	0.25	270,369
EUR	1,181	34.61	40,878
CNY	577,912	5.01	2,893,607
AUD	262	23.89	6,258
<u>Non-monetary Items</u>			
USD	811,794	31.07	25,222,431
HKD	35,619	4.01	142,757
CNY	855,018	5.01	4,281,075
AUD	1,985	23.86	47,374
JPY	42,367	0.25	10,766
NZD	1,809	21.15	38,254
<u>Investments accounted for using the equity method</u>			
USD	64,447	31.07	2,002,354
<u>Financial liabilities</u>			
<u>Monetary Items</u>			
USD	3,935,675	31.06	122,245,549
HKD	57,332	4.00	229,427
GBP	354	48.48	17,140
JPY	1,044,174	0.25	263,550
EUR	515	34.44	17,737
CNY	1,125,112	5.01	5,633,436
<u>Non-monetary Items</u>			
USD	182,733	31.07	5,677,507
JPY	42,367	0.25	10,766
CNY	338,318	5.01	1,693,958
AUD	1,985	23.87	47,374
NZD	1,809	21.15	38,254

Due to various types of functional currencies, it is inefficient for the Company and subsidiaries to disclose information on exchange differences by foreign currencies having significant effect on the Company and subsidiaries. Exchange differences are 74,142 thousand dollars and 92,151 thousand dollars for the six-month periods ending June 30, 2016 and 2015, respectively.

- (7) In order to enhance the Company's overseas operating capital and strengthen capital structure, the Company's Board of Directors decided to acquire 99% of PT Hasta Dana Sekuritas Indonesia in cash by subsidiary KGI Capital Asia Ltd. on December 28, 2015. The consideration is temporarily set as IDR 81,974,000 thousand dollars, and the actual acquisition price depends on the net adjusted value on the delivery date. This acquisition case has been approved by Taiwanese authority and local authority on February 25, 2016 and April 29, 2016, respectively.