KGI SECURITIES CO. LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 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.

安永聯合會計師事務所
11012 台北市基隆路一段333號9樓
9F, No. 333, Sec. 1, Keelung Road
Taipei City, Taiwan, R.O.C.
Tel: 886 2 2757 8888
Fax: 886 2 2757 6050
www.ey.com/tw

Independent Auditors' Report

To KGI Securities CO. LTD.

Opinion

We have audited the accompanying consolidated balance sheets of KGI Securities Co. Ltd. (the "Company") and its subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits and the reports of other auditors (please refer to the *Other Matter – Making Reference to the Audits of Component Auditors* section of our report), the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2016 and 2015, and their consolidated financial performance and cash flows for the years ended December 31, 2016 and 2015, in conformity with the requirements of 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, International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee, and Standing Interpretation Committee Interpretations as recognized by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. Based on our audits and the reports of other auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of 2016 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Goodwill impairment assessment</u>

The Company and its subsidiaries perform impairment test annually on goodwill generated from business combination. Because of the complex test assessment, management's subjective judgement to related assumptions, and significant goodwill amount as of December 31, 2016 to the consolidated financial statements, we listed it as a key audit matter.

Our audit method includes, but not limited to, obtaining the self-assessment report from management and the impairment report prepared by external expert, and reviewing related assumptions used in calculating future cash flows in those reports. In addition, we use our firm's internal valuation expert to review the methods (such as discounted cash flow method) and the parameters (such as discounted rate) used in the impairment report to assist us to assess the methods and assumptions of goodwill impairment test mentioned above.

安永聯合會計師事務所
11012 台北市基隆路一段333號9樓
9F, No. 333, Sec. 1, Keelung Road
Taipei City, Taiwan, R.O.C.
Tel: 886 2 2757 8888
Fax: 886 2 2757 6050
www.ey.com/tw

Please refer to Note V for significant accounting judgements, estimates and assumptions of goodwill and Note VI.17 for detail presentations and disclosures.

Valuation of derivative instruments

The Company and its subsidiaries invest in different types of financial assets and liabilities. As of December 31, 2016, the carrying amount of derivative assets and liabilities measured at fair value is significant to the consolidated financial statement. Except for those classified as level 1, the fair value of other derivative instruments cannot be retrieved from active market. Management therefore used valuation technique to determine the fair value. Level 2 derivative instruments are valued using parameters that are available or observable from an active market. The inputs of level 3 are not based on observable inputs from an active market. Since different valuation techniques and assumptions may have significant effect on the estimates of fair value, we considered the valuation of derivative instruments as a key audit matter.

Our audit method includes, but not limited to, assessing and testing the design and execution of the internal control regarding to valuation, and reviewing management's verification on fair value and authorization process of valuation models. In addition, we used our firm's internal valuation expert to reevaluate derivative instruments on a sampling basis, and compared the outcomes with the one from management to see if the difference is within acceptable range.

Please refer to Note V for significant accounting judgements, estimates and assumptions of derivatives valuation and Note XII for detail presentations and disclosures.

Other Matter – Making Reference to the Audits of Component Auditors

We did not audit the financial statements of certain consolidated subsidiaries, which statements reflect NT 11,000,124 thousand dollars (4.01% of consolidated total assets) and NT 6,969,865 (2.54% of consolidated total assets) of total assets as of December 31, 2016 and 2015, respectively; and NT 89,444 thousand dollars (3.21% of consolidated income before income tax) and NT 90,559 thousand dollars (3.08% of consolidated income before income tax) of income before income tax for the years ended December 31, 2016 and 2015, respectively; and NT 5,696 thousand dollars loss (0.52% of consolidated other comprehensive income and losses) and NT 1,961 thousand dollars loss (3.34% of consolidated other comprehensive income and losses) of the other comprehensive loss for the years ended December 31, 2016 and 2015, respectively. Those financial statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinions expressed herein are based solely on the audit reports of the other auditors.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the requirements of 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, International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee, and Standing Interpretation Committee Interpretations as recognized by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Company and its subsidiaries, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the financial reporting process of the Company and its subsidiaries.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

安永聯合會計師事務所
11012 台北市基隆路一段333號9樓
9F, No. 333, Sec. 1, Keelung Road
Taipei City, Taiwan, R.O.C.
Tel: 886 2 2757 8888
Fax: 886 2 2757 6050
www.ey.com/tw

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of 2016 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Company as of and for the years ended December 31, 2016 and 2015.

Hsu, Jung-Huang

Huang, Chien-Che

Ernst & Young, Taiwan

March 24, 2017

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

December 31, 2016 and 2015

(Expressed in New Taiwan Thousand Dollars)

ASSETS	12/31/16	12/31/15
CURRENT ASSETS		
Cash and cash equivalents (Notes IV, VI.1 and VII)	$16,450,220	$12,451,577
Financial assets measured at fair value through profit or loss-current (Notes IV, VI.2, VI.21, VII and VIII)	61,107,195	78,370,844
Financial assets measured at cost-current (Notes IV and VI.3)	1,090,749	891,740
Available-for-sale financial assets-current (Notes IV, VI.4, VII and VIII)	9,246,926	7,361,442
Bonds purchased under resale agreements (Notes IV and VI.6)	29,087,308	16,445,429
Margin loans receivable (Notes IV, VI.7 and VII)	28,676,088	36,427,062
Refinancing margin	5,145	6,563
Refinancing deposits receivable	4,269	5,462
Trading securities receivable (Notes VI.8)	6,896,157	2,726,584
Customers' margin accounts (Notes IV, VI.9 and VII)	37,066,541	31,684,109
Futures commission merchant receivable (Notes VI.10)	-	-
Stock borrowing collateral price	189,722	446,427
Stock borrowing margin	2,810,965	6,563,279
Notes receivable	1,939	707
Accounts receivable (Notes IV, VI.11 and VII)	25,263,244	17,670,580
Prepayments	104,409	288,517
Other financial assets-current (Notes IV and VI.1)	2,527,870	4,566,804
Current tax assets (Notes IV and VII)	453,719	573,425
Other current assets (Notes VII and VIII)	30,477,056	34,706,980
Total Current Assets	251,459,522	251,187,531
NON-CURRENT ASSETS		
Financial assets measured at fair value through profit or loss-non-current (Notes IV, VI.2 and VIII)	50,033	50,443
Financial assets measured at cost-non-current (Notes IV and VI.3)	918,314	918,099
Available-for-sale financial assets-non-current (Notes IV and VI.4)	425,559	281,804
Held to maturity financial assets-non-current (Notes IV and VI.5)	300,000	300,000
Investments accounted for using the equity method (Notes IV and VI.12)	2,186,633	2,102,991
Property and equipment (Notes IV, VI.13, VII and VIII)	6,029,167	6,295,222
Investment property (Notes IV, VI.14, VII and VIII)	506,333	285,870
Intangible assets (Notes IV, VI.15 , VI.17 and VI.32)	8,601,811	8,777,348
Deferred tax assets (Notes IV and VI.30)	334,175	401,372
Other non-current assets (Notes VI.16, VII and VIII)	3,582,361	3,862,012
Total Non-current Assets	22,934,386	23,275,161
TOTAL ASSETS	$274,393,908	$274,462,692

(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

December 31, 2016 and 2015

(Expressed in New Taiwan Thousand Dollars)

LIABILITIES AND EQUITY	12/31/16	12/31/15
CURRENT LIABILITIES		
Short-term borrowings (Notes VI.18 and VII)	$12,777,858	$15,800,326
Commercial papers payable (Note VI.19)	10,293,033	5,102,353
Financial liabilities measured at fair value through profit or loss-current (Notes IV, VI.20 and VI.21)	12,175,215	13,721,222
Bonds sold under repurchase agreements (Notes IV, VI.22 and VII)	57,422,129	58,601,838
Deposits for short sales (Notes VI.7 and VII)	2,681,255	3,377,214
Short sales proceeds payable (Notes VI.7 and VII)	10,869,488	13,780,419
Securities lending refundable deposits	11,335,953	6,663,512
Futures customers' equity (Notes IV and VII)	36,084,937	30,716,503
Accounts payable (Notes VI.23 and VII)	39,187,188	31,595,874
Amounts received in advance	732	850
Amounts collected for other parties	1,808,278	4,648,854
Other payable	2,061,867	2,732,766
Other financial liabilities-current (Notes IV and VI.21)	4,423,975	12,074,908
Current tax liabilities (Notes IV and VII)	698,437	1,049,654
Current portion of long-term borrowings (Note VI.24)	-	1,006,520
Other current liabilities	42,948	123,025
Total Current Liabilities	201,863,293	200,995,838
NON-CURRENT LIABILITIES		
Bonds payable (Notes VI.24)	7,000,000	7,000,000
Liabilities reserve-non-current (Note IV and VI.26)	224,908	155,574
Deferred tax liabilities (Note IV and VI.30)	1,031,742	1,024,073
Other non-current liabilities (Note IV and VI.25)	713,394	695,324
Total Non-Current Liabilities	8,970,044	8,874,971
Total Liabilities	210,833,337	209,870,809
EQUITY		
Capital stock abstract (Note VI.27)		
Common stock	34,988,123	37,988,123
Capital reserve (Notes IV and VI.27)	8,644,122	8,639,723
Retained earnings (Note VI.27)		
Legal reserve	3,843,376	3,611,026
Special reserve	8,064,313	7,599,614
Unappropriated earnings (Note VI.27)	2,449,179	2,323,499
Other equity		
Exchange differences resulting from translating the financial statements of a foreign operation	(60,957)	291,607
Unrealized gain or loss on available-for-sale financial assets	2,315,891	829,116
Equity attributable to owners of the parent company	60,244,047	61,282,708
Non-controlling interests (Note VI.27 and VI.33)	3,316,524	3,309,175
Total Equity	63,560,571	64,591,883
TOTAL LIABILITIES AND EQUITY	$274,393,908	$274,462,692

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 Years Ended 2016 and 2015

(Expressed in New Taiwan Thousand Dollars except for Earnings Per Share)

	For the Years Ended	
	2016	2015
REVENUES		
Brokerage handling fee revenue (Notes IV, VI.28 and VII)	$7,072,066	$8,965,924
Revenue from borrowed securities (Notes IV)	404,304	274,393
Revenue from underwriting business (Notes IV, VI.28 and VII)	885,815	508,414
Revenue from wealth management services-net	54,560	32,454
Gains/(losses) on disposal of trading securities-net(Notes IV, VI.28)	1,108,963	1,265,965
Revenue from providing agency service for stock affairs (Notes IV and VII)	154,760	158,251
Interest income (Notes IV and VI.28)	2,753,294	3,388,637
Dividend income (Notes IV)	723,870	666,542
Gains/(losses) on trading securities measured at fair value through profit or loss-net (Note VI.28)	1,309,154	(874,240)
Gains/(losses) on covering of borrowed securities and bonds with resale agreements-net (Notes IV and VI.28)	(354,482)	391,314
Gains/(losses) on borrowed securities and bonds with resale agreements at fair value through profit or loss-net	(43,417)	168,317
Gains/(losses) on warrants issued-net (Notes IV and VI.21)	486,426	732,335
Gains/(losses) on derivative financial product-futures-net (Notes IV and VI.21)	226,126	(28,882)
Gains/(losses) on derivative financial product-GTSM-net (Notes IV and VI.21)	170,311	282,988
Other operating revenue (Notes IV, VI.28 and VII)	1,160,998	731,416
Total Revenues	16,112,748	16,663,828
COSTS AND EXPENSES		
Brokerage handling fee expenses (Notes IV)	977,145	804,041
Dealing handling fee expenses (Notes IV)	71,308	91,680
Refinancing handling fee expenses	693	852
Financial costs (Notes IV, VI.28 and VII)	854,540	990,472
Losses on trading of borrowed securities	187,460	266,752
Futures commission expenses	94,976	64,638
Settlement and clearing service expenditures	250,569	243,760
Other operating costs	110,897	154,332
Employee benefits expenses (Notes IV, VI.25, VI.28 and VII)	6,514,989	7,725,596
Depreciation and amortization (Notes IV and VI.28)	566,937	558,839
Other operating expenses (Notes IV, VI.28 and VII)	4,828,783	4,765,213
Total Costs and Expenses	14,458,297	15,666,175
INCOME (LOSS) FROM OPERATIONS	1,654,451	997,653
NON-OPERATING INCOME OR COSTS		
Share of the profit or loss of associates and joint ventures accounting for using the equity method (Notes IV and VI.12)	311,266	179,345
Other income and costs (Notes IV, VI.14, VI.28 and VII)	819,945	1,761,406
Total Non-operating Income or Costs	1,131,211	1,940,751
INCOME BEFORE INCOME TAX	2,785,662	2,938,404
INCOME TAX EXPENSES (Notes IV and VI.30)	(250,695)	(327,330)
NET INCOME	2,534,967	2,611,074
OTHER COMPREHENSIVE INCOME (Note VI.29)		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	(25,072)	(272,365)
Share of the other comprehensive income of associates and joint ventures accounting for using the equity method	-	(3,031)
Income tax relating to components that will not be reclassified	(9,304)	46,394
Items that may be reclassified subsequently to profit or loss		
Exchange differences resulting from translating the financial statements of a foreign operation	(351,881)	531,952
Unrealized gain or loss on available-for-sale financial assets	1,490,103	(225,046)
Share of the other comprehensive income of associates and joint ventures accounting for using the equity method	(4,479)	(135,718)
Income tax relating to components that will be reclassified	(3,805)	(858)
Current other comprehensive income-net of tax	1,095,562	(58,672)
CURRENT COMPREHENSIVE INCOME (LOSS)	$3,630,529	$2,552,402
NET INCOME ATTRIBUTABLE TO:		
Owners of the parent company	$2,483,546	$2,552,411
Non-controlling interests (Note VI.27 and VI.33)	$51,421	$58,663
CURRENT COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:		
Owners of the parent company	$3,583,390	$2,495,763
Non-controlling interests (Note VI.27 and VI.33)	$47,139	$56,639
EARNINGS PER SHARE (Note VI.31)		
Net income attributable to owners of the parent company	$0.68	$0.67

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 Years Ended 2016 and 2015
(Expressed in New Taiwan Thousand Dollars)

	Equity Attributed to Owners of the Parent Company									
	Capital stock abstract		Retained Earnings			Other Equity				
Items	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	Total	Non-controlling Interests	Total Equity
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 year ended 2015	-	-	-	-	2,552,411	-	-	2,552,411	58,663	2,611,074
Other comprehensive income for the year ended 2015	-	-	-	-	(228,912)	393,724	(221,460)	(56,648)	(2,024)	(58,672)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(78,993)	(78,993)
Shared-based payment transaction	-	4,841	-	-	-	-	-	4,841	-	4,841
Balance, December 31, 2015	$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 year ended 2016	-	-	-	-	2,483,546	-	-	2,483,546	51,421	2,534,967
Other comprehensive income for the year ended 2016	-	-	-	-	(34,367)	(352,564)	1,486,775	1,099,844	(4,282)	1,095,562
Capital reduction	(3,000,000)	-	-	-	-	-	-	(3,000,000)	-	(3,000,000)
Changes in non-controlling interests	-	-	-	-	-	-	-	-	(39,790)	(39,790)
Shared-based payment transaction	-	4,399	-	-	-	-	-	4,399	-	4,399
Balance, December 31, 2016	$34,988,123	$8,644,122	$3,843,376	$8,064,313	$2,449,179	$(60,957)	$2,315,891	$60,244,047	$3,316,524	$63,560,571

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 Years Ended 2016 and 2015

(Expressed in New Taiwan Thousand Dollars)

	For the Years Ended	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income tax expenses	$2,785,662	$2,938,404
Adjustments to reconcile income before income tax expenses to net cash (used in)/provided by operating activities:		
Depreciation	309,698	301,907
Amortization	257,239	256,932
Allowance for bad debts	535,491	205,017
Interest expenses	854,540	990,472
Interest income	(3,320,548)	(3,944,689)
Dividend income	(955,914)	(945,545)
Share-based payment transactions	4,399	4,841
Share of the profit or loss of associates and joint ventures accounting for using the equity method	(311,266)	(179,345)
(Gains)/losses on disposal of property and equipment	3,527	1,160
Gains on reverse of impairment loss on financial assets	-	36,531
Impairment loss on non-financial assets	12,502	-
Changes in operating assets and liabilities:		
Changes in operating assets:		
Financial assets measured at fair value through profit or loss-current	17,489,510	20,590,509
Financial assets measured at cost-current	(424,870)	(682,909)
Available-for-sale financial assets-current	(381,735)	-
Bonds purchased under resale agreements	(12,641,879)	(6,988,228)
Margin loans receivable	7,750,974	9,820,863
Refinancing margin	1,418	(3,897)
Refinancing deposits receivable	1,193	(2,840)
Trading securities receivable	(4,169,573)	(2,712,652)
Customers' margin accounts	(5,382,432)	(6,374,089)
Futures commission merchant receivable	-	-
Stock borrowing collateral price	256,705	(302,929)
Stock borrowing margin	3,752,314	(4,360,002)
Notes receivable	(1,232)	561
Accounts receivable	(8,000,003)	6,735,356
Prepayments	186,004	47,031
Other financial assets-current	2,038,934	2,987,019
Other current assets	4,239,993	(8,265,553)
Financial assets measured at fair value through profit or loss-non-current	410	20,702
Changes in operating liabilities:		
Financial liabilities measured at fair value through profit or loss-current	(1,546,007)	1,958,317
Bonds sold under repurchase agreements	(1,179,709)	(5,396,324)
Deposits for short sales	(695,959)	(234,416)
Short sales proceeds payable	(2,910,931)	1,548,328
Securities lending refundable deposits	4,672,441	(3,442,129)
Futures customers' equity	5,368,434	6,926,423
Accounts payable	7,476,864	(3,270,105)
Amounts received in advance	(118)	(2,559)
Amounts collected for other parties	(2,840,576)	3,153,269
Other payable	(678,673)	(311,846)
Other financial liabilities-current	(7,650,933)	(1,403,719)
Other current liabilities	(80,077)	37,304
Liabilities reserve-non-current	69,334	(42,039)
Other non-current liabilities-others	(7,002)	(675,937)
Cash provided by/(used in) operating activities	4,888,149	9,019,194
Interest received	3,509,140	4,237,720
Dividend received	723,870	666,542
Interest paid	(814,458)	(986,635)
Income tax paid	(420,448)	(1,458,075)
Net cash used in operating activities	7,886,253	11,478,746

(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 Years Ended 2016 and 2015

(Expressed in New Taiwan Thousand Dollars)

	For the Years Ended	
	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of available-for-sale financial assets-non-current	(196,304)	-
Disposal of available-for-sale financial assets-non-current	89,906	4,088
Disposal of held to maturity financial assets-non-current	-	190,000
Purchase of financial assets measured at cost-non-current	(189,742)	(49,500)
Disposal of financial assets measured at cost-non-current	91,142	30,561
Refunding of financial assets measured at cost	40,506	90,058
Liquidation Refunding of financial assets measured at cost	262	-
Purchase of held to maturity financial assets-non-current	-	(300,000)
Refunding of investments accounted for using the equity method	567	3,091
Purchase of property and equipment	(239,038)	(335,887)
Disposal of property and equipment	3,460	1,434
Operation bond	30,684	450,675
Settlement/clearance fund	33,431	(1,988)
Guarantee deposits-out	38,756	80,741
Purchase of intangible assets	(70,396)	(34,710)
Other non-current assets	(20,140)	(249,904)
Acquisition of subsidiaries (deduct cash received)	(149,740)	49,184
Dividends received	411,166	518,884
Net cash provided by investing activities	(125,480)	446,727
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings	(3,046,387)	(10,683,093)
Commercial papers payable	5,190,680	(4,156,621)
Long-term borrowings	-	7,000,000
Increase/(decrease) in long-term borrowings	(1,006,520)	(3,100,000)
Cash dividends	(1,667,454)	(2,458,744)
Cash reduction of capital	(3,000,000)	-
Net cash provided by financing activities	(3,529,681)	(13,398,458)
EFFECTS OF EXCHANGE RATE CHANGES	(232,449)	411,862
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,998,643	(1,061,123)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	12,451,577	13,512,700
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	$16,450,220	$12,451,577

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 Years Ended December 31, 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 December 31, 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 its subsidiaries were authorized for issue in accordance with a resolution of the Board of Directors on March 24, 2017.

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 its 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 its 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 "Provisions, Contingent Liabilities and Contingent Assets" 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 "Financial Instruments" 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 amendments to the Basis for Conclusions of IFRS 13 clarify that when deleting paragraph B5.4.12 of IFRS 9 "Financial Instruments" and paragraph AG79 of IAS 39 "Financial Instruments: Recognition and Measurement" as consequential amendments from IFRS 13 "Fair Value Measurement", the IASB did not intend to change the measurement requirements for short-term receivables and payables.

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 Business Combinations and IAS 40 Investment Property 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 paragraph 83 of IAS 19, 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: clarifying 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 paragraph 4 of IFRS 10, 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. The Company and its subsidiaries concluded that the standards and interpretations listed above have no material impact on the Company and its 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 its subsidiaries' consolidated financial statements are listed below.

Standards or interpretations	Effective date (Note 1)
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

Standards or interpretations	Effective date (Note 1)
Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" — Amendments to IFRS 4	Note 3
Transfers of Investment Property — Amendments to IAS 40	January 1, 2018
Improvements to International Financial Reporting Standards (2014-2016 cycle);	
IFRS 1 "First-time Adoption of International Financial Reporting Standards"	January 1, 2018
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	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.
3. Please refer to Note III 2(9) for the effective date of the amendments.

Except that IFRS 9 and 15 will be effectives from 2018, Financial Supervisory Commission ("FSC") has not released effective dates for other standards until the date of issuance of the Company's financial statements.

The potential effects of the standards or interpretations on the Company and its 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 a 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.

IFRS 2 “Shared-Based Payment” — Amendments to IFRS 2

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount in order to meet the employee’s tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and (3) clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognised in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss.

Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” — Amendments to IFRS 4

The amendments help to resolve issues arising from the different effective dates for IFRS 9 “Financial Instruments” (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (still to be decided, but not before 1 January 2020). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 “Financial Instruments” before the IASB’s new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

Transfers of Investment Property — Amendments to IAS 40 “Investment Property”

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use.

Improvements to International Financial Reporting Standards (2014-2016 cycle):

IFRS 1 “First-time Adoption of International Financial Reporting Standards”

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter.

IFRS 12 “Disclosure of Interests in Other Entities”

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interests that are classified as held for sale or discontinued operations.

IAS 28 “Investments in Associates and Joint Ventures”

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis.

IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The above mentioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Company and its subsidiaries’ consolidated financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Company and its 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 its subsidiaries at this point in time.

IV. **Significant Accounting Policies**

1. **Statement of Compliance**

The consolidated financial statements of the Company and its 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, International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations Committee, and Standing Interpretation Committee Interpretations as recognized by FSC of the ROC.

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**

Preparation principle of consolidated financial statement

The Company controls an investee only if the Company has all of the following elements:

(1) Power over the investee, i.e. the Company has existing right that gives the ability to direct the relevant activities;
(2) Exposure or rights to variable returns from its involvement with the investee; and
(3) The ability to use its power over the investee to affect the amount of the investor's returns.

When the Company holds voting rights or similar rights less than majority, it considers all relevant factors and situations to evaluate whether it has power over the investee, including:

(1) Contractual arrangements with other investors that holds voting rights over the investee;
(2) Rights arising from other contractual arrangements;
(3) Voting rights and potential voting rights.

The Company reassesses its control over an investee when change in one or more of the elements occurs.

Subsidiaries are fully consolidated from the date of acquisition (the date on which the Company obtains control), and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Account balances, transactions, and unrealized gains or losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of subsidiaries is attributed to the owners of the parent company and to non-controlling interests even the later having a deficit balance.

If the Company loses control of a subsidiary, it:

(1) derecognizes the assets (including goodwill) and liabilities of a subsidiary;
(2) derecognizes the carrying amount of any non-controlling interest;
(3) recognizes the fair value of the consideration received;
(4) recognizes the fair value of any investment retained;
(5) recognizes any surplus or deficit in profit or loss; and
(6) reclassifies the parent company's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are as follows:

			Percentage of ownership	
Investor	Name of subsidiaries	Primary business	12/31/16	12/31/15
KGI Securities Co. Ltd	Richpoint Company Limited (Richpoint)	Investments holdings	100.00	100.00
〃	KGI Securities Investment Advisory Co. Ltd.	Security investment consulting	100.00	100.00
〃	KGI Insurance Brokers Co. Ltd.	Life/property insurance brokers	100.00	100.00
〃	KGI Venture Capital Co. Ltd.	Venture Capital	100.00	100.00
〃	KGI Securities Investment Trust Co. Ltd.	Nominee services, discretionary investment services	99.99	99.99
〃	KGI Futures Co. Ltd. (KGI Futures)	Futures investment services	99.61	99.61
〃	Global Securities Finance Corporation (GSFC) (Note)	Securities finance	21.99	21.99
KGI Futures	KGI Information Technology Co. Ltd.	Management consulting; information and software service; data processing service	100.00	100.00
Richpoint	KG Investments Holdings Limited	Investments holdings	100.00	100.00
〃	KGI Investment advisory (Shanghai) Co., Ltd.	Investment consulting	100.00	100.00
KG Investments Holdings Limited	KGI International Holdings Limited	Investments holdings	100.00	100.00
〃	ANEW Holdings Limited	Investments holdings	100.00	100.00
KGI International Holdings Limited	KG Investments Asset Management (International) Limited	Investment services	100.00	100.00
〃	KGI Limited	Investments holdings	100.00	100.00
〃	Supersonic Services Inc.	Investments holdings	100.00	100.00
〃	KGI International Limited	Investments holdings	100.00	100.00
〃	Bauhinia 88 Ltd.	Investments holdings	100.00	100.00
ANEW Holdings Limited	KGI Capital (Hong Kong) Limited	Securities investment services	-	100.00
KGI Limited	KGI Securities (Hong Kong) Limited	Securities investment services	100.00	100.00
〃	KGI Futures (Hong Kong) Limited	Futures brokerage and settlement services	100.00	100.00

Investor	Name of subsidiaries	Primary business	Percentage of ownership 12/31/16	12/31/15
〃	Global Treasure Investments Limited	Investment services	100.00	100.00
〃	KGI Investments Management Limited	Insurance brokerage	100.00	100.00
〃	KGI International Finance Limited	Investment and financing services	100.00	100.00
〃	KGI Hong Kong Limited	Management consulting services	100.00	100.00
〃	KGI Asia Limited	Securities investment services	100.00	100.00
〃	KGI Capital Asia Limited	Securities investment services	100.00	100.00
〃	Grand Cathay Securities (Hong Kong) Limited	Securities investment services	100.00	100.00
〃	KGI Asset Management Limited	Asset management	100.00	100.00
〃	TG Holborn (HK) Limited	Insurance brokerage	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
Supersonic Services Inc.	KGI Korea Limited	Investments holdings	100.00	100.00
KGI International Limited	KGI Asia (Holdings) Pte. Ltd.	Investments holdings	100.00	100.00
〃	KGI Capital (Singapore) Pte. Ltd.	Futures investment services	100.00	100.00
KGI Capital Asia Limited	KGI Alliance Corporation	Investment services	100.00	100.00
〃	KGI International (Hong Kong) Limited	Derivative product services	100.00	100.00
〃	KGI Finance Limited	Investment and financing services	100.00	100.00
〃	PT KGI Sekuritas Indonesia	Securities investment services	99.00	-
Grand Cathay Securities (Hong Kong) Limited	Grand Cathay Capital (Hong Kong) Limited	Investment services	100.00	100.00
KGI Asia (Holdings) Pte. Ltd.	KGI Futures (Singapore) Pte. Ltd.	Futures and exchange services	100.00	100.00
〃	KGI Securities (Singapore) Pte. Ltd.	Securities investment services	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. (formerly called KGI Securities (Singapore) 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 30, 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, KGI Fraser Securities Pte. Ltd. is 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.

C. The investee, KGI Capital Asia Limited, purchased PT Hasta Dana Sekuritas Indonesia which had been approved by the authorities of R.O.C. and Indonesia. The transaction was completed on August 31, 2016, and PT KGI Securities Indonesia changed its name to PT KGI Sekuritas Indonesia which was approved by the Jin-Guan-Zheng-Quan Letter No. 1050005075. Therefore, PT KGI Sekuritas Indonesia is included in the consolidated financial statements of the Company from 2016.

(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. Foreign Currency Transactions and Exchange Differences Resulting from Translating the Financial Statements of a Foreign Operation

(1) The Company's consolidated financial statements are presented in New Taiwan Dollars (NTD), which is also the parent company's functional currency. Each entity under the consolidated financial statements determines its own functional currency.

(2) Transactions in foreign currencies are initially recorded by the subsidiaries at their respective local functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities are retranslated at the rate of the reporting date. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost are translated using the exchange rates at the date of the initial transactions.

(3) The assets and liabilities of foreign operations and OSU are translated into NTD at the exchange rate on the reporting date and their gains and losses are translated at an average rate within the period. The exchange differences arising from the translations are recognized in other comprehensive income. On the disposal of a foreign operation or cessation of OSU business, the total cumulative amount of the exchange differences relating to that foreign operation should be reclassified from equity to profit or loss. Also accounted for as disposals when the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, or when the retained interest after the partial disposal of an interest in a joint arrangement or in an associate containing a foreign operation is a financial asset that includes foreign operation.

(4) On the partial disposal of a subsidiary that includes a foreign operation without loss of control, the proportionate share of the cumulative amount of the exchange differences recognized in the other comprehensive income is re-attributed to the non-controlling interests. In partial disposal of an associate or joint arrangement that includes a foreign operation that does not lose significant influence or joint control, only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income is reclassified to profits or losses.

(5) Any goodwill and any fair value adjustments to the carrying amounts on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and reported in its functional currency。

5. Current and Non-Current Distinction

An asset is classified as current when:
(1) The assets are expected to be realized, or intended to be sold or consumed it in normal operating cycle;
(2) The assets are held primarily for the purpose of trading;
(3) The assets are expected to be realized within twelve months after the reporting period; and
(4) The asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is classified as current when:
(1) The liabilities are expected to be settled in normal operating cycle;
(2) The liabilities are held primarily for the purpose of trading;
(3) The liabilities are due to be settled within twelve months after the reporting period; and
(4) The liabilities do not have an unconditional right to be deferred the settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities are classified as non-current.

6. Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value (including the certificate of deposits within three month periods). Bank overdrafts that are repayable on demand and form an integral part of the Company cash management are also included as a component of cash and cash equivalents.

7. Financial Instruments

Financial assets and liabilities are recognized when the Company and its subsidiaries become a party to the contractual provisions of the instrument.

Financial assets and liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(1) Financial assets

The Company and its subsidiaries account for regular transactions of financial assets on the trade date.

Financial assets of the Company are classified as financial assets measured at fair value through profit or loss, held to maturity financial assets, available-for-sale financial assets as well as loans and receivables. The Company determines the classification of its financial assets at initial recognition.

Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit of loss are comprised of financial assets held for trading and financial assets designed upon initial recognition at fair value through profit or loss. Classified financial assets held for trading if the following requirements shall be met:

A. the financial instruments are held for the purpose of selling or repurchasing them in the short-term;
B. one of the identifiable financial instrument portfolios on initial recognition, and the portfolio has the evidences of trading for short-term profits; or
C. the financial instruments are derivatives (excluding financial promissory contracts or derivative instruments designated as hedged instruments which shall be effective).

For the contracts including one or more embedded derivative instruments, these hybrid contracts can be designated as financial assets designated as at fair value through profit or loss on initial recognition. Or, financial assets and liabilities designated at fair value through profit or loss are those that meet one of the following requirements:

A. the designation can significantly eliminate the inconsistency in measurement or recognition; or
B. for a set of financial assets, liabilities, or both, manage and evaluate its performance based on the fair value, and the portfolio information provided to the management is also based on the fair value.

This kind of financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognized in profit or loss including dividends or interests.

If financial assets do not have quoted prices in active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those not classified as financial assets measured at fair value through profit or loss, held to maturity financial assets, or loans and receivables.

The exchange gain or loss, interest income, and dividend income generated from the book value changed of the monetary available-for-sale financial assets, were recognized as gain and loss in the periods. The subsequently measured by fair value with changes in fair value recognized as adjustments in the equity. The cumulative amount of the exchange differences are recognized as gain and loss when the financial assets are derecognized.

For equity instruments, if financial assets do not have quoted prices in active market and their far value cannot be reliably measured, then they are classified as financial assets measured at cost on balance sheet and carried at cost net of accumulated impairment losses, if any, as at the reporting date.

Held to maturity financial assets

Non-derivative financial assets with fixed or determinable payments are classified as held to maturity when the Company and the subsidiaries have the positive intention and ability to hold it to maturity, other than those that are designated as available-for-sale, classified as financial assets measured at fair value through profit or loss, or loans and receivables.

After initial measurement, held to maturity financial assets are measured at amortized cost using the effective interest rate method and less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group upon initial recognition designates as available for sale, classified as at fair value through profit or loss, or those for which the holder may not recover substantially all of its initial investment.

Loans and receivables are separately presented on the balance sheet as receivables or debt instrument investments for which no active market exists. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or transaction costs. The effective interest method amortization is recognized in profit or loss.

Impairment of financial assets

The Company and its subsidiaries assess at each reporting date whether there is any objective evidence that a financial asset other than the financial assets measured at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events might include:

A significant financial difficulty of the issuer or obligor; or
B. a breach of contract, such as a default or delinquency in interest or principal payments; or
C. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
D. the disappearance of an active market for that financial asset because of financial difficulties.

For held to maturity financial assets and loans and receivables measured at amortized cost, the Company and its subsidiaries first assesse individually whether objective evidence of impairment exists individually significant, or collectively for financial assets that are not individually significant. If the Company and its subsidiaries determine that no objective evidence of impairment exits for an individually assessed financial asset, whether significant or not, it includes the asset in a group with similar credit risk characteristics and collectively assesses them for impairments. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows. Loans and receivables are not expected to be recovered, related balances and allowances should be written off immediately. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized should be adjusted the allowance account.

In the case of equity instruments classified as available-for-sale, where there is evidence of impairment, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that instruments previously recognized in profit or loss-is removed from the other comprehensive income and recognized in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that instruments previously recognized in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the interest rate to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss should be reversed through profit or loss.

<u>Derecognition of financial assets</u>

A financial asset is derecognized when:

A. the rights to receive cash flows from the asset have expired;
B. Transferred assets and substantially all the risks and rewards of the assets have been transferred; or
C. the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

If the transferred asset is a larger part of the financial asset and qualifies for derecognition in its entirety, the Company allocates the previous carrying amount of the financial asset between the part that continues to be recognised and the part that is derecognised based on relative fair values at the date of transfer. The difference between the carrying amount allocated to the part derecognized, the sum of the consideration received and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated based on the part that continues to be recognised and the part that is derecognised based on relative fair values at the date of transfer.

(2) Financial liabilities and equity instrument

Classification of liability and equity instrument

The Company and its subsidiaries classify the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction costs of an equity transaction are accounted for as a deduction from equity.

Financial liabilities

Financial liabilities within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are classified as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

A financial liability is classified as held for trading if:

A. it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
B. on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
C. it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

For the contracts including one or more embedded derivative instruments, these hybrid contracts can be designated as financial liabilities designated as at fair value through profit or loss on initial recognition. Or, financial liabilities designated at fair value through profits or losses are those that meet one of the following requirements:

A. it eliminates or significantly reduces a measurement or recognition inconsistency; or
B. a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

This kind of financial liabilities are measured at fair value with changes in fair value recognized in profit or loss including interests from them.

For the financial liabilities designated as measured at fair value through profit or loss, unless the treatment would create or enlarge an accounting mismatch in profit or loss, the amount of change in the fair value of the mentioned financial liabilities that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income; the remaining amount shall be presented in profit or loss.

If the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

A. Liabilities for warrants issued

Warrants issued are accrued in the account of "Liabilities for warrants issued" and recorded by the fair value method on the gross basis. The repurchase of warrants issued, according to the full disclosure principle, is recorded in the account of "Repurchased warrants", which is served as a contra item to the account of "Liabilities for warrants issued".

B. Liability for purchase of government bonds

It represents liability to purchase government bonds to fulfill the obligation to deliver the bonds to third parties at a future date according to a short sell contract. When the deal was made, the Company received the sales consideration from the buyer and such money received was recorded in the revenue account. In addition, the market value of such bonds was recorded in both the cost of revenue account and the account of "Liability for purchase of government bonds". At the balance sheet date, the account of "Liability for purchase of government bonds" was revalued using the fair value method and the difference between the cost and market value was recognized as the current period gain or loss.

Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost include interest bearing loans and borrowings that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or transaction costs.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

(3) Derivative financial instrument

Derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. It records all of the rights and obligations of such derivative financial instrument in the account of "Derivative financial instrument assets/liabilities". Any realized or unrealized gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

(4) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(5) Fair value of financial instruments

For financial assets and liabilities traded in an active market with standard terms and conditions, their fair value is determined based on market quotation price at the reporting date.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using the latest transactions in the fair market; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

8. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or to transfer the liability takes place either:
(i) In the principal market for the asset or liability, or
(ii) In the absence of a principal market, in the most advantageous market for the asset or liability
The principal or the most advantageous market must be accessible to by the Company and its subsidiaries.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company and its subsidiaries use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

9. Collateralized Securities Transactions

(1) Collateralized securities transactions are recorded at cost. Under the financing method, securities purchased under agreements to resell and securities sold under agreements to repurchase are recorded at the amount of cash paid or received at the time of the transaction under “Bonds purchase under resold agreements” or “Bonds sold under repurchase agreements” accounts. The difference between the recorded cost and the amount, at which the securities will be resold or reacquired, as specified in the respective agreements, is accrued as interest expense or income.

(2) When bonds purchased under resale agreements are short sold to third party for financing purpose, they are recorded in the account of “Bonds purchase under resold agreements”, which is grouped under current liabilities in the balance sheet. At the balance sheet date, such items are recorded by the fair value method on the gross basis. When such items are covered, the resulting gains or losses are recorded in the account of “Gains/losses on covering of borrowed securities and bonds with resale agreements”.

10. Customers’ Margin Accounts and Futures Customers’ Equity

Customers’ margin accounts

Receiving margin deposits from customers for futures transactions as requirements is in accordance with the regulations. Customers’ margin account balances are calculated daily by marking to market the open positions of each customer and determining the required margin levels, recognized as current assets in the balance sheet.

Futures customers’ equity

Margin deposits received from customers for futures transactions and futures customers’ equity calculated daily by marking to market, recognized as current liabilities in the balance sheet. Futures customers’ equity cannot be offset unless these accounts pertain to the same customers. The debit balance of “futures customers’ equity”, which results from losses on futures transactions in excess of the margin deposits, is recorded as “futures commission merchant receivable.”

11. Securities Borrowing Transactions

When the Company enters into securities borrowing transactions, the amount of sales of borrowed securities are recorded in the account of “Liabilities for stocks and bonds borrowed”, which are adjusted to market value at the balance sheet date. “Market value” refers to the closing price at the balance sheet date. When the borrowed securities are returned, the resulting difference between actual cost of securities returned and the amount of “Liabilities for stocks and bonds borrowed” is recorded as “Gains/losses on covering of borrowed securities and bonds with resale agreements”.

12. Futures Transaction

These represent margins paid for the trading in futures and options by cash or securities are recognized as futures trading margins-proprietary funds/securities through evaluating day by day; options premium paid to the Taiwan Future Exchange upon purchase of options for trading is recognized as “purchase of options-futures”; options premium received upon sale of options is recognized as “liability on sale of options-futures”.

Realized gains or losses are recognized when the futures and options contracts are fulfilled. The difference between the average cost and market value is evaluated on the balance sheet date, and the unrealized gains and losses are recognized as “gains (losses) on derivative financial product- futures”.

Margins paid for the futures over the original ones are recognized as “cash and cash equivalent”.

13. <u>Investments in Associates or Joint Venture</u>

The Company and its subsidiaries’ investment in its associate is accounted for using the equity method other than those that meet the criteria to be classified as held for sale. An associate is an entity over which the Company and its subsidiaries have significant influence. A joint venture is a joint arrangement whereby the Company and its subsidiaries have rights to the net assets of the arrangement.

Under the equity method, the investment in an associate or a joint venture is carried in the balance sheet at cost and adjusted thereafter for the post-acquisition change in the Company’s share of net assets of the associate or the joint venture. After the interest in the associate or the joint venture is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company and its subsidiaries have incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture. Unrealized gains and losses resulting from transactions between the Company and its subsidiaries and the associate or the joint venture are eliminated to the extent of the related interest of the Company and its subsidiaries in the associate or the joint venture.

The Company and its subsidiaries recognize the change of owner’s equity based on the holding percentage if the change of associates or joint ventures’ equity is not resulted from profit or loss and other comprehensive income and the change does not affect the holding percentage of the Company and its subsidiaries. Therefore, the capital reserve resulted from disposing the associates or joint ventures is recognized as profit or loss based on the holding percentage.

If the Company and its subsidiaries do not subscribe the new issuance of capital based on holding percentage, the Company and its subsidiaries adjust the accounts of “capital reserve” and “investments accounted for using the equity method”. When the holding percentage decreases, reclassifies other comprehensive income/loss recognized previously to income/loss or other appropriate accounts based on the decreasing percentage. The capital reserve resulted from disposing the associates or joint ventures is recognized as profit or loss based on the holding percentage.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

The Company and its subsidiaries determine at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. The Company and its subsidiaries calculate the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the share of profit or loss of an associate or joint venture in the statement of comprehensive income.

Upon loss of significant influence over an associate or a joint venture, the Company and its subsidiaries measure and recognize any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Also, when the investment of the Company and its subsidiaries in an associate switch to investment in a joint venture, the Company and its subsidiaries continue applying the equity method and do not revalue its retained earnings, and vice versa.

14. Property and Equipment

(1) Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. When (a) significant parts of property and equipment that are replaced is derecognized and (b) the new parts' cost increase the carrying amount of the assets, the expense can be capitalized. All other repair and maintenance costs are expensed as incurred. Disposal gain or loss is recognized as current period's other income and costs.

(2) Depreciation is calculated on a straight-line basis over the estimated economic lives (not including land). The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. If the expected values differ from the initial estimation, the change regards as changes in accounting estimation. The asset life for building is 50 to 55 years, and others are 3 to 10 years.

15. Investment Property

Investment properties are measured initially at cost, including transaction costs, and not holding as operating rental or idle properties for rent income or capital increasing purpose. Assets are transferred to or from investment properties when there is a change in use, including transaction costs.

The asset lives for building is 50-55 years, calculated on a straight-line basis over the estimated economic lives. Current depreciation is expensed.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

16. Leases

The Company and its subsidiaries as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

The Company and its subsidiaries as a lessor

Leases in which the Company and its subsidiaries do not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

17. Intangible Assets

Intangible assets include goodwill, customer's relation, computer software costs and other intangible assets. Intangible assets are initially recognized at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and impairment losses, if any.

Except for goodwill, the depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Depreciable amount is the cost of an asset less its accumulated depreciation.

Gain or loss arising from derecognization of intangible assets is recognized as current period's gains or losses.

18. Impairment of Non-Financial Assets

The Company and its subsidiaries assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company and its subsidiaries should test the assets individually or the cash-generating unit ("CGU"). When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An asset's recoverable amount is the higher of its fair value or its value in use.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company and its subsidiaries estimate the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation.

A CGU, which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill, then to the other assets of CGU pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

19. Provisions

Provisions are recognized when the Company and its subsidiaries have a present obligation (legal or constructive) as a result of a past event. It is probably that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial cost.

Provisions shall be reviewed periodically, and adjusted to reflect the most appropriate estimation currently. If the obligation of repayment is probably, the provisions shall be reversed.

Provision for decommissioning, restoration and rehabilitation costs

The provision for decommissioning, restoration and rehabilitation costs arose on construction of a properties and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized as a financial cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

20. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and its subsidiaries and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met when revenue is recognized:

(1) Brokerage handling fee revenue/expenses are recognized on the transaction date.
(2) Gains/ (losses) on disposal of trading securities and related transaction costs are recognized on the transaction date.
(3) Interest income/expense on margin loans and short sales of securities and bonds purchased under resale agreements, bonds sold under repurchase agreements are recognized respectively over the loan period on an accrual basis.
(4) Consulting and financial advisory, revenue from underwriting business and related service charges are recognized according to the contracts or agreements on accrual basis.
(5) Royalty revenues are recognized according to the substantial contracts based on accrual basis. If the royalty revenues are recorded on time basis, the revenues shall be recognized within the agreement period under straight-line method. However, if the royalty revenues are recorded on other bases, it should according to relevant agreements.
(6) Revenue from providing agency service for stock affairs is recognized according to the contracts based on the accrual basis.
(7) Futures commission revenue is recognized on the transaction date and the Company assists in futures transactions and fees collection. Recognized according to the trading period based on the accrual basis.
(8) Gain (losses) on futures contracts: The margin of futures transactions is recognized as cost. Gain (losses) on future contracts resulted from fair value measurement, reversing trade, or delivery is recognized daily. Costs and expenses are recognized as incurred.
(9) Options transaction income (loss): The premium of options transaction is recognized as cost. The options are evaluated monthly based on the market value. Options transaction gains or losses arising from settlement are recognized in current period.
(10) Dividends income is recognized when the Company right to receive the payment is established.
(11) Rental income：Rental income arising from operating leases is accounted for on a straight line basis over the lease terms.

21. Post-Employment Benefits

All regular employees of the Company and its domestic subsidiaries are entitled to a pension plan that is managed by an independently administered pension fund committee. Fund assets are deposited under the committee’s name in the specific bank account and hence, not associated with the Company and its domestic subsidiaries. Therefore fund assets are not included in the Company consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

For the defined contribution plan, the Company and its domestic subsidiaries will make a monthly contribution of no less than 6% of the monthly wages of the employees subject to the plan. The Company recognizes expenses for the defined contribution plan in the period in which the contribution becomes due. Overseas subsidiaries make contribution to the plan based on the requirements of local regulations.

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions. The remeasurements of net defined benefit liability (asset) comprise returns on plan assets, changes in the effect of the asset ceiling, less net interest on net defined benefit liability (asset) and actuarial gains and losses. It is recognized under other comprehensive income and also immediately in retained earnings. Past service cost is the change in the present value of defined benefit obligation arising as a result of plan amendment or curtailment. Past service cost is recognized at the earlier of the following dates:

(1) the date when a plan amendment or curtailment occurs; and
(2) the date when an entity recognizes restructuring-related costs or termination benefits.

Net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate, both determined at the start of annual reporting period, taking into account the changes arising as a result of contributions or payments.

22. <u>Shared-Based Payment Transaction</u>

This plan is measured at the fair value of the stocks on the given date. This stock-based equity settlement plan recognized the wage expenses and the increase of equity during the vested period on the straight-line basis of the fair value mentioned above and the best estimate number of expected vested equity. The recognized wage expenses is adjusted with the expected service criteria accordance and the prize quantity of non-fair value vested criteria; the final recognized amount is based on the vested quantity on the vesting date.

23. <u>Income Taxes</u>

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current income tax and deferred tax assets or liabilities.

<u>Current income tax</u>

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

On the date of an earnings distribution approved by the shareholders' meeting of the Company and domestic subsidiaries, an income tax of 10% on undistributed earnings should then be recognized.

Pursuant to Alternative Minimum Tax Act ("AMT Act"), the higher of the amount of income tax payable determined pursuant to the Income Tax Act or the minimum amount prescribed under the AMT Act is provided by the Company and domestic subsidiaries as income tax payable.

Since 2014, the Company and since 2003, GCSC adopted the linked tax system to file the income tax returns. The calculation of income tax still follows the principle stated above. The tax receipts and tax payments arising from the consolidated income tax returns are used to adjust current period's deferred income tax assets (liabilities), income tax liability (asset) or income tax expense (income).

Deferred tax

Deferred income tax is temporary difference between the tax bases of assets and liabilities and their carrying amounts in financial statement at the reporting date.

If the temporary difference arises from the goodwill or other assets and liabilities on initial recognition (not including business combination), and the transaction do not affect the taxation income and accounting profit, it is not recognized as deferred tax assets and liabilities.

The taxable temporary difference arising from subsidiaries, associates, and the joint ventures shall be recognized as deferred tax liabilities, except the Company can control and probably will not reverse the taxable temporary difference in foreseeable future. Deferred tax assets arising from the deductible temporary difference of these kinds of investment and equity, and will reverse in foreseeable future, shall be recognized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

24. Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred, the identifiable assets acquired and liabilities assumed are measured at acquisition date fair value. For each business combination, the acquirer measures any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs are expensed when they are incurred.

If the business combination is achieved in stages, the acquirer’s previously held equity interest is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured as the amount of the excess of the aggregate of the consideration transferred and the non-controlling interest over the net fair value of the identifiable assets acquired and the liabilities assumed. If this aggregate is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss.

Besides, Accounting Research and Development Foundation released the frequently asked question for IFRS 3 on January 8, 2013, and explained no specific rules for joint control of business combination in IFRS 3. Therefore, the rules for joint control of business combination still applied to interpretations released by Accounting Research and Development Foundations, R.O.C.

The business combination between Company and its affiliates is classified as a reorganization in accordance with EITF 100-390 of the Accounting Research and Development Foundation, R.O.C., and is recognized based on the carrying amount of the Company's investments accounted for using the equity method (the amount after impairment loss); the long-term investments should be reclassified as assets and liabilities when its affiliates are eliminated. Further, according to Accounting Research and Development Foundation Interpretations 95-141 and 101-301, the prior years' consolidated financial statements were restated. Additionally, the prior interest in the dissolved company held by parent company was presented as "prior interest under joint control" in the consolidated financial statements.

V. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumption and estimate could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources for estimating uncertainty at the reporting date that would have a significant risk for a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are detailed below.

1. The Fair Value of Financial Instruments

Where the fair value of financial assets and liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including income approach (for example: the discounted cash flows model) or Black-Scholes Model. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Please refer to Note XII.5.

2. Goodwill

The Company and its subsidiaries evaluate whether the goodwill impairs annually. Adopting appropriate discount rate to estimate the CGU's recoverable value of goodwill, and execute the impaired evaluation tests for goodwill. As of December 31, 2016, the goodwill's book value is 7,000,554 thousand dollars, and the evaluated recoverable amount is higher than the CGU's book value. Hence, impairment for goodwill is not necessary.

3. Post-Employment Benefits

The cost of post-employment benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the change of discount rate and expected future salaries. The assumption used for measuring pension cost and the present value of the pension obligation are disclosed in Note VI.25.

4. Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company and its subsidiaries establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

VI. Contents of Significant Accounts

1. Cash and Cash Equivalents

	12/31/16	12/31/15
Cash on hand	$3,436	$3,556
Cash in banks	14,167,670	5,973,309
Cash equivalents		
Short-term commercial papers and bonds	1,381,465	5,236,984
Excess Margin	897,649	1,237,728
Total	$16,450,220	$12,451,577

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

	12/31/16	12/31/15
Interest rates	0.36%-0.52%	0.35%-0.41%

(2) As of December 31, 2016 and 2015, the certificate of deposits over three months from the original due date are classified as other financial assets-current, and the amounts are 2,527,870 thousand dollars and 4,566,804 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

	12/31/16	12/31/15
Current		
Financial assets held for trading		
Lent securities	$46,749	$54,860
Open-ended funds and monetary market instruments	2,522,042	6,673,779
Trading securities-dealing-net	49,612,823	63,945,974
Trading securities-underwriting-net	1,668,809	1,540,743
Trading securities-hedging-net	4,471,325	3,829,090
Long options	103,039	64,283
Futures trading margins-proprietary funds	519,165	381,988
Derivative financial product assets	2,163,243	1,857,035
Others	-	23,092
Total	$61,107,195	$78,370,844
Non-current		
Financial assets held for trading	$50,033	$50,443

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

(1) Lent securities

	12/31/16	12/31/15
Listed/OTC company stock	$48,723	$62,728
Valuation adjustments	(1,974)	(7,868)
Market value	$46,749	$54,860

(2) Open-ended funds and monetary market instruments

	12/31/16	12/31/15
Funds	$32,000	$247,299
Others	2,490,433	6,424,867
Subtotal	2,522,433	6,672,166
Valuation adjustments	(391)	1,613
Market value	$2,522,042	$6,673,779

(3) Trading securities-dealing-net

	12/31/16	12/31/15
Listed/OTC/ESM company stock	$4,827,020	$6,192,569
Listed/OTC company warrants	20,879	28,765
Listed/OTC company corporate bonds and government bonds	19,865,107	39,499,081
Foreign securities	22,588,029	16,888,071
Others	52	46
Subtotal	47,301,087	62,608,532
Valuation adjustments	2,311,736	1,337,442
Market value	$49,612,823	$63,945,974

(4) Trading securities-underwriting-net

	12/31/16	12/31/15
Listed/OTC company stock	$604,470	$454,657
Listed/OTC company corporate bonds	281,638	672,247
Others	149,705	-
Subtotal	1,035,813	1,126,904
Valuation adjustments	632,996	413,839
Market value	$1,668,809	$1,540,743

(5) Trading securities-hedging-net

	12/31/16	12/31/15
Listed/OTC company stock	$3,897,509	$2,771,899
Listed/OTC company warrants	3,789	64,000
Foreign securities	592,084	1,085,737
Subtotal	4,493,382	3,921,636
Valuation adjustments	(22,057)	(92,546)
Market value	$4,471,325	$3,829,090

(6) Long options

	12/31/16	12/31/15
Index options	$86,395	$64,955
Stock options	9,007	4,627
Subtotal	95,402	69,582
Open interest	7,637	(5,299)
Market value	$103,039	$64,283

(7) Futures trading margins-proprietary funds

	12/31/16	12/31/15
Account balance	$516,691	$367,701
Open interest	2,474	14,287
Account value	$519,165	$381,988

(8) Please refer to Note VI.21 for detail of derivative instruments.

(9) Others

	12/31/16	12/31/15
Other financial assets	$-	$23,452
Valuation adjustments	-	(360)
Market value	$-	$23,092

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

	12/31/16	12/31/15
Government bonds	$50,175	$51,241
Valuation adjustments	(142)	(798)
Market value	$50,033	$50,443

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

	12/31/16	12/31/15
Current		
Stock		
ESM company stock	$1,090,749	$891,740
Non-current		
Stock		
Taiwan Depository & Clearing Corp.	$74,932	$74,932
Taiwan Futures Exchange Corp.	151,125	151,125
Taiwan Stock Exchange Corp.	369,199	369,199
Dragon Investment Fund I Co., Ltd.	10,534	18,697
He Ding Venture Capital Investment Corporation	8,123	35,224
Lien Ding Venture Capital Investment Corporation	11,713	21,134
Zuen Ping Venture Capital Investment Corporation	-	267
WK Technology Fund VIII	21,675	25,500
Centillion III Venture Capital Corporation	6,300	6,300
Prodence Venture Investment Corporation	15,108	17,120

	12/31/16	12/31/15
TSC Venture Capital Corporation	2,160	2,700
Honpang Venture Capital Corporation	415	415
SAN-BYTE Co., LTD.	29,908	49,000
General Energy Solutions INC.	22,500	22,500
WinWay Tech. Co., Ltd.	47,580	45,000
Quang Viet Enterprise Co., Ltd.	-	38,243
Chang Wah Technology Co., Ltd.	-	10,000
JMC Electronics Co., Ltd.	30,000	30,000
EirGenix Inc.	16,450	-
ASLAN Pharmaceuticals Pte. Ltd.	32,252	-
Global TEK Fabrication Co., Ltd.	10,030	-
Top Bright Holding Co., Ltd.	46,500	-
NOVA Technology Corp.	6,880	-
Fund Rich Securities Co. Ltd.	3,000	-
Victor Taichung Machinery Works Co., Ltd.	743	743
PT Bursa Efek Indonesia	468	-
PT Kustodian Sentral Efek Indonesia	719	-
Total	$918,314	$918,099

(1) Shin Sheng Venture Capital Investment Corporation invested by the company's subsidiary 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) Recoverable amounts of Zuen Ping Venture Capital Investment Corporation invested by the company's subsidiary was assessed and impairment loss of 7,505 thousand dollars was recognized on December 31, 2015. Zuen Ping Venture Capital Investment Corporation acquired approval for all records relating to its liquidation from special shareholders' meeting held on August 22, 2016. The subsidiary has already recognized residual assets dedicated on October 7, 2016.

(3) Recoverable amounts of Dragon Investment Fund I Co., Ltd. invested by the company's subsidiary was assessed and impairment loss of 29,364 thousand dollars and 29,026 thousand dollars were recognized on December 31, 2016 and 2015 respectively.

(4) No pledged was made for financial assets measured at cost mentioned above.

4. Available-for-Sale Financial Assets

	12/31/16	12/31/15
Current		
Listed/OTC company stock	$9,235,619	$7,302,593
Foreign securities	11,307	58,849
Total	$9,246,926	$7,361,442
Non-current		
Listed/OTC company stock	$255,801	$162,177
Bank Debentures	-	30,403
Foreign securities	169,758	89,224
Total	$425,559	$281,804

(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

	12/31/16	12/31/15
Non-current		
Bank Debentures	$300,000	$300,000

(1) The subsidiary held subordinated debentures of Sunny Bank and Hwatai Bank on December 31, 2016 and 2015 with the face value 200,000 thousand dollars and 100,000 thousand dollars respectively; both of the coupon rate are 2.50%. ◦

(2) No pledged was made for held to maturity financial assets mentioned above.

6. Bonds Purchased under Resale Agreements

	12/31/16	12/31/15
Government bonds	$9,085,141	$9,882,731
Corporate bonds	4,851,085	2,813,252
Bank Debentures	15,151,082	3,749,446
Total	$29,087,308	$16,445,429
Resold amount as specified in respective agreements plus accrued interest	$29,114,724	$16,432,569
Resold date as specified in respective agreements	2017.1.3-2017.2.22	2016.1.4-2016.1.29

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 were 6.30%-6.45% for the years ended December 31, 2016 and 2015.

According to the Securities and Futures Bureau, the Company and its 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 were 0.10%-0.20% for the years ended December 31, 2016 and 2015.

8. Trading securities receivable

	12/31/16	12/31/15
Trading securities receivable- securities held by the clients as collateral	$6,896,157	$2,726,584

The Company and its 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

	12/31/16	12/31/15
Cash in banks	$15,465,349	$12,707,590
Marking to market from the clearing house	2,073,183	1,428,080
Marking to market from the other futures brokers	1,014,202	610,207
Securities	103	109
Foreign customers' margin accounts	18,513,704	16,938,123
Total	$37,066,541	$31,684,109

10. Futures Commission Merchant Receivable

	12/31/16	12/31/15
Futures commission merchant receivable	$93,003	$108,003
Less: Allowance for bad debt	(93,003)	(108,003)
Net	$-	$-

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 36,619 thousand dollars as of December 31, 2016 and still in the process of claiming the recovery actively. For the remaining 70,757 thousand dollars loss, the subsidiary positively executed the repayment procedures and had recognized sufficient amounts of allowance.

11. Accounts Receivable

	12/31/16	12/31/15
Exchange clearing receivable	$6,798,639	$3,026,676
Accounts receivable for settlement- brokerage	8,385,692	7,633,473
Accounts receivable for settlement- non-brokerage	8,394,997	5,630,808
Interest receivable	639,799	832,761
Others	1,044,117	546,862
Total	$25,263,244	$17,670,580

12. Investments Accounted for Using The Equity Method

	12/31/16		12/31/15	
Investee	Amount	Ratio	Amount	Ratio
Investments in associates				
KGI Securities (Thailand) Public Company Limited	$2,159,059	34.97	$2,058,308	34.97
Trinitus Asset Management Limited	24,270	40.00	41,041	40.00
CDIB BioScience Ventures Management	3,304	1.20	3,642	1.20
Total	$2,186,633		$2,102,991	

(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 2,448,105 thousand dollars and 2,182,797 thousand dollars as of December 31, 2016 and 2015 respectively.

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

	12/31/16	12/31/15
Current assets	$8,952,221	$5,606,432
Non-current assets	1,446,307	2,148,516
Current liabilities	(5,320,352)	(2,996,711)
Non-current liabilities	(136,330)	(134,916)
Non-controlling interests	(2,817)	(2,510)
Attributed to controlling interests	$4,939,029	$4,620,811
Ownership ratio	34.97%	34.97%
Proportion of ownership	$1,727,179	$1,615,898
Goodwill	431,880	442,410
Book value	$2,159,059	$2,058,308

	For the years ended December 31	
	2016	2015
Revenue	$2,899,318	$2,216,014
Profit or loss from continuing operations	$934,550	$550,335
Other comprehensive income	(12,691)	20,297
Total comprehensive income	$921,859	$570,632
Dividends received from associate	$179,122	$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 27,574 thousand dollars and 44,683 thousand dollars as of December 31, 2016 and 2015 respectively, and the proportionate aggregate financial information of investments is as follow:

	For the years ended December 31	
	2016	2015
Profit or loss from continuing operations	$(15,547)	$(12,694)
Other comprehensive income	(41)	(19)
Total comprehensive income	$(15,588)	$(12,713)

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

(4) No pledged was made for investments accounted for using the equity method mentioned above.

13. Property and Equipment

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

	Land	Buildings	Equipment	Leasehold improvement	Total
Cost:					
January 1, 2016	$4,120,492	$2,185,427	$2,848,169	$494,940	$9,649,028
Additions	-	-	194,368	44,670	239,038
Business merging	-	-	3,782	-	3,782
Disposals	-	-	(356,462)	(80,248)	(436,710)
Transfers	(166,448)	(83,341)	35,874	331	(213,584)
Exchange differences	-	-	(27,225)	(8,157)	(35,382)
December 31,2016	$3,954,044	$2,102,086	$2,698,506	$451,536	$9,206,172
January 1, 2015	$4,119,154	$2,184,572	$3,005,145	$383,228	$9,692,099
Additions	-	-	254,099	81,788	335,887
Business merging	-	-	34,182	4,407	38,589
Disposals	-	-	(505,959)	(10,762)	(516,721)
Transfers	1,338	855	29,791	24,430	56,414
Exchange differences	-	-	30,911	11,849	42,760
December 31, 2015	$4,120,492	$2,185,427	$2,848,169	$494,940	$9,649,028
Depreciation and Impairment:					
January 1, 2016	$-	$732,637	$2,266,860	$354,309	$3,353,806
Depreciation	-	40,597	212,271	54,649	307,517
Business merging	-	-	632	-	632
Disposals	-	-	(349,476)	(80,247)	(429,723)
Transfers	-	(27,145)	(728)	(3,529)	(31,402)
Exchange differences	-	-	(18,423)	(5,402)	(23,825)
December 31, 2016	$-	$746,089	$2,111,136	$319,780	$3,177,005
January 1, 2015	$-	$691,735	$2,542,881	$288,447	$3,523,063
Depreciation	-	40,599	198,299	60,832	299,730
Disposals	-	-	(503,369)	(10,758)	(514,127)
Transfers	-	303	860	7,548	8,711
Exchange differences	-	-	28,189	8,240	36,429
December 31, 2015	$-	$732,637	$2,266,860	$354,309	$3,353,806
Book value:					
December 31, 2016	$3,954,044	$1,355,997	$587,370	$131,756	$6,029,167
December 31, 2015	$4,120,492	$1,452,790	$581,309	$140,631	$6,295,222

(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
Cost:			
January 1, 2016	$212,049	$108,465	$320,514
Transfers	166,448	83,341	249,789
December 31, 2016	$378,497	$191,806	$570,303
January 1, 2015	$213,387	$109,320	$322,707
Transfers	(1,338)	(855)	(2,193)
December 31, 2015	$212,049	$108,465	$320,514
Depreciation and Impairment:			
January 1, 2016	$-	$34,644	$34,644
Depreciation	-	2,181	2,181
Transfers	-	27,145	27,145
December 31, 2016	$-	$63,970	$63,970
January 1, 2015	$-	$32,770	$32,770
Depreciation	-	2,177	2,177
Transfers	-	(303)	(303)
December 31, 2015	$-	$34,644	$34,644
Book value:			
December 31, 2016	$378,497	$127,836	$506,333
December 31, 2015	$212,049	$73,821	$285,870

	For the years ended December 31	
	2016	2015
Rental income from the lease of the investment property	$16,720	$17,404

(2) The investment property is not valued at fair value but at cost. Its fair value is categorized as level 3 and it is only used for disclosure. The fair value is 904,205 thousand dollars and 636,842 thousand dollars on December 31, 2016 and 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	76,975	-	70,396	147,371
Decreases	(12,502)	-	-	(12,502)
Transfers	-	-	8,001	8,001
Exchange differences	(61,356)	-	-	(61,356)
Amortizations	-	(192,638)	(64,413)	(257,051)
December 31, 2016	$7,000,554	$1,447,334	$153,923	$8,601,811

	Goodwill	Other intangible assets	Software	Total
January 1, 2015	$6,613,935	$1,833,818	$139,488	$8,587,241
Additions	372,878	-	34,710	407,588
Transfers	-	-	28,674	28,674
Exchange differences	10,624	-	-	10,624
Amortizations	-	(193,846)	(62,933)	(256,779)
December 31, 2015	$6,997,437	$1,639,972	$139,939	$8,777,348

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

16. Other Non-Current Assets

	12/31/16	12/31/15
Operation bond	$1,417,056	$1,447,740
Settlement/clearance fund	527,293	560,724
Guarantee deposits-out	1,336,195	1,374,951
Collaterals assumed	34,201	34,201
Others	267,616	444,396
Total	$3,582,361	$3,862,012

(1) Clients of the foreign subsidiary breached the contracts in October, 2015. Because the receivables for settlement are not recoverable, the receivables are reclassified under other non-current assets. As of December 31, 2016, the foreign subsidiary positively executed the repayment procedures and recognized SGD 22,729 thousand dollars for the allowance.

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

17. Impairment Test of Goodwill

Goodwill acquired by the Company and its subsidiaries in business combinations is allocated to the brokerage business as the cash-generating unit. The recoverable amount of cash-generating unit from brokerage business is estimated based on value in use. The value in use is calculated by discounting projected cash flows over the next five years and cash flows generated beyond the five-year period are projected based on growth rate in perpetuity. The management concluded from the updated analysis result that the goodwill of 7,000,554 thousand dollars and 6,997,437 thousand dollars allocated to the cash-generating unit was not impaired.

Key assumptions used in the calculation of value in use

The value in use of the brokerage business cash-generating unit is most sensitive to the following assumptions:

(1)Market trading volume
(2)Discount rate

Market trading volume-revenue of the brokerage business mainly comes from brokerage handling fee, which is closely related to the performance of the stock market. The company comprehensively takes into account factors such as Taiwan’s economy and international economic development to predict market trading volume over the next five years.

Discount rate-the Company and its subsidiaries use required rate of return or weighted average cost of capital as discount rate, calculated by Capital Asset Pricing Model or weighted-average cost of capital model. Capital Asset Pricing Model assumes that the required rate of return is risk-free rate plus Beta adjusted equity market risk premium plus size premium and firm-specific risk premium. The factors mentioned such as risk-free rate and risk premium are assessed annually based on publicly available market information and information of comparable firms. The weighted-average cost of capital model is the calculation of the company's cost of long-term capital in which each category of capital is proportionately weighted.

Variability of the assumptions

In terms of the value in use of the brokerage business cash generating unit, the management believes that the likelihood that the key assumptions will change is too low to lead to the excess of the book value of the cash generating unit over its recoverable amount.

18. Short-Term Borrowings

	12/31/16	12/31/15
Interbank loans	$161,395	$462,924
Credit loans	7,761,972	9,672,213
Secured loans	4,821,020	5,482,556
Bank overdraft	33,471	182,633
Total	$12,777,858	$15,800,326
Interest rate	0.65%-9.45%	0.50%-6.64%

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

19. Commercial Papers Payable-Net

	12/31/16	12/31/15
Commercial papers payable	$10,300,460	$5,108,834
Less: Discount	(7,427)	(6,481)
Net	$10,293,033	$5,102,353
Interest rate	0.48%-1.15%	0.45%-1.30%

20. Financial Liabilities Measured at Fair Value Through Profit or Loss

	12/31/16	12/31/15
Current		
Financial liabilities held for trading		
Bonds sold under repurchase agreements -short sale	$2,211,581	$652,471
Liabilities for warrants issued	9,438,441	10,351,789
Repurchase warrants	(9,118,906)	(9,957,608)
Liability for purchase of government bonds	150,000	-
Short options	60,203	56,265
Liabilities for securities and bonds borrowed	5,484,802	6,167,626
Derivative financial product liabilities	2,845,225	4,284,302
Financial liabilities designated initially at fair value through profit or loss	1,103,869	2,166,377
Total	$12,175,215	$13,721,222

(1) Bonds sold under repurchase agreements-short sale

	12/31/16	12/31/15
Government bonds	$2,233,754	$655,132
Valuation adjustments	(22,173)	(2,661)
Market value	$2,211,581	$652,471

(2) Liabilities for warrants issued and repurchase warrants

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

	12/31/16	12/31/15
Warrants issued	$14,780,272	$14,351,344
Gains/(losses) on value change	(5,341,831)	(3,999,555)
Market value	9,438,441	10,351,789
Repurchased warrants	13,208,142	12,535,149
Gains/(losses) on value change	(4,089,236)	(2,577,541)
Market value	9,118,906	9,957,608
Net value	$319,535	$394,181

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) Liability for purchase of government bonds

	12/31/16	12/31/15
Liability for purchase of government bonds	$149,675	$-
Valuation adjustments	325	-
Market value	$150,000	$-

(4) Short options

	12/31/16	12/31/15
Index options	$67,916	$60,620
Stock options	10,268	6,715
Subtotal	78,184	67,335
Open interest	(17,981)	(11,070)
Market value	$60,203	$56,265

(5) Liabilities for securities and bonds borrowed

	12/31/16	12/31/15
Listed/OTC company stock	$2,616,718	$2,917,183
Foreign securities	2,882,468	3,327,286
Subtotal	5,499,186	6,244,469
Valuation adjustments	(14,384)	(76,843)
Market value	$5,484,802	$6,167,626

(6) Please refer to Note VI.21 for more details on derivative instruments liabilities and financial liabilities designated initially at fair value through profit or loss.

21. Derivative Instruments

(1) Nominal amounts

Financial Instruments	12/31/16	12/31/15
Options and futures contract	$18,290,118	$14,079,629
Foreign futures and options	28,689,035	85,001,408
Interest rate swap (IRS)	192,469,165	222,947,270
Convertible bond asset swap (CBAS)-interest	10,429,800	11,781,300
CBAS-long option	10,229,100	11,345,800
CBAS-short option	12,993,700	15,699,900
Structured notes	11,537,615	16,194,507
Equity derivative instruments	21,471	292,546
Credit derivative instruments	5,679,224	4,014,286
Exchange rate derivative instruments	90,230,667	88,856,191
Others	25,821	-
Total	$380,595,716	$470,212,837

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

Financial Instruments	12/31/16	12/31/15
Derivative instrument assets		
Contract value		
IRS	$606,240	$571,140
CBAS-interest	12,422	26,165
Long options		
CBAS	610,676	447,128
Structured notes	63,517	46,340
Equity derivative instruments	-	1,427
Credit derivative instruments	26,624	29,516
Exchange rate derivative instruments	673,262	247,711
Foreign futures and options	170,352	487,608
Others	150	-
Total	$2,163,243	$1,857,035
Derivative instrument liabilities		
Contract value		
IRS	$528,765	$579,395
CBAS-interest	200,103	263,541
Short options		
CBAS	827,138	716,602
Structured notes	451,452	2,192,369
Equity derivative instruments	7,672	28,487
Credit derivative instruments	6,558	64,960
Exchange rate derivative instruments	475,442	104,172
Foreign futures and options	347,945	334,776
Others	150	-
Total	$2,845,225	$4,284,302
Financial liabilities designated initially at fair value through profit or loss		
Structured notes	$1,103,869	$2,166,377
Other financial liabilities- current		
Structured notes-delivery value	$4,423,975	$12,074,908

Please refer to Note VI.2 and Note VI.20 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 years ended December 31	
	2016	2015
Liabilities for warrants issued:		
Gains on value change	$28,795,419	$24,970,422
Gains on exercising warrants before maturity	3,437	13,060
Repurchase of issued warrants:		
Losses on resale of warrants	(4,237,489)	(4,297,477)
Losses on value change	(23,977,728)	(19,828,556)
Expense for warrant	(97,213)	(125,114)
Gains/(losses) on warrants issued	$486,426	$732,335

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

	For the years ended December 31	
	2016	2015
Futures contracts	$257,184	$(343,342)
Options	(31,058)	314,460
Total	$226,126	$(28,882)

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

	For the years ended December 31	
	2016	2015
IRS	$70,081	$248,121
CBAS	(66,670)	144,530
Options	(9,975)	315,098
Structured notes	(195,880)	41,094
Equity derivative instruments	72,692	(42,987)
Credit derivative instruments	(18,033)	-
Exchange rate derivative instruments	318,096	(422,868)
Total	$170,311	$282,988

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

12/31/16

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	GreTai Futures	Long	11	$5,422	$5,498	
Futures Contracts	GreTai Futures	Short	210	103,420	105,294	
Futures Contracts	Elec-Sector Index Futures	Long	46	67,708	67,988	

Item	Type of trading	Open interest position		Contract Amount/ Premium Paid (received)	Fair Value	Note
		Long/ Short	Lots			
Futures Contracts	Elec-Sector Index Futures	Short	1	1,440	1,474	
Futures Contracts	Finance Sector Index Futures	Long	30	32,196	32,334	
Futures Contracts	Gold Futures	Long	11	4,056	4,118	
Futures Contracts	Non-Fin Non-Elec Sub-Index Futures	Long	35	39,618	39,743	
Futures Contracts	TaifEx NT Dollar Gold Futures	Short	132	58,408	59,961	
Futures Contracts	TaiEx Futures	Long	2,930	5,358,492	5,419,295	
Futures Contracts	TaiEx Futures	Short	2,595	4,759,702	4,799,968	
Futures Contracts	Mini TaiEx Futures	Long	1,020	466,746	471,744	
Futures Contracts	Mini TaiEx Futures	Short	210	93,339	95,153	
Futures Contracts	Weekly-Mature Mini-TaiEx Futures	Short	5	2,315	2,316	
Futures Contracts	Stock Futures	Long	3,410	388,567	391,936	
Futures Contracts	Stock Futures	Short	17,718	2,183,470	2,179,646	
Futures Contracts	Foreign Futures	Long	1,321	517,848	518,815	
Futures Contracts	Foreign Futures	Short	1,108	2,917,599	2,932,902	
Futures Contracts	Indian Nifty Index Futures	Short	117	47,245	47,758	
Futures Contracts	USD/CNH FX Futures	Long	6	19,408	19,443	
Futures Contracts	USD/CNH FX Futures	Short	168	556,655	564,056	
Futures Contracts	USD/CNT FX Futures	Long	249	162,170	162,973	
Futures Contracts	USD/CNT FX Futures	Short	388	256,809	261,012	
Futures Contracts	TOPIX Futures	Long	42	12,752	12,753	
Futures Contracts	EUR/USD FX Futures	Long	1	677	681	
Futures Contracts	USD/JPY FX Futures	Short	7	4,496	4,503	
Futures Contracts	MSCI Taiwan Index Futures	Long	1	1,111	1,110	
Futures Contracts	Hong Kong Hang Seng Index Futures	Long	30	27,452	27,422	
Futures Contracts	Hong Kong Hang Seng Index Futures	Short	6	27,411	27,422	
Options Contracts	Index Options-Call	Long	11,950	46,246	79,024	
Options Contracts	Index Options-Put	Long	8,938	40,149	17,099	
Options Contracts	Index Options-Call	Short	14,793	(23,638)	32,465	
Options Contracts	Index Options-Put	Short	15,730	(44,278)	16,828	
Options Contracts	Stock Options-Call	Long	1,627	5,325	4,051	
Options Contracts	Stock Options-Put	Long	1,331	3,682	2,865	
Options Contracts	Stock Options-Call	Short	1,328	(4,418)	3,549	
Options Contracts	Stock Options-Put	Short	799	(5,850)	7,361	

104.12.31

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	

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	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	TaifEx 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	

E. Credit risk valuation adjustment

The Company and its 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 are 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 its subsidiaries take an opponent's Probability of Default, "PD" (given the Company and its 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 its 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 its subsidiaries, the Company and its 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.

22. Bonds Sold under Repurchase Agreements

	12/31/16	12/31/15
Government bonds	$12,851,916	$28,745,045
Bank Debentures	26,374,646	11,346,585
Convertible bonds	279,492	731,091
Corporate bonds	17,916,075	17,779,117
Total	$57,422,129	$58,601,838
Repurchased amount as specified in respective agreements plus accrued interest	$57,598,541	$58,659,345
Repurchased date as specified in respective agreements	2017.1.3- 2017.3.27	2016.1.4- 2016.3.17

23. Accounts Payable

	12/31/16	12/31/15
Exchange clearing payable	$2,875,364	$1,863,332
Accounts payable for settlement- brokerage	28,340,417	25,146,805
Accounts payable for settlement- non-brokerage	7,632,206	4,251,463
Others	339,201	334,274
Total	$39,187,188	$31,595,874

24. Bonds Payable

	12/31/16	12/31/15
103-1 Unsecured Corporation Bonds Payable denominated in CNY	$-	$1,006,520
104-1 Unsecured Corporation Bonds Payable	7,000,000	7,000,000
Subtotal	7,000,000	8,006,520
Less: Due within in one year	-	(1,006,520)
Net amount	$7,000,000	$7,000,000

(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.

25. <u>Post-Employment Benefits</u>

(1) Description of labor pension:

<u>Defined contribution plan</u>

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.

<u>Defined benefit plan</u>

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 its 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. Since the Company and its domestic subsidiaries do not have right to participate in the operation of the fund, we cannot disclose the fair value classification of the planed asset according to IAS 19.142. On December 31, 2016, the defined benefit plan of the Company and its domestic subsidiaries plan to contribute 31,548 thousand dollars in the following year.

The duration of defined benefit obligation is as following:

	12/31/16	12/31/15
Average duration of defined benefit obligation	13-16 years	13-16 years

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

	For the years ended December 31	
	2016	2015
Pension incurred on defined contribution	$237,125	$224,973
Pension incurred on defined benefit	22,282	24,355
Total	$259,407	$249,328

The table below summarizes the pension incurred on defined benefit plan recognized in profit and loss:

	For the years ended December 31	
	2016	2015
Current service cost	$12,007	$10,129
Net interest on net defined benefit obligation (assets)	10,275	8,729
Past service cost	-	5,497
Total	$22,282	$24,355

(3) Reconciliation of present value of the defined benefit obligation and plans assets at fair value:

	12/31/16	12/31/15
Present value of the defined benefit obligation	$1,213,132	$1,214,975
Plans assets at fair value	(519,731)	(537,379)
Carrying amount of net defined benefit obligation	$693,401	$677,596

The reconciliation of net defined benefit obligation (asset):

	Present value of the defined benefit obligation	Plan assets at fair value	Net defined benefit obligation (asset)
January 1, 2016	$1,214,975	$(537,379)	$677,596
Current service cost	12,007	-	12,007
Interest expense (revenue)	18,336	(8,061)	10,275
Past service cost and gain/loss on settlement	-	-	-
Recognized in profit or loss	30,343	(8,061)	22,282
Remeasurement of defined benefit obligation/ asset			
The actuarial gain/loss on the change of mortality assumptions	1,484	-	1,484
The actuarial gain/loss on the change of financial assumptions	984	-	984
Adjustment based on experience	18,087	4,517	22,604
Recognized in OCI	20,555	4,517	25,072
Benefit paid	(52,741)	52,741	-
Employer contribution	-	(31,549)	(31,549)
December 31, 2016	$1,213,132	$(519,731)	$693,401

	Present value of the defined benefit obligation	Plan assets at fair value	Net defined benefit obligation (asset)
January 1, 2015	$993,091	$(605,129)	$387,962
Current service cost	10,129	-	10,129
Interest expense (revenue)	22,344	(13,615)	8,729
Past service cost and gain/loss on settlement	5,497	-	5,497
Recognized in profit or loss	37,970	(13,615)	24,355
Remeasurement of defined benefit obligation/ asset			
The actuarial gain/loss on the change of mortality assumptions	(53,015)	-	(53,015)
The actuarial gain/loss on the change of financial assumptions	124,769	-	124,769
Adjustment based on experience	202,067	(1,456)	200,611
Recognized in OCI	273,821	(1,456)	272,365
Benefit paid	(89,907)	89,907	-
Employer contribution	-	(7,086)	(7,086)
December 31, 2015	$1,214,975	$(537,379)	$677,596

(4) The assumptions for defined benefit plan used by the Company and its domestic subsidiaries are as follows:

	12/31/16	12/31/15
Discount rate	1.50%-1.60%	1.50%
Expected Salary Growth Rate	2.00%	2.00%

Under the circumstance that all the other assumptions remain the same, if the material actuarial assumptions have reasonably possible changes respectively, increase or decrease on the present value of defined benefit obligation will be as following:

	12/31/16	12/31/15
Discount rate		
+0.5%	$(77,768)	$(82,652)
- 0.5%	$93,174	$91,595
Expected Salary Growth Rate		
+0.5%	$92,159	$90,665
-0.5%	$(77,771)	$(82,660)

When conducting sensitivity analysis, we analyze the possible effect of reasonably possible change of actuarial assumption (such as discount rate or expected salary growth rate) on defined benefit obligation assuming that all the other assumptions will remain the same. Since actuarial assumptions mutually relate to each other, it is rare that only one actuarial assumption changes. Therefore, there is limitation to this analysis.

The method and assumptions used in current period's sensitivity analysis have no difference from the one in previous period.

26. Provisions

	12/31/2016	12/31/2015
Litigation provision	$130,727	$131,105
Decommissioning liabilities	94,181	24,469
Total	$224,908	$155,574

27. Equity

(1) Common stock

	12/31/16	12/31/15
Authorized shares (thousand shares)	4,600,000	4,600,000
Authorized capital	$46,000,000	$46,000,000

The Company's authorized and issued capital was 34,988,123 thousand dollars and 37,988,123 thousand dollars as of December 31, 2016 and 2015, respectively, each at a par value of NT$10. The Company has issued 3,498,812 thousand and 3,798,812 thousand common shares as at December 31, 2016 and 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

	12/31/16	12/31/15
Additional paid-in capital	$2,603,148	$2,603,148
Treasury share transactions	364,435	364,435
Surplus from business combination	5,665,969	5,665,969
Employee share options	10,570	6,171
Total	$8,644,122	$8,639,723

Capital reserve from excess over par value of stocks issued (including additional paid-in capital, treasury share transactions, and surplus from business combination) and donations received can be used to make up the company's deficiencies. Under the circumstances without deficiencies, capital reserve can be used to distribute to shareholders by cash or be capitalized. Nevertheless, the amount of capital reserve that can be capitalized is limited to prescribed percentage of authorized and issued capital.

(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	$2,323,499	$3,351,171		

Please refer to Note VI.28 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 years ended December 31	
	2016	2015
Beginning balance	$3,309,175	$3,331,529
Profit attributable to non-controlling interests	51,421	58,663
Other comprehensive income, attributable to non-controlling interests, net of tax:		
Unrealized gains (losses) from available-for-sale financial assets	(4,295)	(1,934)
Net actuarial gains (losses) on defined benefit plan	(8)	(90)
Merge	1,214	-
Exchange difference	21	-
Cash dividend issued from subsidiaries	(41,004)	(78,993)
Ending balance	$3,316,524	$3,309,175

28. The Detail of Comprehensive Net Income

(1) Brokerage handling fee revenues

	For the years ended December 31	
	2016	2015
Brokerage handling fee revenues	$4,242,862	$4,872,254
Foreign brokerage fee	2,599,401	3,865,503
Handling revenue of short sale	65,606	100,508
Handling fee revenue of securities borrowed	27,778	19,042
Foreign sub-brokerage revenues	136,419	108,617
Total	$7,072,066	$8,965,924

(2) Revenue from underwriting business

	For the years ended December 31	
	2016	2015
Revenue from underwriting of securities	$375,852	$125,436
Revenue from underwriting proceeding fee	335,653	55,302
Revenue from underwriting and counseling	54,071	43,746
Others	120,239	283,930
Total	$885,815	$508,414

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

	For the years ended December 31	
	2016	2015
Dealing		
Revenue	$933,247,584	$952,391,719
Cost	(932,093,337)	(950,753,573)
Subtotal	1,154,247	1,638,146

	For the years ended December 31	
	2016	2015
Underwriting		
Revenue	2,947,481	4,449,618
Cost	(2,856,600)	(4,366,413)
Subtotal	90,881	83,205
Hedging		
Revenue	77,466,333	114,078,001
Cost	(77,602,498)	(114,533,387)
Subtotal	(136,165)	(455,386)
Total	$1,108,963	$1,265,965

(4) Interest income

	For the years ended December 31	
	2016	2015
Margin loans	$1,829,655	$2,638,602
Bonds	816,890	720,240
Others	106,749	29,795
Total	$2,753,294	$3,388,637

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

	For the years ended December 31	
	2016	2015
Dealing-net	$877,331	$(406,315)
Underwriting-net	219,156	8,500
Hedging-net	212,992	(476,426)
Liability for purchase of government bonds	(325)	1
Total	$1,309,154	$(874,240)

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

	For the years ended December 31	
	2016	2015
Gains	$339,246	$821,358
Losses	(693,728)	(430,044)
Total	$(354,482)	$391,314

(7) Please refer to Note VI.21 for detail of derivative instruments' profit and loss.

(8) Other operating income

	For the years ended December 31	
	2016	2015
Exercising warrants before maturity- purchased from others	$(877)	$25,903
Other service fee income	13,049	30,503
Investment advisory income	188,307	9,864
Commission income	491,501	315,114
Investment trust and fund management income	133,341	118,366
Other operating income	343,090	246,894
Error accounts	(7,413)	(15,228)
Total	$1,160,998	$731,416

(9) Financial costs

	For the years ended December 31	
	2016	2015
Bills and bonds payable under repurchase agreements	$380,838	$290,524
Bank borrowing	244,295	424,400
Short-term notes and bills	23,234	63,980
Bonds	123,942	96,232
Others	82,231	115,336
Total	$854,540	$990,472

(10) Employee benefits expenses, depreciation and amortization

Item	For the years ended December 31	
	2016	2015
Employee benefit expenses		
Salary expenses	$5,788,092	$6,962,400
Insurance expenses	327,194	347,481
Pension expenses	259,407	249,328
Others	140,296	166,387
Total	$6,514,989	$7,725,596
Depreciations and amortizations		
Depreciations	$309,698	$301,907
Amortizations	257,239	256,932
Total	$566,937	$558,839

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

B. Based on the Article revised on December 28, 2015, the company appropriates at least 0.1% of income before tax and before distributing earnings to employees as employees' bonus income. The recognized amounts of employees' bonus are 18,000 thousand dollars for both the years ended December 31, 2016 and 2015.

C. 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 employees' bonus of 18,000 thousand dollars and 27,000 thousand dollars for the years ended December 31, 2015 and 2014 respectively, which are not different from the expenses recognized in the financial reports of 2015 and 2014.

D. The related information about employees' bonus from the earnings distribution plan adopted by the Company's Board of Directors' meeting and resolved by shareholders' meeting can be inquired at Market Observation Post System.

(11) Other operating expenses

	For the years ended December 31	
	2016	2015
Postage and telephone expenses	$232,093	$236,820
Tax	808,277	972,638
Rental expenses	731,790	688,325
Repairs and maintenance	199,652	226,621
Computer information expenses	514,326	491,196
Bad debt expense	553,041	208,061

	For the years ended December 31	
	2016	2015
Professional expenses	289,175	321,882
Securities borrowed expenses	291,190	181,143
Handling fee	398,361	613,731
Other expenses	810,878	824,796
Total	$4,828,783	$4,765,213

(12) Other income and costs

	For the years ended December 31	
	2016	2015
Interest income	$567,254	$556,052
Rental income	17,014	17,706
Disposal of property and equipment	(3,527)	(1,160)
Disposal of investment	(296,848)	4,413
Non-operating financial product at fair value through profit and loss	(142,058)	114,252
Exchange gain or loss	(73,172)	368,936
Dividend income	232,044	279,003
Management service income	346,728	384,133
Others	172,510	38,071
Total	$819,945	$1,761,406

29. Components of Other Comprehensive Income

For the year ended December 31, 2016

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Items that will not be reclassified to profit or loss subsequently:					
Remeasurement on defined benefit plan	$(25,072)	$-	$(25,072)	$(9,304)	$(34,376)
Items that may be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of a foreign operation	(351,881)	-	(351,881)	-	(351,881)
Unrealized gains (losses) from available-for-sale financial assets	1,490,103	-	1,490,103	(3,805)	1,486,298
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(4,479)	-	(4,479)	-	(4,479)
Total	$1,108,671	$-	$1,108,671	$(13,109)	$1,095,562

For the year ended December 31, 2015

	Arising	Reclassification	Other comprehensive income, before tax	Income tax (expense) income	Other comprehensive income, net of tax
Items that will not be reclassified to profit or loss subsequently:					
Remeasurement on defined benefit plan	$(272,365)	$-	$(272,365)	$46,394	$(225,971)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(3,031)	-	(3,031)	-	(3,031)
Items that may be reclassified to profit or loss subsequently:					
Exchange differences resulting from translating the financial statements of a foreign operation	531,952	-	531,952	-	531,952
Unrealized gains (losses) from available-for-sale financial assets	(225,046)	-	(225,046)	(858)	(225,904)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(135,718)	-	(135,718)	-	(135,718)
Total	$(104,208)	$-	$(104,208)	$45,536	$(58,672)

30. 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 years ended December 31	
	2016	2015
Current income tax expense (income)		
Current period	$184,407	$335,372
Adjustments of prior periods	4,531	(157,685)
Deferred income tax expense (income)		
Current period	61,757	149,643
Income tax expense (income)	$250,695	$327,330

Income tax relating to components of other comprehensive income

	For the years ended December 31	
	2016	2015
Deferred income tax expense (income)		
Unrealized gains (losses) from available-for-sale financial assets	$3,805	$858
Net gains (losses) on remeasurement of defined benefit plan	9,304	(46,394)
Income tax relating to components of other comprehensive income	$13,109	$(45,536)

(2) Reconciliation of accounting income and income tax expense is as follows:

	For the years ended December 31	
	2016	2015
Income before income tax	$2,785,662	$2,938,404
Income tax expense	$473,563	$499,529
Tax exempted income	(455,834)	(192,027)
Non tax-deductible expenses	18,893	32,405
Tax effect of deferred income tax assets/liabilities	13,637	112,769
Tax effect of different tax rate for subsidiaries	125,907	(26,027)
Others	2,168	(8,970)
Alternative minimum tax expense	67,830	67,336
Adjustments of prior periods	4,531	(157,685)
Total income tax expense	$250,695	$327,330

(3) Balances of deferred income tax assets and liabilities resulting from the temporary differences:

	12/31/16	12/31/15
Deferred income tax assets		
Bad debts	$8,534	$10,606
Unrealized exchange loss	30,727	54,991
Unrealized loss of warrants issued and repurchase warrants	25,004	27,319
Net actuarial gain or loss and pension	124,441	127,079
Others	1,527	4,342
Unused tax losses	143,942	177,035
Total	334,175	401,372
Deferred income tax liabilities		
Unrealized gain of available-for-sale financial assets	(11,301)	(7,495)
Unrealized exchange gain	-	(289)
Unrealized gain of derivative instruments	(100,001)	(92,655)
Goodwill	(909,342)	(909,342)
Land value increment tax liabilities	(9,252)	(9,252)
Others	(1,846)	(5,040)
Total	(1,031,742)	(1,024,073)
Net amount of deferred income tax assets (liabilities)	$(697,567)	$(622,701)

(4) Movement of deferred income tax assets (liabilities):

	For the years ended December 31	
	2016	2015
Beginning balance	$(622,701)	$(518,594)
Recognized in profit or loss	(61,757)	(149,643)
Recognized in other comprehensive income	(13,109)	45,536
Ending balance	$(697,567)	$(622,701)

(5) Unrecognized deferred income tax assets

The Company has no assets that may be used to reduce any subsequent periods' income tax expense should be recognized as deferred income tax assets.

(6) Unrecognized deferred income tax liabilities

The Company has no liabilities that may be used to increase any subsequent periods' income tax expense should be recognized as deferred income tax liabilities.

(7) The information of integrated Income Tax System

A. Balance of imputation income tax credit amounts:

	12/31/16	12/31/15
The Company	$749,526	$964,804
KGI Securities Investment Advisory Co. Ltd.	2,867	2,953
KGI Insurance Brokers Co. Ltd.	17,217	3,518
KGI Venture Capital Co. Ltd.	1,025	974
KGI Securities Investment Trust Co. Ltd.	888	888
KGI Futures	68,273	14,203
GSFC	57,422	70,838
KGI Information Technology Co. Ltd.	-	-

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

	For the years ended December 31	
	2016(Expected)	2015(Actual)
The Company	20.92%	20.95%
KGI Securities Investment Advisory Co. Ltd.	20.48%	20.48%
KGI Insurance Brokers Co. Ltd.	20.48%	5.37%
KGI Venture Capital Co. Ltd.	13.98%	20.48%
KGI Securities Investment Trust Co. Ltd.	-	-
KGI Futures	20.87%	2.86%
GSFC	20.48%	20.48%
KGI Information Technology Co. Ltd.	-	-

(8) Information for unappropriated retained earnings:

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

(9) Income tax return assessed

	Assessment information
The Company	Except for 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 2011.
KGI Securities Investment Advisory Co. Ltd.	Assessed through 2015.
KGI Insurance Brokers Co. Ltd.	Assessed through 2015.
KGI Venture Capital Co. Ltd.	Assessed through 2014.
KGI Securities Investment Trust Co. Ltd.	Assessed through 2014.
KGI Futures	Assessed through 2014.
GSFC	Assessed through 2014.

(10) Administrative remedy

For the years from 2006 through 2013, the Company was assessed for additional income tax of 1,779,626 thousand dollars by the Tax Bureau. GCSC was assessed for additional income tax of 15,607 thousand dollars for 2011. 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.

31. 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.

	For the years ended December 31	
	2016	2015
Basic EPS		
Attributable to the Company	$2,483,546	$2,552,441
Weighted average number of shares outstanding	3,636,517,238shares	3,798,812,320shares
Basic EPS (NT$)	$0.68	$0.67

32. Business Combination

(1) 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:

	Fair value on acquisition date
Assets	
Current assets (include cash and cash equivalent 1,040,544)	$3,227,104
Non-current assets	38,986
Assets subtotal	3,266,090

	Fair value on acquisition date
Liabilities	
Current liabilities	$(1,946,282)
Non-current liabilities	(701,326)
Liabilities subtotal	(2,647,608)
Identifiable net assets	$618,482

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.

C. From the acquisition date to December 31, 2015, KGI Fraser's revenue is 197,610 thousand dollars; net loss before income tax is 298,275 thousand dollars. Should the acquisition occurred on the beginning of this year, the revenue of the Company and its subsidiaries' continuing operating units would be 16,678,773 thousand dollars and net income would be 2,592,334 thousand dollars for the year ended December 31, 2015.

(2) Acquisition of PT KGI Sekuritas Indonesia

For the purpose of expanding foreign business and strengthen capital structure, the Company's investee, KGI Capital Asia Limited, acquired PT KGI Sekuritas Indonesia ("KGI Indonesia") 99% voting shares on Auguest 31, 2016. KGI Indonesia is a non-listed company located in Indonesia specialized in the securities related business.

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

	Fair value on acquisition date
Assets	
Current assets (include cash and cash equivalent $47,450)	$225,578
Non-current assets	4,334
Assets subtotal	229,912
Liabilities	
Current liabilities	(108,462)
Non-current liabilities	(21)
Liabilities subtotal	(108,483)
Identifiable net assets	$121,429

B. Goodwill and acquisition consideration of KGI Indonesia:

Goodwill 76,975 thousand dollars of KGI Indonesia raised from the acquisition consideration (cash transaction cost of acquisition) 197,190 thousand dollars plus the fair value of non-controlling interests 1,214 thousand dollars minus the fair value of identifiable net assets 121,429 thousand dollars.

C. From the acquisition date to December 31, 2016, KGI Indonesia's revenue is 18,701 thousand dollars; net income before income tax is 276 thousand dollars. Should the acquisition occurred on the beginning of this year, the revenue of the Company and its subsidiaries' continuing operating units would be 16,134,380 thousand dollars and net income would be 2,534,444 thousand dollars.

33. Subsidiaries with significant non-controlling interests

The non-controlling interests of the Company are 3,316,524 thousand dollars and 3,309,175 thousand dollars as of December 31, 2016 and 2015, respectively. Proportions held by non-controlling interests are as follows:

Subsidiary Company	Country	12/31/16	12/31/15
KGI Futures	Taiwan	0.39%	0.39%
KGI Securities Investment Trust Co. Ltd.	Taiwan	0.01%	0.01%
GSFC	Taiwan	78.01%	78.01%
KGI Indonesia	Indonesia	1.00%	-

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

Subsidiary Company	12/31/16	12/31/15
GSFC	$3,304,592	$3,298,914

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

(1) Summarized information of comprehensive income for GSFC

	For the years ended December 31	
	2016	2015
Revenue	$238,336	$228,981
Net profit from continuing operations	$63,722	$72,636
Other comprehensive income	(5,599)	(2,501)
Comprehensive income	$58,123	$70,135
Net profit allocated to non-controlling interests	$49,710	$56,663
Dividends paid to non-controlling interests	$39,664	$78,214

(2) Summarized information of financial position for GSFC

	12/31/16	12/31/15
Current assets	$9,125,264	$5,283,962
Non-current assets	1,545,921	1,361,282
Current liabilities	6,434,194	2,415,531
Non-current liabilities	900	900

(3) Summarized cash flow information for GSFC

	For the years ended December 31	
	2016	2015
Operating activities	$(3,730,449)	$(372,682)
Investing activities	(199,590)	(46,049)
Financing activities	4,157,082	299,661
Net increase/(decrease) in cash and cash equivalents	227,043	(119,070)

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 years ended December 31	
	2016	2015
(1) Brokerage handling fee revenue		
Parent company	$440	$559
Associates	1	2
Other related parties	23,832	31,708
Total	$24,273	$32,269
(2) Revenue from underwriting business		
Parent company	$-	$8,000
Other related parties	8,066	3,327
Total	$8,066	$11,327
(3) Revenue from providing agency service for stock affairs		
Parent company	$15,971	$16,861
Other related parties	397	287
Total	$16,368	$17,148
(4) Other operating revenue		
Parent company	$9,229	$2,286
Associates	715	5,876
Other related parties	9,318	1,565
Total	$19,262	$9,727
(5) Interest expense		
Other related parties	$8,168	$15,644

The above transactions process under ordinary trading condition.

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

	12/31/16	12/31/15
Other related parties	$2,716,037	$2,090,621

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

	12/31/16	12/31/15
(1) Open-ended funds and monetary market instruments		
Other related parties	$31,609	$26,574

	12/31/16 Notional Amount	12/31/15 Notional Amount
(2) Outstanding derivative financial instruments		
A.IRS		
Other related parties	$710,138	$-
B.CBAS-interest		
Other related parties	$114,000	$47,000

	12/31/16 Notional Amount	12/31/15 Notional Amount
C.CBAS -long option		
Other related parties	$114,000	$47,000

4. Available-for-sale financial assets- current:

	12/31/16	12/31/15
Stocks		
Parent company	$2,438,842	$2,490,281

5. Margin loans receivable:

	12/31/16	12/31/15
Other related parties	$12,245	$15,503

6. Customers' margin accounts:

	12/31/16	12/31/15
Other related parties	$846,673	$177,650

7. Accounts Receivable:

	12/31/16	12/31/15
Parent company	$-	$1,916
Associates	2,272	1,525
Other related parties	134	247
Total	$2,406	$3,688

8. Other receivables (recognized as other current assets):

	12/31/16	12/31/15
Associates	$106	$5,534
Other related parties	11,946	3,115
Total	$12,052	$8,649

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

	12/31/16	12/31/15
Other related parties	$1,427,905	$837,301

10. Short-term borrowings:

	12/31/16	12/31/15
Other related parties	$-	$198,396

11. Deposits for short sales:

	12/31/16	12/31/15
Other related parties	$47,186	$45,987

12. Short sales proceeds payable:

	12/31/16	12/31/15
Other related parties	$52,173	$45,825

13. Futures customers' equity:

	12/31/16	12/31/15
Other related parties	$63,189	$75,969

14. Accounts Payable:

	12/31/16	12/31/15
Associates	$730	$-
Other related parties	34,807	38,457
Total	$35,537	$38,457

15. Current income tax assets and liabilities:

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

	12/31/16	12/31/15
Due from the parent company	$-	$122,581
Due to the parent company	$275,787	$506,024

16. Guarantee deposits-in (recognized as other current liabilities)

	12/31/16	12/31/15
Other related parties	$2,259	$106

17. Stocks transactions with related parties as follows:

	For the year ended December 31, 2016	
	Purchase of stocks	Sale of stocks
Other related parties	$50,700	$-

	For the year ended December 31, 2015	
	Purchase of stocks	Sale of stocks
Other related parties	$13,860	$-

18. Bonds transactions with related parties as follows:

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

	For the year ended December 31, 2016	
	Face amount	Maturity amount
Other related parties	$715,372	$715,443

	For the year ended December 31, 2015	
	Face amount	Maturity amount
Other related parties	$50,000	$50,008

(2) Purchase and sale of bonds

	For the year ended December 31, 2016	
	Purchase of bonds	Sale of bonds
Other related parties	$1,621,064	$8,364,458

	For the year ended December 31, 2015	
	Purchase of bonds	Sale of bonds
Other related parties	$11,197,973	$12,345,078

(3) Short sale of bond

	For the year ended December 31, 2016	
	Purchase of bonds	Sale of bonds
Other related parties	$-	$143,053

2015:None

19. Other operating expenses

	For the years ended December 31	
	2016	2015
Associates	$1,488	$2,652
Other related parties	39,501	17,315
Total	$40,989	$19,967

20. Other income and costs

	2016	2015
Associates	$10,185	$15,801
Other related parties	74,105	22,308
Total	$84,290	$38,109

21. Information about key management personnel compensation as follows:

	For the years ended December 31	
	2016	2015
Short-term employee benefit	$133,381	$131,416
Post-employment benefits	3,173	2,721
Share-based payment transaction	2,353	2,527
Total	$138,907	$136,664

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

	12/31/16	12/31/15
Other related parties	$1,050,000	$370,000

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

	12/31/16	12/31/15
Property and equipment and investment property	$275,188	$277,257

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	12/31/16	12/31/15
Financial assets measured at fair value through profit or loss-current-trading securities-dealing	$201,914	$-
Available-for-sale financial assets- current	2,836,425	2,234,625
Other current assets- restricted	2,268,396	1,586,377
Financial assets measured at fair value through profit or loss-non-current	50,033	50,443
Property and equipment	4,677,647	4,759,486
Investment property	481,839	126,081
Non-current assets-guarantee deposits-out	809,028	855,483
Total	$11,325,282	$9,612,495

IX. **Commitments and Contingent Liabilities**

1. The Company has appealed for its income tax returns. Please refer to Note VI.30 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 October 25, 2016, Taiwan High Court judged that while certain clients conveyed all of the rights exercisable on the basis of the ownership of stocks of Jen-Hsin Securities Co., including those converted into stocks of China Development Financial Holding Corporation, 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. This case is currently processed by the Supreme 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 2,410,000 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 its 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 its 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 its 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 its 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 its 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 its 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 its subsidiaries	Taiwan Ratings
Low Risk	twAAA ~ twAA
Medium-Low Risk	twAA- ~ twA
Medium Risk	twA- ~ twBBB-
High Risk	twBB+ ~ below twC

12/31/16

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	$16,401,449	$17,900	$30,871	$-	$-	$-	$-	$16,450,220
Financial assets measured at fair value through profit or loss-current	43,109,950	447,192	2,886,469	-	-	-	-	46,443,611
Available-for-sale financial assets-current	11,307	-	-	-	-	-	-	11,307
Bonds purchased under resale agreements	26,142,100	2,945,208	-	-	-	-	-	29,087,308
Receivables	49,815,491	10,580,853	446,369	4,129	-	-	-	60,846,842
Customers' margin accounts	37,066,541	-	-	-	-	-	-	37,066,541
Stock borrowing collateral price and stock borrowing margin	2,376,961	623,726	-	-	-	-	-	3,000,687
Other financial assets-current	2,498,770	29,100	-	-	-	-	-	2,527,870
Other current assets	30,477,056	-	-	-	-	-	-	30,477,056
Financial assets measured at fair value through profit or loss-non-current	50,033	-	-	-	-	-	-	50,033
Held to maturity financial assets-non-current	-	-	300,000	-	-	-	-	300,000
Other non-current assets	3,443,492	-	50,702	-	-	-	-	3,494,194
Total	$211,393,150	$14,643,979	$3,714,411	$4,129	$-	$-	$-	$229,755,669
Percentage	92.01%	6.37%	1.62%	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

Financial assets	Positions that are neither past due nor impaired				Past due but unimpaired	Impaired	Impaired reserve	Total
	Low	Medium-Low	Medium	High				
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
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%

Financial assets for the Company and its 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 its 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 its 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 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

12/31/16

Financial Assets	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash and cash equivalents	$6,009,351	$10,440,869	$-	$-	$-	$16,450,220
Financial assets measured at fair value through profit or loss-current	50,073,606	3,543,039	7,114,717	424,822	169,399	61,325,583
Financial assets measured at cost-current	1,090,749	-	-	-	-	1,090,749
Financial assets measured at cost-current	9,246,926	-	-	-	-	9,246,926
Bonds purchased under resale agreements	-	29,114,724	-	-	-	29,114,724
Receivables	35,547,141	4,864,635	15,087,392	5,347,674	-	60,846,842
Customers' margin accounts	37,066,541	-	-	-	-	37,066,541
Stock borrowing collateral price and stock borrowing margin	2,092,300	466,917	441,470	-	-	3,000,687
Other financial assets-current	-	-	2,527,870	-	-	2,527,870
Income tax assets	-	-	17,500	13,394	422,825	453,719
Other current assetsc	29,675,416	163,028	638,612	-	-	30,477,056
value through profit or loss-non-current	-	-	50,313	-	-	50,313
Financial assets measured at cost-non-current	-	-	-	415	917,899	918,314
Available-for-sale financial assets-non-current	-	-	-	142,975	282,584	425,559
Held to maturity financial assets-non-current	-	-	-	-	300,000	300,000
Investments accounted for using the equity method	-	-	-	-	2,186,633	2,186,633
Others non-current assets	220,000	-	100,000	376,804	2,834,601	3,531,405
Total	$171,022,030	$48,593,212	$25,977,874	$6,306,084	$7,113,941	$259,013,141
Percentage	66.03%	18.76%	10.03%	2.43%	2.75%	100.00%

Statement of cash flow analysis for financial liabilities

12/31/16

Financial Liabilities	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Short-term borrowings	$-	$12,777,858	$-	$-	$-	$12,777,858
Commercial papers payable-net	-	10,293,033	-	-	-	10,293,033
Financial liabilities measured at fair value through profit or loss-current	3,657,874	4,716,941	2,942,584	922,739	169,399	12,409,537
Bonds sold under repurchase agreements	-	57,598,541	-	-	-	57,598,541
Payables	46,896,855	861,531	4,829,585	149,960	-	52,737,931
Securities lending refundable deposits	-	4,414,965	6,920,988	-	-	11,335,953
Futures customers' equity	36,084,937	-	-	-	-	36,084,937
Other current liabilities	535,836	871,919	2,505,228	110	-	3,913,093
Other financial liabilities-current	-	4,426,111	-	-	-	4,426,111
Income tax liabilities	-	-	88,753	198,492	411,192	698,437
Bonds payable	-	-	-	7,000,000	-	7,000,000
Liabilities reserve-non-current	-	-	-	23,248	201,660	224,908
Other non-current liabilities	-	-	822	640,197	72,375	713,394
Total	$87,175,502	$95,960,899	$17,287,960	$8,934,746	$854,626	$210,213,733
Percentage	41.47%	45.65%	8.22%	4.25%	0.41%	100.00%

Statement of capital liquidation gap

12/31/16

	Collection period					Total
	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	
Cash inflow	$171,022,030	$48,593,212	$25,977,874	$6,306,084	$7,113,941	$259,013,141
Cash outflow	87,175,502	95,960,899	17,287,960	8,934,746	854,626	210,213,733
Amount of cash flow gap	$83,846,528	$(47,367,687)	$8,689,914	$(2,628,662)	$6,259,315	$48,799,408

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
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

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	
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
Total	$180,638,307	$37,072,521	$28,933,249	$4,070,240	$7,902,312	$258,616,629
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 deposit	-	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
Total	$79,931,376	$99,733,785	$18,564,012	$10,576,601	$422,720	$209,228,494
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

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 its subsidiaries when it comes to fund dispatching. The cash flow gap statement on December 31, 2016 and 2015, shows that the sums from deducting cash outflow from cash inflow are 49,388,135 thousand dollars and 49,388,135 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 its subsidiaries, taking up to nearly 66.03% 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 its subsidiaries have high liquidity, which causes financial assets and liabilities to have different impacts during different cash flow periods. On December 31, 2016 and 2015, net cash inflow calculated from net spot financial assets are respectively 83,846,528 thousand dollars and 100,706,931 thousand dollars, which are sufficient to cover the net cash outflows of 49,996,349 thousand dollars and 69,167,625 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 economic value reduction for securities or financial contracts that the Company and its 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 its 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 its subsidiaries for trading purpose are as follows:

Comparisons of risk sensitive factors

Risk sensitivity	12/31/16	12/31/15
Interest rate risk	$2,321	$12,186
Equity securities risk	18,656,595	15,566,569
Exchange rate risk	1,416,056	589,868
Commodity risk sensitivity	(2,051)	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 its subsidiaries use parametric in estimating 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 its subsidiaries continue to conduct back testing daily to ensure the reliability of the estimations made by the risk value model.

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

Risk type	For the year ended December 31, 2016			12/31/16
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	406,843	248,091	733,544	529,293
Interest Rate	75,275	31,612	155,833	69,226
Exchange Rate	19,930	2,031	97,630	9,294
Commodity	6,619	58	49,537	29,399

Risk type	For the year ended December 31, 2015			12/31/15
	Average VAR	Minimum VAR	Maximum VAR	Ending VAR
Equity securities	$485,026	$169,082	$1,034,615	$329,128
Interest Rate	82,291	41,766	152,689	71,769
Exchange Rate	13,417	2,825	45,515	6,310
Commodity	2,018	-	5,174	1,228

(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	12/31/16	12/31/15
Financial assets		
Financial assets measured at fair value through profit or loss:		
Financial assets measured at fair value through profit or loss-current		
Financial assets held for trading		
Non-derivative financial instruments		
Lent securities	$46,749	$54,860
Open-ended funds and monetary market instruments	2,522,042	6,673,779
Trading securities	55,752,957	69,315,807
Others	-	23,092
Derivative financial instruments		
Long options	103,039	64,283
Futures trading margins-proprietary funds	519,065	381,988
Derivative instrument assets	2,163,243	1,857,035
Financial assets measured at fair value through profit or loss-non-current	50,033	50,443
Available-for-sale financial assets:		
Available-for-sale financial assets-current	9,246,926	7,361,442
Available-for-sale financial assets-non-current	425,559	281,804
Financial assets measured at cost:		
Financial assets measured at cost-current	1,090,749	891,740
Financial assets measured at cost-non-current	918,314	918,099
Held to maturity financial assets:		
Held to maturity financial assets-non-current	300,000	300,000
Loans and receivables:		
Cash and cash equivalents (Cash on hand excluded)	16,446,784	12,448,021
Bonds purchased under resale agreements	29,087,308	16,445,429
Receivables-net	60,846,842	56,836,958
Customers' margin accounts	37,066,541	31,684,109
Stock borrowing collateral price and stock borrowing margin	3,000,687	7,009,706
Other financial assets-current	2,527,870	4,566,804
Other current assets	30,477,056	34,706,980
Other non-current assets		
Operating bond	1,417,056	1,447,740
Settlement/clearance fund	527,293	560,724
Guarantee deposits-out	1,336,195	1,374,951
Collaterals assumed	34,201	34,201
Other non-current assets- others	702	150,169
Financial liabilities		
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	2,211,581	652,471

Financial instruments	12/31/16	12/31/15
sale		
Liability for purchase of government bonds	150,000	-
Liabilities for securities and bonds borrowed	5,484,802	6,167,626
Derivative financial instruments		
Liabilities for warrants issued	9,438,441	10,351,789
Repurchase warrants	(9,118,906)	(9,957,608)
Short options	60,203	56,265
Derivative instruments liabilities	2,845,225	4,284,302
Other financial liabilities- current	4,423,975	12,074,908
Financial liabilities are designated initially at fair value through profit or loss	1,103,869	2,166,377
Financial liabilities at amortized cost:		
Short-term borrowings	12,777,858	15,800,326
Commercial papers payable-net	10,293,033	5,102,353
Bonds sold under repurchase agreements	57,422,129	58,601,838
Payables	52,737,931	48,753,507
Securities lending refundable deposits	11,335,953	6,663,512
Futures customers' equity	36,084,937	30,716,503
Current portion of long-term borrowings	-	1,006,520
Bonds payable	7,000,000	7,000,000
Other financial liabilities-non-current		
Guarantee deposits-in	19,287	16,954

(2) Valuation techniques and assumptions in estimating fair value

The Company and its 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 quoted prices in active markets 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 1that 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 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 its 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:

12/31/16

Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
Non-derivative instruments				
Assets				
Financial assets measured at fair value through profit or loss				
Stocks	$14,616,692	$14,616,692	$-	$-
Bonds	35,388,760	17,696,477	17,692,283	-
Others	8,366,329	79,948	8,286,381	-
Available-for-sale financial assets				
Stocks	9,661,178	9,603,028	-	58,150
Bonds	11,307	11,307	-	-
Liabilities				
Financial liabilities measured at fair value through profit or loss				
Stocks	2,620,533	2,620,533	-	-
Bonds	5,225,850	2,361,581	2,864,269	-
Derivative instruments				
Assets				
Financial assets measured at fair value through profit or loss	2,785,447	640,495	2,091,097	53,855
Liabilities				
Financial liabilities measured at fair value through profit or loss	4,328,832	438,904	3,881,414	8,514

12/31/15

Financial instruments measured at fair value	Total	Level 1	Level 2	Level 3
Non-derivative instruments				
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	-
Derivative instruments				
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

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 its 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	2016		2015	
	From level 1 to level 2	From level 2 to level 1	From level 1 to level 2	From level 2 to level 1
Financial assets measured at fair value through profit or loss Bonds	$-	$-	$410,851	$-
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 year ended December 31, 2016

Financial instruments measured at fair value	Beginning balances (A)	Amounts recognized (B)		Increase (C)		Decrease (D)		Ending Balances (E)=(A)+(B)+(C)-(D)
		in profit or loss	in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial Assets								
Financial assets measured at fair value through profit or loss-current	$15,032	$(26,881)	$-	$620,113	$-	$(554,409)	$-	$53,855
Available-for-sale financial assets-non-current	-	-	8,646	49,504	-	-	-	58,150

For the year ended December 31, 2015

Financial instruments measured at fair value	Beginning balances (A)	Amounts recognized (B)		Increase (C)		Decrease (D)		Ending Balances (E)=(A)+(B)+(C)-(D)
		in profit or loss	in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial Assets								
Financial assets measured at fair value through profit or loss-current	$3,161	$73,381	$-	$4,179,189	$-	$(4,240,699)	$-	$15,032

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

For the year ended December 31, 2016

Financial instruments measured at fair value	Beginning balances (A)	Amounts recognized (B)		Increase (C)		Decrease (D)		Ending Balances (E)=(A)+(B)+(C)-(D)
		in profit or loss	in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial Liabilities								
Financial liabilities measured at fair value through profit or loss-current	$35,141	$(75,564)	$-	$658,308	$-	$(609,371)	$-	$8,514

For the year ended December 31, 2015

Financial instruments measured at fair value	Beginning balances (A)	Amounts recognized (B)		Increase (C)		Decrease (D)		Ending Balances (E)=(A)+(B)+(C)-(D)
		in profit or loss	in OCI	Acquisition	Transfer to Level 3	Disposal	Transfer out of Level 3	
Financial Liabilities								
Financial liabilities measured at fair value through profit or loss-current	$2,987,109	$(443,350)	$-	$1,069,386	$-	$(1,681,404)	$(1,896,600)	$35,141

c. Total gains or losses from financial assets and liabilities still held by the Company for the years ended December 31, 2016 and 2015 are as follows:

	For the years ended December 31	
	2016	2015
Total gains or losses		
Recognized in profit or loss	$(29,990)	$209,879

d. The reason why financial instruments are transferred from level 3 in 2015 was the valuation technique modification for structured notes and credit linked note. The inputs are taken from the active market, which meet the definition of fair value level 2. There are no significant changes in the Company and its subsidiaries' valuation models or in levels of the fair value hierarchy between current and prior periods as of December 31, 2016.

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

The following table presents the Company and its 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.

12/31/16

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets:				
Non-derivatives				
Available-for-sale financial assets	Note	Note	Note	Note
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	13.72%-53.10%	Depending on contract terms.
Credit Default Swaps	ISDA Standard Upfront Model	Recovery Rate	0.4	According to ISDA CDS Standard Model, recovery rate is set depending on the type of the underlying debt;
Financial liabilities:				
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	13.52%-29.19%	Depending on contract terms.
Equity derivative instruments-short option	Martingale Pricing Technique	History Volatility	16.13%-31.40%	Depending on contract terms.

Note: Fair value is from third-party quotations

12/31/15

	Valuation techniques	Significant unobservable inputs	Quantitative information	Relationship between inputs and fair value
Financial assets:				
Derivatives				
Structured notes-options	Martingale Pricing Technique	History Volatility	16.11%~62.20%	Depending on contract terms.
Financial liabilities:				
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.

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.

The recovery rate adopted by the company in the ISDA CDS Standard Model is set based on the ISDA Standard CDS Converter Specification. If the underlying debt is senior unsecured debt, the recovery rate is set to be 0.4. If the underlying debt is subordinated debt, the recovery rate is set to be 0.2. If the debt is from emerging markets (including senior and subordinated debt), the recovery rate is set to be 0.25.The company set the recovery rate base on the types of the debts. Therefore, the recovery rate is not changed.

Except for credit-linked structured notes, whose valuation skills were modified in 2015, the Company and its subsidiaries applied the same valuation technique and significant unobservable inputs as of December 31, 2016 and 2015.

The Company and its 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:

12/31/2016

	Sensitivity of the input to fair value		Recognized in profit/loss	
	Inputs	Changes	Gain	Loss
Financial assets:				
Non-derivatives				
Available-for-sale financial assets	Not applicable.	Not applicable.	Not applicable.	Not applicable.
Derivatives				
Structured notes- options	Historical volatility	+ 25% / -25%	$1,662	$1,476
Total			$1,662	$1,476
Financial liabilities:				
Derivatives				
Structured notes- options	Historical volatility	-25% / +25%	$-	$-
Equity derivative instruments －short option	Historical volatility	-25% / +25%	-	-
Total			$-	$-

12/31/15

	Sensitivity of the input to fair value		Recognized in profit/loss	
	Inputs	Changes	Gain	Loss
Financial assets:				
Derivatives				
Structured notes- options	Historical volatility	+ 25% / -25%	$249	$170
Financial liabilities:				
Derivatives				
Structured notes- options	Historical volatility	-25% / +25%	$19	$44
Equity derivative instruments －short option	Historical volatility	-25% / +25%	674	763
Total			$693	$807

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

12/31/16

	Level 1	Level 2	Level 3	Total
Investments accounted for using the equity method	$2,448,105	$-	$-	$2,448,105
Investment properties	-	-	904,205	904,205

12/31/15

	Level 1	Level 2	Level 3	Total
Investments accounted for using the equity method	$2,182,797	$-	$-	$2,182,797
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 its 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 its 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 its 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:

12/31/16					
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	$56,923,804	$57,422,129	$56,923,804	$57,422,129	$(498,325)
Securities borrowing transactions	46,749	65,449	46,749	65,449	(18,700)

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)

(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:

Period	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	
12/31/16	Long call option	$10,229,100	$610,676	$610,676	$-	$610,676
12/31/15	Long call option	$11,345,800	$447,128	$447,128	$-	$447,128

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.

Period	Type of continuing involvement	Spot	In 3 months	3-12 months	1-5 years	Over 5 years	Total
12/31/16	Long call option	$4,568,600	$990,100	$3,106,700	$1,563,700	$-	$10,229,100
12/31/15	Long call option	$-	$835,600	$3,293,700	$7,216,500	$-	$11,345,800

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.

Period	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
12/31/16	Long call option	$(41,236)	$611,220	$569,984
12/31/15	Long call option	$(176,259)	$(257,532)	$(433,791)

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 its subsidiaries' transactions on derivative instrument assets and derivative instrument liabilities. The Company and its subsidiaries are allowed to offset the mentioned instruments only in the event of default and insolvency or bankruptcy.

The Company and its subsidiaries enter with opponent into collateralized bonds sold under repurchase agreements, in which the Company and its subsidiaries provide securities as collaterals. The Company and its subsidiaries also enter with opponent into collateralized bonds purchased under resell agreements, in which the Company and its 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:

12/31/16						
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	$2,163,243	$-	$2,163,243	$-	$132,559	$2,030,684
Resell agreement	29,087,308	-	29,087,308	29,087,308	-	-
Total	$31,250,551	$-	$31,250,551	$29,087,308	$132,559	$2,030,684

12/31/16						
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 received	
Derivative	$2,845,225	$-	$2,845,225	$-	$465,985	$2,379,240
Repurchase agreement	57,422,129	-	57,422,129	57,422,129	-	-
Total	$60,267,354	$-	$60,267,354	$57,422,129	$465,985	$2,379,240

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 received	
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

(Note) Including amounts subject to a master netting arrangement and amounts related to non-cash financial collateral.

8. Capital management

The main objective of the Company and its 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 its subsidiaries will manage and adjust the capital structure based on the economic situation, possibly by adjusting dividends, returning capital or issuing new shares.

The company’s Capital adequacy ratios as of December 31, 2016 and 2015 are disclosed as follows

(1) Capital Adequacy Ratio

Item	2016	2015
Qualified net equity aapital	$17,895,797	$20,503,870
Equivalnet amout of operating risk	5,434,116	6,028,306
Capital adequacy ratio	329%	340%

Item	2016	2015
Average	290%	307%
Maximum	329%	340%
Minimum	248%	275%

(2) Equivalent amounts and percentages of operating risks

Item	2016 Amount	2016 Percentage	2015 Amount	2015 Percentage
Market risk	$2,333,574	42.94%	$2,951,120	48.95%
Credit risk	1,541,798	28.37%	1,455,128	24.14%
Operational risk	1,558,744	28.69%	1,622,058	26.91%
Total	$5,434,116	100.00%	$6,028,306	100.00%

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:

	12/31/16 Book value	12/31/16 Fair value
Available-for-sale financial assets-current	$5,363,359	$5,363,359

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:

	Financial assets originally classified as held for trading	
	Amounts recognized in profit or loss before reclassification	Amounts recognized in profit or loss after reclassification (Note)
Before 2016	$1,702,503	$532,263
For the year ended December 31, 2016	1,004,489	-
Total	$2,706,992	$532,263

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 its subsidiaries' various financial ratios under ROC Futures Commission Merchant Laws.

Futures department of the Company

Article #	Calculation Formula	12/31/16		12/31/15		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	Stock holders' equity / (Total liabilities－Futures customers' equity)	1,784,471 / 394,084	4.53	1,965,939 / 407,338	4.83	≧1	Satisfied
17	Current assets / Current liabilities	2,133,932 / 166,579	12.81	2,320,730 / 238,942	9.71	≧1	〃
22	Stockholders' equity / Minimum paid-in capital	1,784,471 / 400,000	446.12%	1,965,939 / 400,000	491.48%	≧60% ≧40%	〃
22	Net capital amount after adjustment / The total amount of customer's margin required by the non-offset position for the futures dealer	1,322,873 / 281,618	469.74%	1,417,650 / 215,941	656.50%	≧20% ≧15%	〃

KGI Futures

Article #	Calculation Formula	12/31/16		12/31/15		Standard	Execution
		Calculation	Ratio	Calculation	Ratio		
17	Stock holders' equity / (Total liabilities－Futures customers' equity)	2,735,161 / 298,763	9.15	2,624,668 / 372,168	7.05	≧1	Satisfied
17	Current assets / Current liabilities	22,820,898 / 20,694,894	1.10	20,589,705 / 18,589,073	1.11	≧1	〃
22	Stockholders' equity / Minimum paid-in capital	2,735,161 / 760,000	359.89%	2,624,668 / 760,000	345.35%	≧60% ≧40%	〃
22	Net capital amount after adjustment / The total amount of customer's margin required by the non-offset position for the futures dealer	2,338,562 / 3,376,756	69.25%	2,221,296 / 3,662,040	60.66%	≧20% ≧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

	12/31/16	12/31/15
Cash in bank	$809,142	$876,118
Financial assets	22,988,241	22,837,422
Receivables	72,988	99,904
Total trusted assets	$23,870,371	$23,813,444

	12/31/16	12/31/15
Payables	$16,097	$30,124
Trust capital	23,786,620	23,578,392
Reserves and retained earnings	67,654	204,928
Total trusted liabilities	$23,870,371	$23,813,444

B. Income statement of trust business

	For the year ended December 31, 2016	For the year ended December 31, 2015
Revenues	$2,077,401	$2,136,357
Expenses	(2,712,400)	(2,327,314)
Income before tax	(634,999)	(190,957)
Income tax	-	-
Net income	$(634,999)	$(190,957)

C. Trust Property catalog

	12/31/16	12/31/15
Cash in bank	$809,142	$876,118
Stocks	13,755,119	15,470,397
Funds	9,227,067	7,320,525
Structured notes	6,055	46,500
Total	$23,797,383	$23,713,540

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 December 31, 2016 and 2015 are USD 36,091 thousand dollars and USD 1,245 thousand dollars respectively.

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

	12/31/16			12/31/15		
Financial instruments	Foreign currency (thousand dollars)	Exchange rate	NTD	Foreign currency (thousand dollars)	Exchange rate	NTD
Financial assets						
Monetary Items						
USD	$2,336,758	32.21	75,259,143	$1,986,796	33.07	$65,631,077
HKD	127,231	4.16	529,229	42,428	4.26	180,852
GBP	426	39.61	16,876	455	48.78	22,173
JPY	8,724,871	0.28	2,404,829	3,174,913	0.27	867,667
EUR	33,751	33.92	1,144,684	4,387	35.89	157,479
CNY	244,837	4.62	1,131,607	142,098	5.03	715,099
AUD	4,373	23.30	101,903	162	24.16	3,908
SGD	9,014	22.31	201,095	-	-	-
Non-monetary Items						
USD	761,214	32.28	24,571,228	678,354	33.07	22,430,463
HKD	10,013	4.16	41,674	21,956	4.27	93,673
CNY	412,573	4.62	1,906,873	569,182	5.03	2,864,465
AUD	4,529	23.30	105,539	3,468	24.16	83,799
JPY	188,576	0.28	51,990	73,782	0.27	20,268
NZD	1,935	22.42	43,364	2,924	22.69	66,340
EUR	524	33.92	17,788	-	-	-
Investments accounted for using the equity method						
USD	67,639	32.28	2,183,329	63,490	33.07	2,099,349
Financial liabilities						
Monetary Items						
USD	3,678,462	32.28	118,729,246	3,019,284	33.07	99,771,345
HKD	79,633	4.16	331,116	10,695	4.25	45,470
GBP	273	39.61	10,797	316	48.67	15,374
JPY	8,413,574	0.28	2,319,492	3,084,976	0.27	842,970
EUR	31,848	33.92	1,080,125	4,159	35.88	149,214
CNY	300,806	4.62	1,390,287	239,563	5.03	1,205,603
AUD	4,100	23.30	95,538	0	24.16	4
SGD	8,768	22.31	195,616	-	-	-
Non-monetary Items						
USD	196,950	32.28	6,357,340	208,276	33.07	6,886,852
JPY	160,416	0.28	44,227	73,782	0.27	20,268
CNY	39,941	4.62	184,602	468,906	5.03	2,359,815
AUD	4,529	23.30	105,539	3,468	24.16	83,799
NZD	1,935	22.42	43,364	2,924	22.69	66,340
EUR	1	33.92	45	-	-	-

Due to various types of functional currencies, it is inefficient for the Company and its subsidiaries to disclose information on exchange differences by foreign currencies having significant effect on the Company and its subsidiaries. Exchange differences are 73,172 thousand dollars and 368,936 thousand dollars for the year ended on December 31, 2016 and 2015, respectively.